Annual Report

2018

Westland
Milk Products
Hokitika · New Zealand


Nourishing our future
We are on the cusp of an exciting future and it is Shareholder support that has enabled us to get to this point.
Toni Brendish, CEO

Contents

Our Year
Westland on a page

# of suppliers:

429	17 / 18
435	16 / 17

Litres of milk collected *(millions)*:

689	17 / 18
699	16 / 17

Average herd size:

415	17 / 18
402	16 / 17

120,000mt
of product sold annually

40 countries we export to

Auckland, North Island
36 staff
Focus: EasiYo – operations, sales, marketing, finance

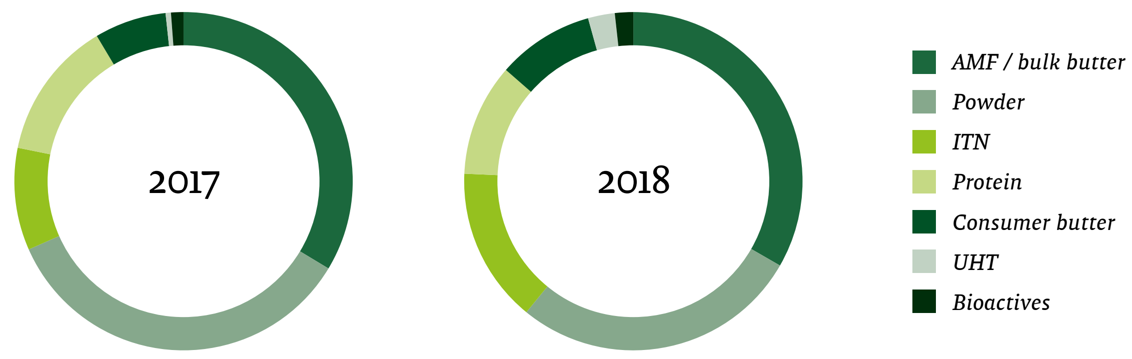
Hokitika, West Coast (Head Office)
440 staff
Focus: Operations, shareholder services, finance

Rolleston, Canterbury
97 staff
Focus: Operations, marketing and innovation, sales, finance

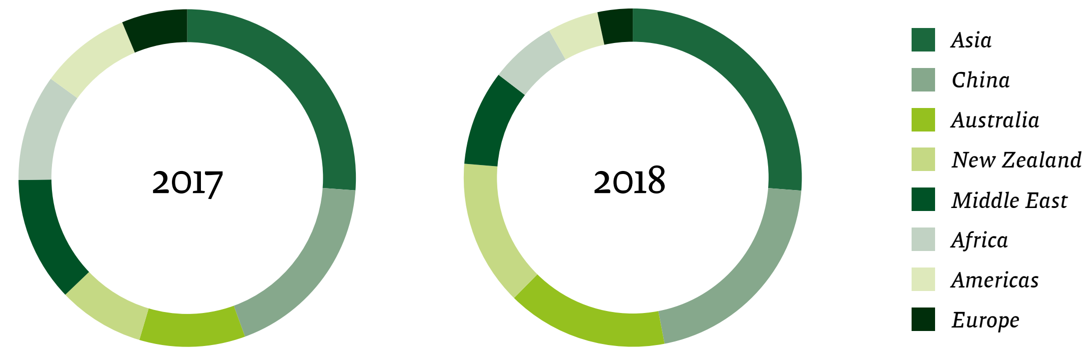
Derby, United Kingdom
22 staff
Focus: EasiYo – operations

Shanghai, China
18 staff
Focus: Sales, marketing and innovation, finance

Revenue by category
Westland Parent entity



Revenue by region
Westland Parent entity



Net payout for standard milk

2018	607
2017	518
2016	388
2015	485
2014	727

Payout after retention (cents/kg)

Revenue

2018	$693m*
2017	$630m
2016	$588m
2015	$639m
2014	$830m*

** Total milk solids manufactured from our own suppliers in 2014 were 69m kgMs compared to 63m kgMs in 2018*

Westland

A year in review

Chairman **Pete Morrison**

The 2017-18 financial year has been a period of intense planning, reorganisation and redevelopment for Westland Milk Products, as we laid the foundations for the Co-operative's long-term future.

The Board continued to work with management to improve business performance and drive value for Shareholders.

We were pleased to approve our five-year strategic plan for the Co-operative, based on segregation into high-value products. However, we also experienced some setbacks in the year, including the financial impact of the tail end of Cyclone Fehi.

The new business should lead to an exciting future. It has the potential to add significant value to our company. We've had strong interest from new suppliers and we take great heart from that, as well as the loyalty shown by existing Shareholders. We are excited about the full range of opportunities in front of the Co-operative, as well as emerging opportunities.

As I have expressed to many of you, the business must also do the basics right. Our 'right first time' delivery needs to operate at a consistent and high level. Recent improvements have already made a significant difference. The Board and management are focused on ensuring this continues at optimum levels.

The Board acknowledges that our milk payout for standard milk, including retentions of $6.12 / kilogram of milk solids (kgMS) was at the lower end of our forecast, which is not competitive. Improving this result is a key focus for the Board and we are encouraged by improved performance in recent months.

Our joint ventures with Ausnutria (Pure Nutrition Ltd) and Southern Pastures will also add to our prospects for 2018-19 and beyond. With these initiatives in place, the Board is confident of achieving the 2018-19 forecast payout which is competitive.

Shareholder led governance review
During the year, we restructured the Board with fewer directors and improved our reporting and accountability to Shareholders. We aim to provide the governance and leadership skills needed to drive long-term value for Westland.

The 2017-2018 season saw the commencement of the first Governance Development Programme "Govern with Confidence". This course is designed to develop the capability, competence and confidence of the wider Westland Shareholder family, including sharemilkers, around governance.

There was a great mix of Shareholders, sharemilkers and family of Shareholders attending the 2018 course, and others have expressed an interest in next year's programme.

The Board has engaged Westlake Governance to undertake a thorough review of the Board including critical best practice governance processes; an independent, benchmarked, comprehensive review; and an assessment of each director and the Board as a whole.

It is an in-depth process and a report to Shareholders will be prepared at the conclusion of this review.

Capital review
Following the governance restructure, we started a capital structure review called Project Horizon.

Our Shareholders have clearly indicated their support for this initiative, which is designed to create higher returns and Shareholder value.

However, as previously discussed, full implementation of the strategy is likely to require significant new capital. The Board is conscious we have relatively high debt levels and limited financial flexibility. It is therefore timely to look ahead and consider the options that can provide a sustained, higher payout and improve the company's financial flexibility. Obtaining new capital would make a significant difference to the Co-operative.

We hope to be able to provide an updated report to Shareholders on the progress of the review at our Annual General Meeting on 5 December 2018.

Future outlook
Though we have worked hard to build the foundations for Westland's long-term future, there is still a lot more work to do. Our first aim is to deliver a competitive payout for the 2018-19 financial year, while focusing on driving better, long-term returns and value to our Shareholder farmers. Key to achieving this will be our capital structure review. The Board is committed to providing the leadership and guidance to see this through.

Acknowledgements
I thank my fellow Board members for their work in laying the foundations for the long-term success of Westland. I especially acknowledge the contribution of Frank Dooley, who will be standing down from the Board after nine years. Frank is a fearless and hard-working director who maintains the highest standards of accountability. We wish him well.

Finally, on behalf of the Board I want to thank Chief Executive Toni Brendish, the Executive Leadership Team and all staff for the work they have put in during the last two years. It has been a period of substantial change and reorganisation. Toni has led the development and implementation of our five-year strategic plan to achieve growth that will drive value for Shareholders.

Pete Morrison
Chairman

"During the year we completed a strategic roadmap designed to bring to life our company purpose of 'nourishment made beautifully for generations.'"

Chief Executive Officer **Toni Brendish**

It is just over two years since I commenced my role as Chief Executive at Westland Milk Products. If there is one thing that characterises the 'culture' of our Shareholder base it is 'resilience.' We are on the cusp of an exciting future and it is Shareholder support that has enabled us to get to this point.

Westland has gone through challenging times. Some a result of necessary changes that have been put in place, some because of weather events, and also uncertainty within the dairy industry because of market forces, pressure regarding environmental water and animal welfare issues, and the Government's DIRA review.

Through all of this I have been buoyed by the optimism and trust shown by Shareholders as we seek to secure them, and their company, a viable and sustainable future.

Shareholders in a farmer-owned co-operative are willing to share their views. Whether the feedback I have received has been critical or complimentary, it's been with a shared concern for driving this company forward.

During 2017-18 we focused on finding ways to work more efficiently and getting it 'right first time' (RFT). We explored new markets and grew strategic relationships to increase demand for our products. When combined with increased commodity prices, this raised our total available for payout (including premiums) before retentions to $6.17 from $5.22 the year before. I absolutely accept that this result was not as high as Shareholders wanted. The depth of the issues to be 'fixed' proved greater than anticipated. The cumulative influence of factors such as our quality issues, former tropical Cyclone Fehi and the Lyttelton Port strikes, all impacted our bottom line. Our goal for 2018-19 is to meet Shareholders' payout expectations. We now have the required strategy, plant and systems in place for this to happen.

Key infrastructure improvements

There has been a focus on efficiency during the year. Measurable improvements include the skim and whole milk powder plants achieving a 95-98 percent RFT rating, and our butter, anhydrous milk fat, and caseinate plants 100 percent. Our UHT sales grew from 2.6 million litres in the previous year to 12.6 million litres in 2017-18.

Kalbe and Southern Pastures agreements

During the year Westland strengthened its strategic partnerships. In March we signed a Memorandum of Understanding (MOU) with Indonesian consumer health and nutrition giant Kalbe (PT Sanghiang Perkasa). Kalbe has huge market penetration and networks throughout South East Asia and Japan. This MOU is part of a prudent growth strategy into key Asian markets.

Southern Pastures LP joined Westland as a Shareholder at the start of the 2018-19 season. Their nine Canterbury farms add an extra four million kilograms of milk solids to our annual milk collection. Southern Pastures' part ownership of Lewis Road Creamery means this agreement creates a significant new customer for Westland.

We have formed a joint venture with Southern Pastures to market milk products sourced from grass-fed cows on farms that meet very high standards covering animal welfare, human health, sustainability, environmental compliance and human rights.

Introduction of Westland's five-year strategy

During the year we completed a strategic roadmap designed to bring to life our company purpose of 'nourishment made beautifully for generations.' The core aim is to produce differentiated products that leverage our heritage and location, enabling us to grow value for Shareholders in terms of payout and their farm property.

We also refreshed our company values. Westland staff are encouraged to think about how they can be 'dedicated', 'innovative' and 'empowered', and how they can demonstrate Westland's purpose. The strategy has three core priorities:

1. **Operational excellence:** *driving asset efficiency while reducing costs and risks.* Increasing the efficiency of asset use and continuously improving processes and standard operating procedures to reduce cost and risk.

2. **Growing the core:** *leveraging existing capabilities and positions of strength.* Expanding what we are doing well and finding ways to create more value. An example is colostrum. We are entering into strategic partnerships to help us service rapidly increasing demand for colostrum at premium prices.

3. **Expanding products and markets:** *pivoting into adjacent markets and developing new product value propositions.* Finding opportunities and new markets for Westland to develop new value-add products. A key aspect is investigating Westland's capability and opportunities for differentiated milk products.

The third priority is the most exciting for Westland's future. Our team researched the demand for differentiated milk products and the practicalities of producing it. With the co-operation of participating Shareholders, we conducted a pilot trial for A2 milk. We collected and processed 100 percent A2 milk, proving our capability to segregate from farm to factory.

A project team will implement milk segregation during the coming 12 months. Immediately after the colostrum season in early September, Westland started to pick up A2 and 10SPS (10 Star Premium Standard) milk from farms to meet initial product orders and confirm our plant capability.

During 2018–19 we will complete plant upgrades with the goal of being capable of producing high value segregated product throughout the season, not just on the season's shoulders.

Segregation is most relevant today with products such as A2 or grass-fed. But in three years' time, it might be jersey cow milk. In five years' time something else will, no doubt, be the latest highly-valued alternative to traditional milk on the international market. Having the ability to segregate milk is all about putting Westland on the best possible footing to take advantage of these trends because it allows us to build value at the source.

To fully realise our segregated milk processing capacity as soon as possible, and to support the wider economic development of the West Coast region, Westland applied to the Government's Provincial Growth Fund. It is possible that by the time this annual report is published, we might know the result of that application.

Recognition of efforts

In June we were awarded a silver medal from internationally renowned corporate social responsibility (CSR) auditor EcoVadis. This prestigious award places Westland in the top 30 percent of companies to have completed the EcoVadis assessment.

The medal reflects the huge improvements that Westland and its Shareholders have made.

Capping off the year, Westland's dedication and innovation was recognised by our peers when we were named New Zealand Co-operative Business of the Year.

Review of the Dairy Industry Restructuring Act

Westland had an active voice in the Government's Review of the Dairy Industry Restructuring Act (DIRA).

While we maintained that the regulatory regime was still fit-for-purpose, Westland recommended several key changes. We argued there should be a phasing out of open entry and re-entry from new dairy. We also submitted that every existing farmer should be assured that their milk will be collected, and for Fonterra to be obliged to supply raw milk to any dairy producer supplying the domestic market, should it be required.

We were clear that base milk price provisions remain crucial, however, milk price calculations need to be more transparent, as we believed such calculations were being manipulated. We also argued that Fonterra's average currency conversion rate should be excluded from the milk price calculation, along with non-global dairy trade sales.

Westland's dedicated leadership and governance

Thank you to Chairman Pete Morrison and the Westland Board of Directors for all their support and guidance as we continue this transformational journey. Particular thanks to my colleagues on the Executive Leadership Team, our senior managers and, of course, to all the staff at Westland for remaining dedicated, innovative and committed to doing your best every day.

I am grateful for the support and patience that Shareholders have given the company. Through this period of change we have promised much to Shareholders; we are making good progress and now need to fully deliver on these promises and further quantify the benefits in returns to our farmers of the work we have done, and plan to do. Transformation takes time and confidence. Westland is going into the new season with a clear direction and a strategic roadmap of how to get there.

Toni Brendish
Chief Executive Officer

Westland Milk Products' five-year strategy 2019 – 2023

Our purpose
Nourishment made beautifully for generations

Our strategy
Offering differentiated products that leverage our heritage and location

Strategic pillars

Operational excellence
Drive asset use efficiency while reducing operating costs and risk, by continuously improving processes and standard operating procedures.

Grow the core
Leverage existing capabilities and positions of strength by expanding what we are doing well and finding ways to create more value.

Expand products & markets
Pivot into adjacent markets and develop new product value propositions through investigating our capability and opportunities for differentiated milk products.

Enablers

People & capability: We are customer-centric; Culture and people initiatives; Excellence in Shareholder relations

Strong core business processes: Segregated milk management; New product development; Procure to pay; Sales and operations planning; FarmEx

Sales & marketing excellence: Clear channel segmentation; Compelling value proposition; Assessment framework: filtered and prioritised opportunities

Chief Financial Officer **Dorian Devers**

There are opportunities to improve in a number of areas which will enable the delivery of a competitive payout into the future.

The payout for standard milk for the year of $6.07 per kgMs delivered an increase of $0.89 on the previous year. Although we went some way to closing the gap between Westland's payout and other dairy processors, there is still a gap, meaning our payout is still not competitive and there is work to be done. A $0.05 per kgMs retention was taken to support the growth in the balance sheet leading to profit before tax of $3.25m. This builds on the profitable position also seen in the prior season.

There are opportunities to improve in pricing, production, right first time, process effectiveness, UHT plant utilisation, and EasiYo performance, which will enable the delivery of a competitive payout into the future.

Cash flow performance was below expectation, with a number of process issues leading to higher inventory levels and receivables from customers at the end of the season. The $54m year-on-year (YOY) increase in inventory and receivables was well above that required to support the business mix change to value-add products. It is a key area of focus for 2018-19, to optimise and drive higher cash flows.

Payout
Suppliers get different payments for milk supplied. The payout for standard milk was $6.07 per kgMs. In addition colostrum and winter milk Suppliers get a further premium based on volume. When these income streams are added together they comprise the total payout including premiums.

Colostrum, in particular, is a valuable income stream for Suppliers and differentiates Westland from many dairy processors, which don't offer colostrum collection. It also proves Westland is able to segregate product, and deliver on its segregation strategy. The diagram below shows how the different income streams work.

Supplier	**Standard milk** *(net average cash payout)*	**Colostrum milk** *(premium to colostrum suppliers)*	**Winter milk** *(premium to winter milk suppliers)*	**Segregated milk** *(coming soon)*
Value to farmers	$383.2m $6.07	$2.3m	$0.5m	
Total payout including premiums	$386m, $6.12/kgMs			
Retentions to support growth	$3.2m, $0.05/kgMs			
Total available for payout	**$389.2m, $6.17/kgMs**			

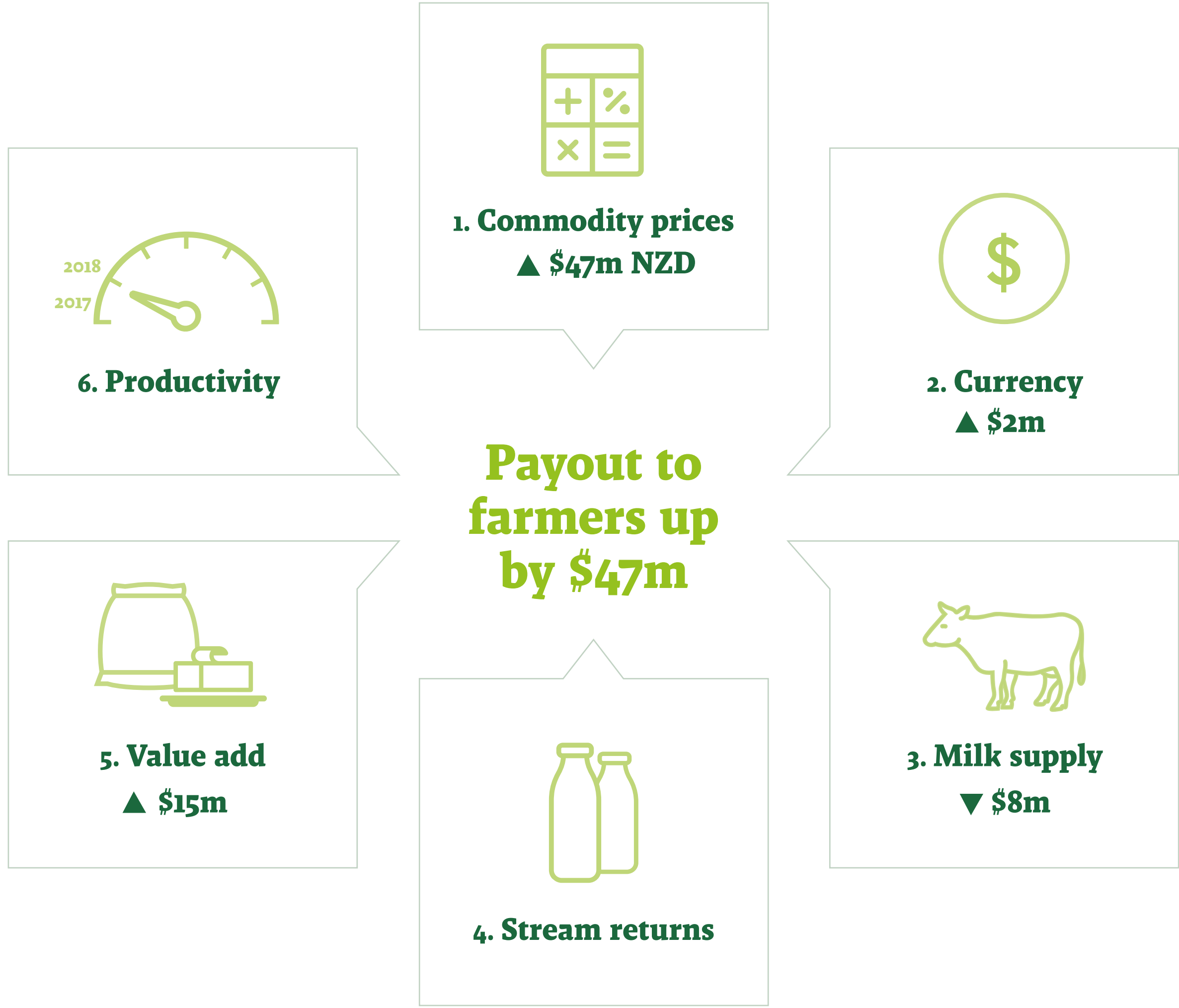
Payout for standard milk
As highlighted at the 2017 Annual General Meeting, there are six key areas that drive the performance of a dairy processor. The following breakdown shows the improvement in this season's performance in each area.

1. **Commodity price change**
   Our ingredients business was able to sell commodity products at $305USD/t higher than the previous season thanks to rising commodity prices. This delivered $47m of extra value or $0.74 per kgMs. Our pricing in the market outperformed Global Dairy Trade (GDT) and was particularly strong late in the season, when we saw positive effects from our new General Manager Sales joining the company.

   However, generally, producers have been outperforming GDT and we believe there are further pricing opportunities by better aligning key attributes of our products with customer requirements.

2. **USD/NZD exchange rate change**
   With most of our customers paying in USD the exchange rate that we achieve when converting these sales into NZD has a major impact on performance. Our average USD exchange rate for the season of 0.699 was better than the prior season, reflecting how the foreign exchange market has moved during the year and the effectivness of our treasury management.

   We use forward contracts to give us more certainty over future income, which allows us to better forecast what we will pay for milk. The difference between what our operating surplus would have been if forward contracts hadn't been used, and we had instead translated all foreign currency incomes at the spot rate, is disclosed in the foreign exchange gains and losses line in our accounts. The fact that this is $10.5m, as shown in Note 1A in the Notes to the Financial Stataments, indicates that using forward contracts has been better than relying on spot currency purchases.



3. **Milk solids received**
   Milk solids from farms were down on the prior season, with drought conditions seen, which is unusual for the West Coast. With a significant portion of fixed costs, the lower milk solids mean the cost per unit of milk processed increased, reducing payout.

4. **Stream return changes**
   Ensuring we always convert milk into the stream that delivers the highest return is a key focus. With relatively high butter prices during the year it was more profitable to produce butter and skim milk powder than whole milk powder, so this was the focus for production in the ingredients business.

5. **Increased volumes into value-add business**
   Processing milk into value-add products delivers higher returns. We benefited from significantly higher production of nutritional and UHT volumes, which grew 67 percent and 628 percent respectively year-on-year. While we have seen some marginal improvement in EasiYo, the overall turnaround plan was delayed one year. Collectively, these added $14.7m of value year-on-year or $0.23 per kgMs to the payout.

6. **Productivity**
   Productivity didn't deliver as hoped. The business was impacted by Cyclone Fehi, plus the right first time performance in nutritional production was below expectations. We also had to invest in the use of consultants as well as more full time equivalents in operational areas to support our business process improvement programme. While there were some productivity benefits from Powerhouse, the need to improve business processes led to some inefficiencies that are now being addressed through the business process improvement programme.

Payout to farmers:
(Diagram above)

This analysis covers only the material drivers of performance therefore it is not a complete measure of performance and does not precisely add to the payout to farmers. In addition, not all value has been paid out to farmers due to the 5 cent retention per kgMs.

Subsidiaries and joint venture performance

To simplify the report and accounts we only show the group numbers and have stopped disclosing the financials for the parent company. To ensure sufficient transparency on the performance of Westland subsidiaries and joint ventures the table below shows their profit before tax.

$'000	FY18	FY17
EasiYo	(4,700)	(5,229)
Westland Shanghai and 40% contribution from Pure Nutrition	(190)	2,842
Total	**(4,890)**	**(2,387)**

The EasiYo business turnaround was delayed by one year, meaning only a small improvement seen in 2017-18.

However, significant progress has now been delivered, giving confidence that the business will break even in 2018-19 on the way to delivering future profits.

Westland Shanghai has a 2 percent operating margin which must remain in a narrow range based on transfer pricing rules. The business has seen significant sales and volume growth linked, in particular, to a key nutritional customer.

Pure Nutrition was in a loss position in 2017-18 as the plant isn't yet licenced to supply all customers. Pure Nutrition will move into a profitable position in 2018-19.

Balance sheet

$'000	FY18	FY17	Variance
Tangible assets	571.7	526.7	45
Intangible assets	12.9	15.2	(2)
Derivatives	1.0	26.4	(25)
Deferred tax on derivatives	2.0	-	2
Total assets	**587.6**	**568.3**	19
Total borrowings	253.8	232.8	21
Other liabilites	104.2	83.9	20
Co-operative shares classified as a liability	106.5	105.8	1
Equity	123.1	145.8	(23)
Total liabilities and equity	**587.6**	**568.3**	19

The level of tangible assets Westland has is very important, as this drives our tangible net worth calculation, which must be maintained above 37.5 percent to comply with banking covenants.

The tangible net worth calculation is, in effect, how much of the tangible assets have been funded through equity.

In 2017-18 we saw a significant increase in tangible assets driven by higher levels of inventory and receivables from customers.

While an increase in inventory levels was expected to support the change in business mix towards value-add products, the increase was over and above that expected level. This reflects some of the issues we saw with business processes that delayed the ability to translate inventory into cash and then pay down bank debt. Reducing the level of inventory and receivables from customers is a key focus. Supported by increasingly effective business processes, a material reduction is expected in the coming year.

With the increase in tangible assets it was prudent to support this with a level of equity increase, to ensure a reasonable buffer is maintained between our tangible net worth result and the level allowed in our banking covenants. This is why a small retention was taken in 2017-18.

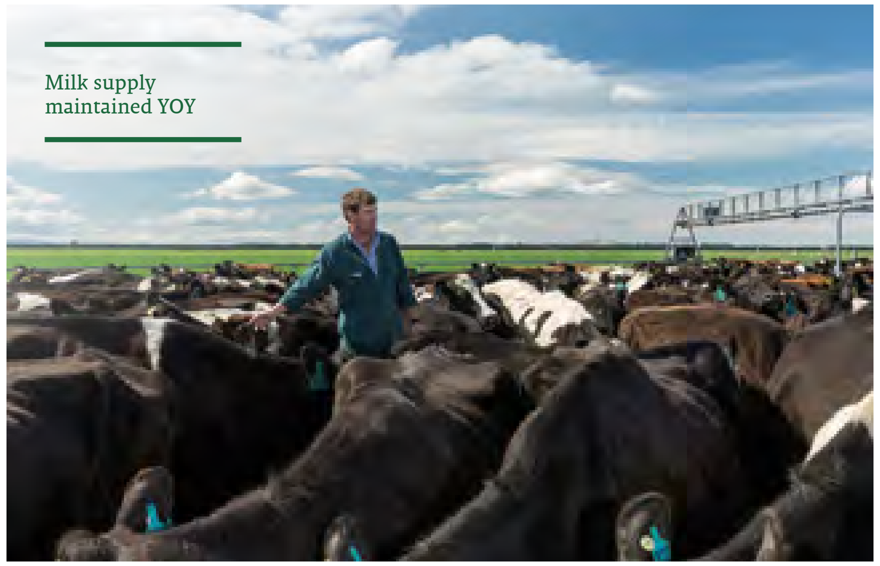
Dorian Devers
Chief Financial Officer

Season Highlights
The last 12 months

Westland celebrated various achievements in the past 12 months, including:

17.4%

China achieved 17.4% YOY volume growth



Milk supply maintained YOY

50.4%

Westgold saw a 50.4% YOY volume growth in the New Zealand grocery channel

6.045m

UHT sold 6.045m litres in 2017-18, compared to the previous year's 1.024m litres

This sets up the company to utilise more capacity next season

$2m

extra has been delivered YOY through effective treasury management and mitigating foreign exchange risk

Value is even more when benchmarked against other industry participants

We did it!

Three months injury-free

Westland achieved a first 'three months no lost time injuries'

▲ 4,643

In 2017-18 there was an increase of 4,643mt in nutritionals sold – 10,620 to 15,263mt

A Memorandum of Understanding was signed with Kalbe Farma – Indonesia's largest healthcare provider and the largest publicly-listed pharmaceutical company in Southeast Asia

8

Board members in governance (down from 11) with a better review process and new governance programme in place

5-year

business strategy has been developed

Product categories
% change in revenue YOY

Bioactives
▲ 65.7%

AMF and bulk butter
▲ 11.1%

Consumer butter
▲ 51.3%

Infant formula
▲ 69.9%

Powder
▼ 10.9%

Protein
▼ 9.3%

UHT
▲ 461.8%

Global Reach
Top 10 trading partners

2018 revenue for our top 10 trading partners

AMF/Bulk butter
Consumer butter
Protein
Bioactives
ITN
UHT
Powder

Developing solutions to meet customer needs for consumer, food service and infant formula (ITN) opportunities has led to higher margins and better plant capacity utilisation. This has produced changes in the countries we ship to, increases in consumer butter, and increasing interest in China for our ITN products. With more volume going into higher value butter and ITN products, there has been a commensurate drop in production of bulk butter and anhydrous milk fat (AMF), and ingredient powders. Demand for colostrum and lactoferrin increased exponentially.

We're now focused on increasing production to meet demand. Variations in our ship-to-market routing year-on-year, result from changes in economic conditions and brand penetration. Westland's agile approach enables the company to quickly capitalise on these changes to ensure the best return.

Westgold **at home and abroad**

New Zealand

Three million blocks sold in New Zealand in three years

Westgold appeared in a quarter of Kiwi fridges last year*

Social media followers have grown from 3,800 to 9,000 in 12 months

Westgold website traffic more than doubled from 18k to 43k year-on-year

In two days there were 3,576 visits to the Westgold Anzac biscuit recipe webpage

Rest of the world

Westgold UHT cream volume increased 4.5 times (450%) from 2016-17 to 2017-18 to 4,000 litres

Westgold butter in China sold 1.7 million 250g blocks (total butter pats 2.6 million blocks)

Social media followers in China have grown from 14,529 to 61,904 in 12 months

399,000 views in China of the Westgold breakfast recipe for Children's Day

Westgold was awarded the Prize of 2017 Globe Gold Product in China

*source Nielsen Homescan

Customer Profile
Original Foods

‘Sometimes naughty is nice’ is the philosophy at the centre of Westland customer Original Foods Baking Company (OFBC). As you walk into the café that backs onto their purpose-built factory in Christchurch, the cabinets are brimming with inviting sandwiches, salads and wraps. But the stars of the show are the beautiful rows of glistening donuts and tempting cakes.

Coming from a long line of bakers, and having 27 years of business experience under her belt, OFBC owner Jane Mayell knows the importance of using good quality ingredients.

“One of the reasons our products taste so good is the use of natural ingredients wherever possible, such as real butter. Butter offers a luxurious and indulgent mouth feel with every bite,” explained Jane.

The trophy cabinet at OFBC shows that a focus on quality pays off, with awards for many categories in the Baking Industry Association of New Zealand Awards.

OFBC has used Westland products since the company started producing goods on a commercial scale. At first it only required butter, but as the product range grew OFBC also needed whole milk powder. The company has worked alongside Westland’s technical team to find innovative ways to use the products, such as the best method to melt butter in bulk. Each month OFBC purchases some 10mt of butter – enough to make approximately 12,000 2.1kg New York brownie slabs, or enough Westland butter pats to stretch end-to-end from Hokitika to Greymouth annually.

As the price of New Zealand butter has increased on the global stage, OFBC has seen more competition from international suppliers offering a cheaper product. However, OFBC has stuck with Westland, as they know they are always going to have high quality, and where the product has come from.

“We initially started using Westland products as we like to support local business, and for us Westland is essentially a local – however, quality has been the main reason we have stayed,” said Jane.

“Westland’s focus on high quality, pure dairy products fits with our mantra of only using the best ingredients, and aligns with our efforts to use only natural ingredients.”

Like Westland, OFBC has considered how its business might be affected by current health trends.

“Just as there is a place for sugar, gluten or dairy free foods, sometimes being a little naughty is nice,” said Jane. “Our products are a special treat to be shared and enjoyed. We have been perfecting the art of baking for several years and dairy remains an essential component.”

OFBC is one of the largest suppliers of baked goods in New Zealand. It exports to Australia, the Cook Islands, Samoa and Hong Kong. Chances are if you’ve chosen the muffin on Air New Zealand, bought a cake from a supermarket, a donut from a petrol station cabinet, or maybe a slice at a catered event – you’ve eaten one of their delicious goods.

About Original Foods

27

years of experience

Multi-winners of the Baking Industry Association of New Zealand Awards

10mt

of Westgold butter purchased each month

As every farm is different, Mark thinks the more you can learn from specialists and scientists the better.

Shareholder Profile **The Burnetts**

Understanding the reasons why their farm produces in a certain way is integral to the success of Shareholders Mark and Christine Burnett. Just inland from the coast near Tauranga Bay at Westport, fields of lush grass are testament to the hard work that the Burnetts have put into their farm.

Mark has been a dairy farmer for as long as he can remember. As an eight-year-old, he helped out with the milking on his parent's farm, and as soon as he could leave school he became a sharemilker.

Mark and Christine started sharemilking together in the Rai Valley, near Nelson, and were married after a job required a 'married couple' to run the farm. They have never looked back and have happily milked cows for 33 years.

In 1995, they looked at how to get a foot on the farming ladder and invest in their own farm. Farm prices in the Tasman District were relatively high as most properties were already developed. When they came across their current farm on the market, they immediately saw its potential. An undeveloped section, in a good farming climate – they told their friends that they were moving to the 'land of milk and honey'.

Life on the Coast has not always been the 'land of milk and honey' for Mark and Christine, but it is full of learning and finding new ways to develop and increase the value of their farm. Between 1996 and 2005, the Burnetts developed their property from a wet farm into a dry farm, while continuing to milk their cows. By sectioning the farm into different plots, they were able to move from plot to plot and develop their farm while other parts remained in dairy production.

Innovation and constantly questioning results is always at the front of their minds when it comes to increasing productivity of crops and cows. The farm has been involved in different scientific trials, including: determining the best time to spray for porina moth caterpillars; various grass pasture trials; and an assessment of the effect of soil flipping on carbon capture and storage by the soil team at AgResearch.

As every farm is different, Mark thinks the more you can learn from specialists and scientists the better. This 'try it and test it' mentality has moved into other areas of farm production.

Recently, Mark has run a farm-wide experiment to understand the levels of fertiliser needed to increase his grass growth. After seeing a noticeable difference in grass growth in different parts of the farm, Mark was persuaded by his fertiliser representative to complete a soil test on the whole property.

“I had always thought that if the grass wasn’t performing that I should give it a little more fertiliser and see how it goes. When I tested the soil I realised that some areas in the farm were way over fertilised, while others were under,” said Mark.

With help from his Ravensdown representative, Mark mapped every paddock to determine the quantities of fertiliser needed, or whether it could be mined for nutrients. This resulted in cost savings throughout the farm as he now knows exactly how much fertiliser he needs (and it is usually less than he thinks). There have also been significant environmental benefits. Applying only the required amount of fertiliser on the farm means it can be absorbed and no longer leeches into waterways.

Mark’s daughter Melissa also plays an important role in understanding the farm. Melissa, who is completing her Primary ITO farm management training, is always reminding Mark to go back to basics and collect data comparison.

“I used to just go out, sight the paddocks and think ‘oh yip that paddock has had a bit of growth.’ Now Melissa has me out there measuring grass so I know exactly what is happening on each paddock, and can make the necessary adjustments,” said Mark.

After years of testing, Mark can now pull out a file and tell you exactly what is happening on each paddock, and how fertiliser inputs affect grass growth.

“In the past three years I have been able to balance out the levels throughout the whole farm, increasing the overall grass productivity. We have gone back to the textbook and reminded ourselves that precision is the key to performance.”

Mark hasn’t finished his experimenting. He is currently working with AgResearch to better understand the impact of soil flipping on the carbon make up of soil.

Our Purpose —

Nourishment made beautifully for generations

Over the next few pages we will show you how Westland lives its purpose every day.

> As sharemilkers, it is the Van Beek's role to manage the farm in a sustainable way and protect the mauri of the Arahura river and whenua.

Nourishment
Nourishing the land

As a sharemilker on a Māori Trust property, nourishment means so many things. You own the herd, but you are the guardian of culturally-held whenua retained for generations to come. So there is a special responsibility to think about how you can nourish the land and keep it in good condition.

For the past 12 years, Mark and Debbie van Beek have managed Mawhera Tuatahi farm in the Arahura Valley, which is owned by the shareholders of Mawhera Incorporation. Similar to Westland the Incorporation is a co-operative with about 1600 shareholders, descendants of the Māori tribe, Kai Tahu.

It is Mawhera's obligation to manage the land in a cultural and environmental way that will generate economic and social benefits for its shareholders and future generations.

As sharemilkers, it is the Van Beek's role to manage the farm in a sustainable way and protect the mauri of the Arahura river and whenua. Community is a big part of this. In everything they do, they must consider how it might benefit or impact on the extended Mawhera whānau.

To farm on the West Coast, farmers have to think about practical ways to manage the environmental challenges of high rainfall and rugged terrain.

The Van Beeks are conscious of the special affiliation that Mawhera Incorporation and the wider Arahura Valley community have with the Arahura River. To minimise any effluent runoff into the river they have, with shareholders, installed river buffer zones and planted the margins of the waterways. They also take a 'little and often' approach to effluent spreading, so it is easily taken up by plants, rather than seeping through to the river.

Managing effluent in wet conditions is one of the key challenges for most West Coast farmers. The Van Beeks effluent sump has a containment facility for unexpected overflow, and they have installed a diversion at the cowshed to prevent the pond being filled with rainwater.

This innovative and pragmatic thinking placed the Mawhera Incorporation in the finals of the recent BNZ Māori Excellence in Farming Awards.

"We love farming on the West Coast, I was raised on a dairy farm just up the road, so it seems natural to be back," said Mark. "The Coast throws up its challenges, but that just means farmers remain agile and able to think outside of the box for solutions."

In the community

Westland enjoys a very close relationship with the West Coast community. Given the number of Shareholders, Suppliers, employees and many of our consumers who live here, giving back and nourishing our community is an important part of Westland's reason for being.

Due to the remoteness of the West Coast our children don't always get the same opportunities and support as students in the larger centres. Westland donates to junior sports throughout the West Coast and to every school in the West Coast region. Participating in team sports not only fosters team work, but also builds confidence and improves self esteem. We are proud to make local sports more accessible to our junior players in the community. In the past months, Westland has also donated:

- $10,000 to Ronald McDonald House
- $1,600 to the Westpac Rescue Helicopter
- $2,000 to Federated Farmers
- $600 offered to every school on the West Coast

A nod to origin

Iconic New Zealand farming landscapes are key to the marketing success of Chinese consumer dairy company Theland. Recently Theland reached the significant milestone of becoming the fourth largest imported milk brand in China. Their UHT milk volumes have overtaken competitors Devondale (Murray Goulburn) and Meadow Fresh (Goodman Fielder) to reach six percent of the total imported UHT milk volume.

This significant jump in market share is a nod to the milk's origins. Branded in China as coming from New Zealand farms that meet environmental, social and ethical practices, Theland shares Westland's desire to make nourishing products beautifully.

Made beautifully
Making beautiful butter

The secret to making butter as good as Westland does is time.

It's time that has been spent perfecting the traditional Fritz churn method. In Westland's butter team staff have spent an average of 20,000 hours (or 10 years) producing butter, with one person making butter for Westland for more than 50 years.

Process Manager Cream Products Dean Robinson has himself just celebrated 30 years' service. He explained, "Our butter team has more accumulated knowledge than any other team at Westland and, potentially, more knowledge than any other butter producers in the country.

"After making butter for so many years, everyone working in the factory has the eye for it and just knows when it is right. We have four butter churners all with their own characteristics. What works in one, doesn't work in another – so our staff have to be able to use the instinct that comes from extensive past experience."

The butter team has added its own craft to butter production. The team requires people who have the skills to make a beautiful product without relying on automation and technology.

New employees are trained by those who have the most experience to make sure that everyone gets the benefit of the team's knowledge.

Unlike some butter producers, Westland's butter only has two ingredients: cream and salt. It does not include anhydrous milk fats, which can be stored for months, just fresh cream straight off the farm. No other additives, such as water, are used to bulk it out.

The pure simplicity of mixing fresh cream and salt gives Westland butter its beautiful rich, creamy, melt-in-your-mouth flavour.

> "After making butter for so many years, everyone working in the factory has the eye for it and just knows when it is right."

World class recognition

In June 2018 Westland was awarded a silver medal by internationally renowned corporate social responsibility auditor EcoVadis. The silver medal status places Westland in the top 30 percent of companies that have completed EcoVadis and shows a high level of compliance with various corporate social responsibility components.

Various procedures and policies of the company and its farms, as well as Westland's business relationships were assessed – from on-farm environmental compliance, to our policies for employment and product procurement.

Westland's participation in the EcoVadis assessment arose from a growing international demand from many of our customers to have a holistic understanding of our corporate social responsibility position.

The silver medal status brings substantial commercial advantages to Westland in terms of customer retention and marketing opportunities to explore with potential clients.

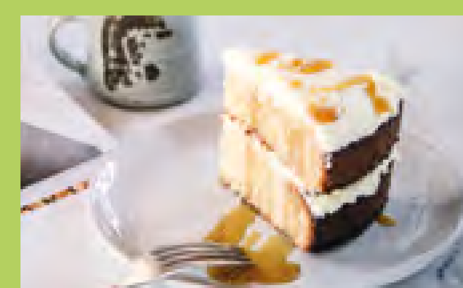
Creating Westgold advocates

Recent Westgold butter converts have taken to the Westgold Facebook page to sing their praises of the beautifully creamy 'West Coast gold'. It seems that Westland's award-winning butter is the secret ingredient in the creation of beautiful baked goods, and for those who want to bring something a little special to the table each day.

One customer commented: "Gorgeous butter. I've recently converted and I wouldn't use anything else. Perfectly creamy, slightly salty. I'm loving my baking results with Westgold!"

Others have said that they have noticed the difference that Westgold brings to their baking and that it "tastes like butter used to taste."

Social media has proved a great way for Westland to increase Westgold's brand and international following. Westgold fans are increasingly liking, sharing and posting recipes of them using the butter on the Westgold Facebook page, spreading the word to current and potential customers throughout the online world.



> “There is a sense of pride in looking after the farm, and making sure that it is even better for the next generation.”

For generations
The Langridge family

Three generations of the Langridge family have farmed in the West Coast’s Taramakau Valley.

The property encompasses some 429ha with 500 milking cows. There are support blocks and a 50ha deer unit as well. Jack and Jeanette Langridge started the farm in 1965. Stephen Langridge and his wife Lynlee were the next generation, and are still on the property, but their son Ryan and his wife Rachael are now making their own mark on the farm. At time of writing they were expecting their first child, a fourth generation to come into the valley.

And that, Ryan says, is what farming through the generations is about.

Each do their bit to make the farm better in some way and to make it easier for the next generation.

“Mum and Dad put in a lot of hard work to clear the scrub and turn relatively unusable land into productive dairy land which grew their milking platform. They planted shelter belts to protect the stock and now I am tidying those up as well as making a riparian management plan to ensure waterways are protected.

“The work Mum and Dad put in means that Rachael and I don’t have to be spending as much time on developing the farm. Rather we can put our time into something else.

“The real treasure of farming as a family is you take on something your family has built. There is a sense of pride in looking after the farm, and making sure that it is even better for the next generation.”

With continuous family ownership comes a culture of wanting the farm to be at its best, further evidence of commitment to Westland’s purpose of ‘nourishment, made beautifully, for generations.’

“You always want to get it right, and to keep doing better,” Stephen said. “Hand something on that you can be proud of, and support the next generation to add more value to the property in their own way.”

Generations

Just as there are generations of farmers working to supply Westland, there are also generations of employees helping make beautiful products. Familial ties shine through particularly in work ethic, as family members don’t want to let others down. No more so than in the Pullen family. Ten years ago Chris Pullen Jnr started at Westland in the cadet programme after ‘Dad’ saw an advertisement in the paper. Two years down the track his father, Chris Pullen Snr, became Westland’s Environmental Manager (after running it past Chris Jnr first of course).

“Both of us ending up working for Westland was a complete coincidence but it has worked out well,” explained Chris Snr.

Chris Jnr believes that starting as a cadet and working your way through the ranks is invaluable.

“Sharing the same name can have its difficulties,” said Chris Snr. “Often we are mistaken, and the wrong person is emailed or called. But it can also cause a few laughs when the wrong one is called to meet a visitor and finally when the right host arrives, I’m sitting there entertaining their visitor.

“However, when I am working it is not only my reputation on the line but also that of my son’s. When I am at work, I want to do my best work as it will also reflect on Chris. He has incredibly high standards in his work, and I always strive to meet his standards.

“Working together is great as we push each other to work hard and have a strong work ethic. If Chris Jnr is given credit in a DMS meeting, I think I better raise my game as he’s getting the edge on me. There is nothing quite like a bit of family competition.

“When we are at home we don’t talk a lot about work. However, my family always thinks it is amusing that Chris is called junior at work.” Chris Jnr will argue that he started at Westland first, so he is the oldest (in terms of employment).

Nourishment

of people
of land
of environment
of community
of our way of life
of customers
of consumers

Made beautifully

our place
our care
our ethics
our trust
our authenticity
our capability
our innovation
our flexibility
our systems
our customer focus
our quality
our safety

For generations

past
current
future

of shareholders
of employees
of customers
of consumers
of families
of partners

Nourishment made beautifully for generations

Environmental **Stewardship**

Environmental sustainability is central to Westland's purpose of 'nourishment made beautifully for generations'. Thinking about how our actions will impact on future generations is critical to the development of the business.

In the past year our staff and Shareholders have been involved with various environmental projects that will reduce waste, our carbon footprint, and more generally Westland's collective effect on the environment.

In the factory

One of the stand-out initiatives in the factory is Westland's campaign to send zero waste to landfill by the end of 2018. For the last 18 months there has been a huge drive to minimise the amount of waste that goes to landfill. Previously everything used to go to landfill, however Westland has now reached a stage where 90 percent of its waste is recycled.

Westland entered into a services agreement with waste management company Envirowaste to collect any items that cannot be recycled in Hokitika.

Not only is this initiative good for the environment, Chris Pullen, Westland's Environmental Manager, explained that the reduction of waste to landfill has also achieved significant cost savings.

Westland recently entered into an agreement with Greenfields that will convert its vegetable oil waste and turn it into biodiesel. "We are planning to go full circle with the biodiesel and trial it in one of our tankers", said Chris.

Westland has been part of various other environmental programmes, including working with the Department of Conservation and conservation volunteers to restore natural habitat along the Hokitika River. It is also an active member of local environmental community group, 'The Green Team', which focuses on community sustainability in Hokitika.

On-farm

On-farm, Westland is working with Suppliers and Shareholders to find ways to reduce the carbon footprint of dairy. Working with Lincoln University, AgResearch and regional councils, Westland is investigating 'Carbon Mitigation Schemes' that look at alternative fuel sources on-farm and also carbon sequestration. The schemes work by implementing carbon capturing activities which, in turn, offset the greenhouse gas emissions from Westland – both on-farm and from the processing sites at Hokitika and Rolleston. Many of our Shareholders undertake environmental initiatives such as riparian planting, and investigate methods to reduce the amount of nitrogen leaching from farms.

Farm Excellence Programme

Since 2014, Westland Milk Products has run its Farm Excellence Programme (FarmEx). FarmEx ensures supplier farms meet a broad range of standards governing key areas of performance. This includes people and risk management, stock exclusion and waterway management, land and nutrient management, animal welfare, water use, effluent systems and management and farm presentation. FarmEx was developed to complement regulatory standards and go beyond minimum requirements. This ensures Westland can accurately and transparently claim to meet the ever-evolving and exacting standards of our customers; whose consumers display an increasing interest in wanting their food to be ethically produced and to a high natural quality, without detriment to the environment.

The dairy industry in New Zealand, including Westland, accepts the challenge to be good stewards of the environment while maintaining the industry as a globally important source of natural milk-based nutrition. Our Shareholder compliance with the FarmEx standards is increasing each year. Suppliers realise that, far from being an imposition or an added cost, FarmEx is a vital component of earning the right to do business and get our products into the market.

Our People

Moving to Hokitika — Finding and retaining skilled and capable people to work in Hokitika is a critical part of building resilience into Westland's team. Getting over the Southern Alps can be a mental barrier for some people looking to change roles. However once people do their research on our company and have visited Hokitika, the opportunity to be involved in the changes going on at Westland, together with the lifestyle on offer, can be really attractive for people looking to grow their careers and experience a more rural lifestyle. Viet, Craig and Erica have all recently made the move to Hokitika, and explain the benefits of living there.

Viet Tran

Moving to the West Coast was an exciting new adventure for Engineering Technician Viet Tran. Originally from Vietnam, Viet has worked throughout the world gathering a wealth of knowledge and specialised experience in designing and servicing packing lines.

The move from bustling South East Asian cities to a small community on the rugged West Coast of New Zealand was always going to be a step out of his comfort zone. However, Viet was pleasantly surprised how quickly he and his family were welcomed in the Westland and Hokitika communities.

"I have travelled quite a lot, but have never been to an area quite as friendly as Hokitika. From the first time I went into town people in the stores and on the street greeted me and wanted to know who I was," Viet said.

"Hokitika is such a safe and welcoming place to live. It is a lovely community for my children to grow up and for my family to get involved in. Working at Westland there is a great work-life balance, and after work I am minutes away from going fishing or getting into the bush for a walk."

Before working for Westland, Viet worked for Swedish company Tetra Pak, designers of packaging machinery including the UHT lines Westland has in Rolleston.

During the four years that Viet worked for Tetra Pak, he learnt the ins and outs of machine design and how to teach other people about machine maintenance.

Viet was initially recruited to the Rolleston plant to fine-tune the UHT packing line. It was quickly realised his skill set could help with machine and packing efficiencies within the Hokitika butter factory, hence his move to the Coast.

"Although the machines were different to those that I had used in the past, it gave me a challenge to understand the intricacies of how they worked. This helped me to figure out how improvements could be made."

The engineering team is incredibly knowledgeable and close-knit. Having a small team that communicates efficiently means Viet has enjoyed the support of his colleagues. "Everyone has different strengths, we combine to become a solid team."

Viet's initiative and can-do attitude made him an obvious choice to receive Westland's top annual employee recognition, the 2018 Scott Eglinton Supreme Award.

About Viet Tran

Role:
Engineering Technician

Currently based:
Hokitika, West Coast

Previously based:
Ho Chi Minh City
Christchurch

“There is a strong connection between Westland and the West Coast community.”

Craig Betty

About Craig Betty

Role:
Chief Operating Officer

Currently based:
Hokitika, West Coast

Previously based:
Palmerston North
Hamilton
Gisborne
Blenheim
Lichfield
Te Awamutu
Auckland

Getting out of his comfort zone was the main driver behind Chief Operating Officer Craig Betty’s move from Auckland to Hokitika. Craig knows the ins and outs of the dairy industry. When you talk to him, his passion for growing the dairy sector shines through. After 15 years working for Fonterra, most recently as the North Island Regional Manager, Craig realised it was time to make a change.

“I hadn’t thought a lot about changing jobs,” said Craig. “However, after months of phone tag with a recruiter they persuaded me to come over, see the factory and meet the people I would be working with. It was at that moment I knew that working for Westland was going to be a good move.

“In a smaller company you have more opportunities to make decisions and have exposure to the CEO and Board. Every employee is there for a reason, and their performance is directly related to the company’s overall performance and payout.

“Westland is currently in a period of reorganisation and growth. For the past year, the Executive Leadership Team and senior management have put in significant time to develop a clear strategy for the future.

“Just prior to joining Westland, the Co-operative was trying to recover from a series of non-competitive payouts. I saw the move to Westland as an opportunity to help make a real change and generate better returns for Shareholders. We have managed to raise the payout over the previous season. We still have a lot of work to do, but it is a good improvement.”

Craig and his wife moved from an apartment in central Auckland to a more rural setting just out of Hokitika.

“Although we loved the city lifestyle, living on the Coast is definitely more peaceful. We have moved from an inner city apartment to a lifestyle block in the country. Unlike in Auckland, stepping out into nature is right now on my doorstep. The feel of the South Island, and especially Hokitika, is completely different to the North Island. There is a strong connection between Westland and the West Coast community. Everyone on the Coast is connected to the company in some way, and for me, it is important that Westland thrives as the whole community can share the benefits.”

"Rather than just being a number or a name behind an email, I can walk over to someone and talk with them to gain an in-depth understanding of the way that person works."

Erica Reeves

Originally from Gisborne in the North Island, Westland's new Head of Purchasing and Procurement, Erica Reeves, thinks many people overlook the opportunities that working for a company in a small town provides. Shifting from Christchurch to Hokitika was a career move for Erica, and a chance to engage with staff and the community on a level not possible in many larger corporations.

Erica's role is essentially to make sure she has a finger on the pulse of the business. She ensures that Westland is getting the best terms and conditions for any 'spend' (with the exception of raw milk and employee salaries).

She manages key relationships across the supply chain to create strategic partnerships with Westland's suppliers to effectively manage imports and exports within the company. In other words, her team makes sure Westland has the best and right quantities of ingredients, machine parts, capital infrastructure, or packaging (to name a few), and that they are delivered on time, for the right price, so Westland can make its products.

Erica is excited about the strategy in place for the new season. "Westland is undergoing a period of dramatic change. The work that has been completed in the last 12 months to get us from where we were to here is significant. If we pull off what we have planned for the next 12 months it will be ground-breaking."

In a comparatively smaller company, Erica explains, everyone has the ability to see their outcomes in action.

"Rather than just being a number or a name behind an email, I can walk over to someone and talk with them to gain a full understanding of the way that person works. This is vital for me to be able to assess what changes are required or why changes shouldn't be made."

"A lot of hard work has been put in to get us where we are and we are not finished. We have some ambitious targets for the next season, however at this stage there is no reason why we can't reach them. Being part of this time of change is incredibly exciting."

About Erica Reeves

Role:
Head of Purchasing and Procurement

Currently based:
Hokitika, West Coast

Previously based:
Palmerston North
Wellington
Chippenham
London
Honiara
Christchurch

In 2018 the total recordable injury rate decreased by 23 percent.

Health and Safety
A new culture

Westland CEO Toni Brendish has led a significant change in our health and safety culture during the past 20 months.

In 2018 the total recordable injury rate decreased by 23 percent. Fewer injuries mean less business interruption, reduced sick leave costs, and reduced ACC costs. More importantly, it means our people are safer.

Fewer injuries are just one sign of an improving culture. Recently, for the first time, more potential hazards than incidents were recorded by staff within a one-month period, indicating that staff are working harder to identify the potential cause of accidents or injuries before they occur.

It also tells us that staff are engaged with our approach to health and safety. This was confirmed by recent staff engagement survey results, where comments included:

- "The H&S investment the company has made is significant. We are now better in the H&S area than we were two years ago."
- "Other companies I have worked for have not had the high level of H&S in place. Awesome to see here."
- "I know that health and safety is taken seriously in Westland. Training and inductions are properly given before staff can access particular areas within the company."
- "I get the feeling that people genuinely care for our safety on-site."

One of the biggest highlights of 2018 was the period April to June when Westland recorded no work-related injuries. This was the first time since Westland started recording its health and safety statistics that this had been achieved. While three months' injury free is something to be proud of, it also sets us a challenge – Westland's ultimate aim is to measure its injury free status in years, not months.

For the 2018-19 season Westland's Health and Safety Team has some ambitious targets. We want to see further improvement in the rate of recordable injuries so that our Total Recordable Injury Frequency Rate (TRIFR) falls into single digits.

The team wants to roll out new initiatives, such as a refreshed 'Take 5' risk assessment tool, a streamlined Permit to Work system, and an updated health and safety online management tool that staff can access from their smartphones.

STOP-THINK-ACT

At the beginning of 2018, the Health and Safety Team launched the 'STOP-THINK-ACT' campaign, which was designed to address a trend revealed in our safety data collection. Analysis showed staff were underestimating the potential risk in daily tasks. The purpose of STOP-THINK-ACT was to encourage staff to think about risks and hazards before they began a task, even one that might seem routine.

The refreshed 'Take 5' risk assessment tool planned for September 2018, together with some specialised training about risk assessment for operational staff, is intended to support the campaign and keep it fresh for the new season. Our on-site Health and Safety Champions (staff volunteers with a particular interest in health and safety) are working hard to make risk identification a part of day-to-day conversations within their teams.

Critical Risk Programme

A health and safety critical risk is one that could cause serious harm or death to one or more individuals. WorkSafe New Zealand places particular importance on businesses having robust critical risk programmes in place. Westland's critical risk programme commenced in February 2015. Since then, we have completed 10 separate critical risk projects. These include machine safety, working at heights, confined spaces, and dryer safety.

For the 2017-2018 season Westland planned to complete two critical risk projects — Warehousing: Racking and Stacking; and Driving: Heavy and Light Vehicles. To complete these projects a total of 141 risks were assessed and controls put in place. These projects now move into maintenance phase and will be regularly audited to ensure controls remain in place. Some of these controls are detailed below.

Warehousing: Racking and Stacking

A warehousing standard has been developed.

Our Standard Operating Procedures and training modules incorporate the new standard into daily work.

Assessment and checklist tools are in place so that staff can check that their stacking is safe.

Driving: Heavy and Light Vehicles

We have a transport and maintenance standard for all vehicles.

Emergency equipment has been installed in all company vehicles.

Communication methods have been upgraded in our tanker fleet.

We have upgraded our electronic logbooks.








Board of Directors **Profiles**

Pete Morrison
Chairman (top left)

Pete was elected as Chairman in March 2017, having been elected to the Board as a Director in 2015. This follows more than 15 years supplying Westland Milk Products from farms in both Canterbury and the West Coast. Pete is an experienced businessman, who is also passionate about Shareholder rights and their sense of ownership.

Keith Smith
Appointed Director (second row left)

Keith is a Professional Director based in Auckland. Keith chairs Westland's Audit Committee. He spent 27 years as a Chartered Accountant with the firm now known as BDO, specialising in corporate re-organisation and re-structuring, and Financial Advisor to many medium-sized businesses throughout New Zealand.

Brent Taylor
Appointed Director (third row left)

Brent joined the Board as an appointed Director in 2014. Brent has in-depth knowledge of the New Zealand dairy sector, having held senior management positions at Fonterra Co-operative group and the New Zealand Dairy Board. As an independent director, Brent has held governance positions for New Zealand Wineries and is Chairman of the Challenge Fund Investor Internal Audit Committee.

Bob Major
Appointed Director (bottom left)

Bob joined the Board as an appointed Director in 2011. He has an extensive background in agribusiness, particularly in the dairy sector. He has previously held roles at the New Zealand Dairy Board and Fonterra Co-operative group, and goverance roles at Mud House Wines and Sealord. Bob has extensive governance experience including being the current Chair of Gibb Holdings (Nelson) Ltd, a Director of BioVittoria Investments Ltd and Kiwirail Holdings Limited.

Frank Dooley
General Director (top right)

Frank was elected to the Board of Westland Milk Products in 2010 and is a member of the Remuneration and Audit Committees. Frank has a Bachelor of Commerce degree and is a Fellow of the NZ Institute of Chartered Accountants. He has his own chartered accountancy business in Westport.

Katie Milne
General Director (second row right)

Katie was elected to the Westland Board in 2016. She lives and farms at Rotomanu and is currently National President of Federated Farmers, where she has also held several portfolios including biosecurity, ACC, health and safety, wellbeing, local government and adverse events.

Rebecca Keoghan
General Director (third row right)

Rebecca was elected to the Board as a Director in 2015 and is a member of the Shareholder Relations and Health and Safety Committees. Currently employed as Business Manager – Dairy for Landcorp Farming and Director for Buller Holdings Ltd, Rebecca has a wealth of experience at both executive and governance levels.

Andrew MacPherson
General Director (bottom right)

Andrew MacPherson joined the Board of Westland Milk Products in December 2017. He has worked in a range of senior executive and CEO roles, and has extensive experience across a range of agri-sector businesses as a governor, senior manager, business owner and farm owner.








Executive **Profiles**

Toni Brendish
Chief Executive Officer (top left)

Toni joined Westland as Chief Executive Officer in 2016, having spent a large part of her career within the Danone Group as Managing Director of Nutricia Australia and New Zealand; Managing Director of Danone Dumex (Malaysia) Sdn Bhd; and Managing Director of the Danone dairy business in Indonesia.

Dorian Devers
Chief Financial Officer (second row left)

Dorian joined Westland in 2017, having previously worked for the UK's Linde Group (formerly the BOC Group) as their Financial Director for the Africa, UK and Ireland region. He has extensive international and local experience working on mergers and acquisition deals across multiple sectors and countries.

Caro Findlay
General Manager – People and Safety (third row left)

Caro joined Westland in 2015 after previously working in Human Resources at the Canterbury and West Coast District Health Boards. She has previously worked at Parliament in a communications role, and for Immigration New Zealand in London.

Gary Yu
General Manager – China (bottom left)

Joining Westland in May 2017, Gary is a Chinese national who has a tremendous amount of experience working in the China market. For the past seven years he was the Managing Director of Griffith Foods for the Greater China region.

Craig Betty
Chief Operating Officer (top right)

Joining Westland in July 2017, Craig's remit is to ensure effective productivity, with a strong focus on safety, quality and sustainability. Westland's manufacturing, quality and supply chain functions are all the responsibility of the Chief Operating Officer. Prior to joining Westland, Craig was Regional General Manager Operations for the Lower North Island for Fonterra.

Mark Lockington
Company Secretary (second row right)

Mark joined Westland Milk Products in 2002 as Financial Controller, before becoming Company Secretary in 2008. Prior to joining Westland, Mark worked in various financial, accounting, administration and management positions throughout New Zealand and Australia in the agricultural, mining and infrastructure sectors.

Jeff Goodwin
General Manager – Sales (third row right)

Jeff was appointed General Manager Sales in November 2017, following his role of Vice-President, Global Operations, for James Farrell & Co. Jeff has a proven ability to grow sales, develop new markets and establish key business relationships, with an extensive success record in South East Asia, Japan, China and the United States.

Hamish Yates
General Manager – Marketing and Innovation (bottom right)

Hamish was appointed General Manager Marketing and Innovation in 2017. Hamish has more than 15 years' marketing and sales management experience, largely in FMCG. Hamish is responsible for Westland's retail and foodservice channels, market and product development, marketing and brand management.

Corporate Governance **Report 2018**

Westland Co-operative Dairy Company Limited is a co-operative company. New Zealand company and co-operative company laws and the company's constitution, which is publicly available at www.companies.govt.nz, give the Board, its directors and Shareholders certain rights and obligations.

Board
Westland has a Board of eight directors, five elected by the supplying shareholders (general directors) and three directors appointed by the Board. Each directorship is for four years, and there is no limit to the number of terms a director may sit on the Board. The directors' performance is regularly evaluated.

The Company offers directors training and development where appropriate. Regular tours of the company's different departments across the Hokitika and Rolleston sites are undertaken, and on occasion directors have the opportunity to visit subsidiary businesses or customers in the market. The Board has adopted a Charter which clearly describes Westland's good governance practices.

Board Committees
The Board has the following formally constituted committees:

Audit Committee
The Audit Committee is responsible for assisting the Board in discharging its responsibilities relative to finance reporting and regulatory conformance.

In addition, the Audit Committee is responsible for ensuring the recommendations of the external auditors are actioned by management; monitoring corporate risk assessment and the internal controls instituted by Westland; and supervising special investigations when requested by the Board. The members of this committee are Keith Smith (Chair), Frank Dooley, Pete Morrison, Brent Taylor and Andrew MacPherson.

Remuneration Committee
The Remuneration Committee reviews the salaries of Westland's senior managers. The members of this committee, as at 31 July 2018, are Bob Major (Chair), Pete Morrison, Frank Dooley and Andrew MacPherson.

Shareholder Relations Committee
The Shareholder Relations Committee was established to assist the Board in matters regarding Shareholders and Suppliers. The members of this committee, as at 31 July 2018, are Katie Milne (Chair), Rebecca Keoghan and Andrew MacPherson.

Health and Safety Committee
The Health and Safety Committee was established to monitor health and safety matters. The members of this committee, as at 31 July 2018, are Rebecca Keoghan (Chair), Brent Taylor, Pete Morrison and Katie Milne.

Governance Review Committee
The Governance Review Committee was established in January 2017 to review the Co-operative's governance. It was disestablished on 27 May 2018.

EasiYo Products
As at 31 July 2018, the Board of EasiYo Products Limited was comprised of Toni Brendish, Dorian Devers and Mark Lockington.

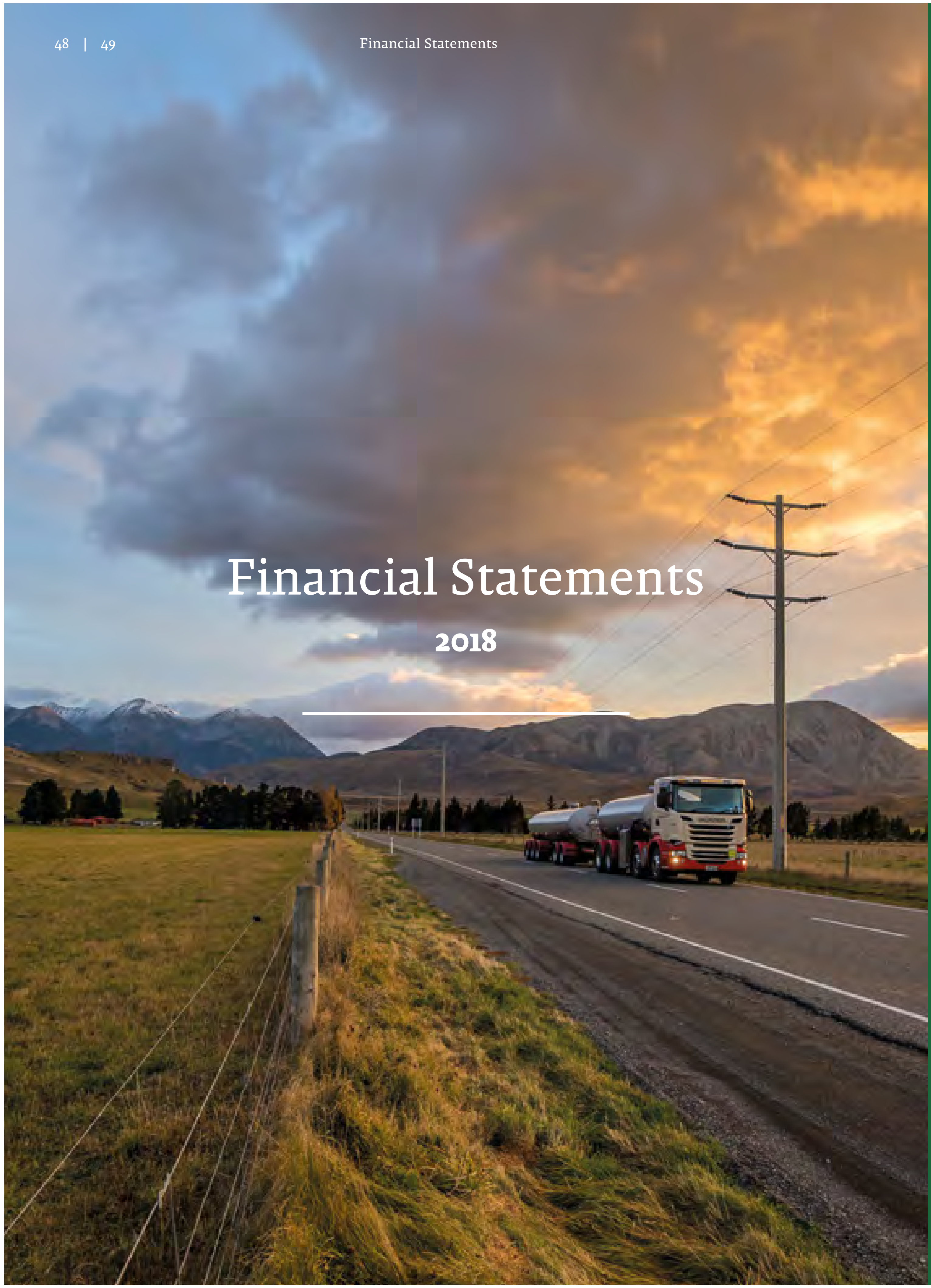
Westland Milk Products (Shanghai)
As at 31 July 2018, the Board of Westland Milk Products (Shanghai) Company Limited was comprised of Toni Brendish, Dorian Devers and Mark Lockington.

Pure Nutrition
As at 31 July 2018, the Board of Pure Nutrition was comprised of Brent Taylor, Mark Lockington, Derek Wong and Fangming Hu.

Board Meetings
The directors receive management reports on Westland's operations before each meeting, including reporting on the activities of the EasiYo group, Westland Shanghai and Pure Nutrition.

The Board and its committees also meet from time to time in confidential sessions without management present. These sessions deal with management performance and remuneration issues, and include discussions with external auditors to promote a robust and independent audit process.

Remuneration
The current director fee pool was ratified by Shareholders at the Special General Meeting held 5 October 2017. The fee pool will be benchmarked against prevailing market conditions in 2020, and reset by Shareholder approval at the 2020 Annual General Meeting.



Financial Statements **Contents**

Deloitte.

Independent Auditor's Report

To the Shareholders of Westland Co-operative Dairy Company Limited

Opinion

We have audited the consolidated financial statements of Westland Co-operative Dairy Company Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 July 2018, and the consolidated income statement, statement of comprehensive income, statement of changes in members' funds and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 53 to 88, present fairly, in all material respects, the consolidated financial position of the Group as at 31 July 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, the provision of taxation compliance services, taxation advisory services and the other non-assurance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and any of its subsidiaries.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 objectives are 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 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 and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Mike Hawken, Partner
for Deloitte Limited
Dunedin, New Zealand
25 September 2018

Directors' **Declaration**

In the opinion of the directors of Westland Co-operative Dairy Company Limited and its subsidiaries ('the Group') the consolidated financial statements and notes on pages 53 to 88:

- comply with generally accepted accounting practice in New Zealand and present fairly the financial position of the Group as at 31 July 2018 and the results of their operations and cash flows for the year ended on that date; and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the consolidated financial position of the Group and facilitate compliance of the financial statements with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the consolidated financial statements.

The Directors are pleased to present the consolidated financial statements of the Group for the year ended 31 July 2018.

The consolidated financial statements were approved by the Board of Directors on 25 September 2018.

For and on behalf of the Board of Directors:

PH Morrison
Chairman

KR Smith
Director / Audit Committee Chair

Consolidated statement of comprehensive income

For the year ended 31 July 2018

	Notes	2018 $'000	2017 $'000
Revenue	1(a)	**692,586**	629,650
Amount paid to Westland suppliers for milk		**(386,032)**	(338,691)
Other cost of sales		**(158,963)**	(153,839)
Gross margin		**147,591**	137,120
Other income	1(b)	**4,478**	13,791
Share of loss in joint venture	16	**(1,310)**	(72)
Selling and distribution		**(21,552)**	(24,177)
Administration and other	2	**(88,815)**	(83,665)
Depreciation and amortisation	13,14	**(27,176)**	(33,009)
Expenses, excluding finance costs		**(137,543)**	(140,851)
Finance expenses		**(10,236)**	(10,267)
Finance income		**271**	308
Net finance costs		**(9,965)**	(9,959)
Profit before income tax		**3,251**	29
Income tax (expense) / benefit	3	**(2,691)**	1,477
Profit for the year attributable to members		**560**	1,506
Items that may be subsequently reclassified to profit or loss:			
Movement in cash flow hedges		**(34,158)**	10,129
Income tax relating to components of other comprehensive income	17	**10,126**	(2,989)
Movements in foreign currency translation reserve		**836**	(368)
Other comprehensive (loss) / income for the year, net of tax		**(23,196)**	6,772
Total comprehensive (loss) / income for the year		**(22,636)**	8,278

Consolidated balance sheet

As at 31 July 2018

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents		**17,920**	19,425
Trade and other receivables	5	**103,484**	81,233
Current tax receivables		**45**	-
Derivative financial instruments	12	**616**	21,373
Inventories	6	**139,809**	108,562
Total current assets		**261,874**	230,593
Non-current assets			
Property, plant and equipment	13	**310,745**	314,437
Intangible assets	14	**12,923**	15,168
Non current receivables		**73**	133
Investment in joint venture	16	**1,618**	2,928
Derivative financial instruments	12	**352**	5,057
Total non-current assets		**325,711**	337,723
Total assets		**587,585**	568,316
Liabilities			
Current liabilities			
Trade and other payables	7	**43,649**	40,331
Loans and borrowings	12	**21,000**	-
Current tax liabilities		**126**	169
Derivative financial instruments	12	**10,362**	24
Owing to suppliers	8	**31,616**	26,224
Total current liabilities		**106,753**	66,748
Non-current liabilities			
Loans and borrowings	11	**232,780**	232,780
Derivative financial instruments	12	**2,379**	195
Deferred tax liabilities	17	**5,206**	12,747
Share resumption liability	10	**10,848**	4,186
Co-operative shares classified as a liability	10	**106,465**	105,871
Total non-current liabilities		**357,678**	355,779
Total liabilities		**464,431**	422,527
Net assets after Co-operative shares classified as a liability		**123,154**	145,789
Memorandum account			
Co-operative shares classified as a liability	10	**106,465**	105,871
Reserves		**7,796**	30,992
Retained earnings		**115,358**	114,797
Total members' funds before Co-operative shares classified as a liability		**229,619**	251,660
Less Co-operative shares classified as a liability	10	**(106,465)**	(105,871)
Total members' funds excluding Co-operative shares classified as a liability		**123,154**	145,789

Consolidated statement of changes in members' funds

For the year ended 31 July 2018

	Notes	Attributable to Shareholders of the Parent company						
		Contingency reserve	**Cash flow hedge reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Co-operative shares classified as a liability**	**Total including shares**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance as at 1 August 2016		10,000	13,852	369	113,292	137,513	106,016	243,529
Profit for the year		-	-	-	1,506	1,506	-	1,506
Cash flow hedges		-	7,140	-	-	7,140	-	7,140
Other comprehensive income for the year net of income tax		-	-	(368)	-	(368)	-	(368)
Total comprehensive income		-	7,140	(368)	1,506	8,278	-	8,278
Share issues	10	-	-	-	-	-	276	276
Share resumptions	10	-	-	-	-	-	(421)	(421)
Balance as at 31 July 2017		10,000	20,992	1	114,798	145,791	105,871	251,660
Balance as at 1 August 2017		10,000	20,992	1	114,798	145,791	105,871	251,660
Profit for the year		-	-	-	560	560	-	560
Cash flow hedges		-	(24,032)	-	-	(24,032)	-	(24,032)
Other comprehensive income for the year net of income tax		-	-	836	-	836	-	836
Total comprehensive loss		-	(24,032)	836	560	(22,636)	-	(22,636)
Share issues	10	-	-	-	-	-	7,458	7,458
Share resumptions	10	-	-	-	-	-	(6,864)	(6,864)
Balance as at 31 July 2018		10,000	(3,040)	836	115,358	123,154	106,465	229,619

Consolidated statement of cash flows

As at 31 July 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		**671,779**	642,743
Interest received		**260**	530
Income tax refunded		**339**	2,362
Cash paid to suppliers and employees		**(669,035)**	(592,199)
Interest paid		**(9,905)**	(10,489)
Net cash (outflow) / inflow from operating activities	4	**(6,562)**	42,947
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	567
Proceeds from advances to third parties		**54**	155
Acquisition of property, plant and equipment		**(16,112)**	(14,846)
Acquisition of intangibles		**(18)**	(4,401)
Loan to joint venture		**(800)**	-
Net cash used in investing activities		**(16,876)**	(18,525)
Cash flows from financing activities			
Proceeds / (payments) relating to share capital		**933**	(346)
Proceeds from borrowings		**86,500**	76,290
Repayment of borrowings		**(65,500)**	(94,000)
Net cash from / (used in) financing activities		**21,933**	(18,056)
Net increase (decrease) in cash and cash equivalents		**(1,505)**	6,366
Cash and cash equivalents at the beginning of the financial year		**19,425**	13,059
Cash and cash equivalents at end of year		**17,920**	19,425

Statement of Accounting Policies

For the year ended 31 July 2018

Westland Co-Operative Dairy Company Limited ('the Company') is a profit-oriented company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and the Co-Operative Companies Act 1996. The Company is an issuer in terms of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act.

The consolidated financial statements of Westland Co-Operative Dairy Company Limited as at and for the year ended 31 July 2018 comprise the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities (together referred to as 'the Group' or 'Westland'). Westland is primarily involved in the manufacture and supply of dairy and nutritional products. The consolidated financial statements were approved by the Board of Directors on 25 September 2018.

A Basis of preparation

The consolidated financial statements of the Group 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 applicable for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

These consolidated financial statements are presented in New Zealand dollars ($), which is the Parent company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars. These consolidated financial statements have been prepared on a historical cost basis, unless stated otherwise in specific accounting policies below. The consolidated statement of comprehensive income 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 Use of estimates and judgements

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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The area of significant estimates and judgements is below:

- Intangible assets (note 14)

C Foreign currency translation

(i) Transactions and balances

Foreign currency transactions are translated into the respective functional currency of the Group's entities using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within revenue. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the reporting date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(ii) Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to consolidated statement of comprehensive income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

D Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Associates and joint ventures (equity accounted investees)

Associates are all entities over which the Group has significant influence but not control or joint control. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investee). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

In preparing the consolidated financial statements, all inter-company balances, income and expense transactions, and profit and losses resulting from intra-group activities, have been eliminated.

E Segment reporting

The Group operates in one industry, being the manufacture and supply of dairy and nutritional products. The Board makes resource allocation decisions based on expected cash flows and results for the Group's operations as a whole and the Group therefore has one segment. Although the Group sells to many different countries, the Group operates in one principal geographical area being New Zealand.

F Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2018 or later periods but which the Group has not early adopted:

- **NZ IFRS 15 Revenue from contracts with customers**

  NZ IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, based on a 5-step approach for revenue recognition. It became effective for periods ending after 1 January 2018 and will be adopted in the year ended 31 July 2019.

  Under NZ IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The Group has performed a preliminary analysis of the impact of NZ IFRS 15.

- **NZ IFRS 9 Financial Instruments**

  NZ IFRS 9 Financial instruments establishes the principles for classification and measurement, hedge accounting, and impairment of financial assets / liabilities and it will become effective on 1 January 2018 and will be adopted in the year ended 31 July 2019.

  Key requirements of NZ IFRS 9:

  - All recognised financial assets within the scope of NZ IFRS 9 are required to be subsequently measured at amortised cost or fair value.
  - In relation to impairment of financial assets, NZ IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.
  - The new hedge requirements retain the three types of hedge accounting mechanisms currently available under NZ IAS 39, however greater flexibility over the types of instruments that qualify for hedge accounting has been introduced. Furthermore, the effectiveness test for hedging relationships has been overhauled and replaced with the principal of 'economic relationship'. The retrospective assessment of hedge effectiveness is no longer required.

  The impact for the Group of adopting NZ IFRS 9 relates to the revised hedging requirements and new hedge effectiveness testing. These impacts largely relate to changes to systems and processes supporting hedge accounting.

  The Group has commenced its assessment of NZ IFRS 9.

- **NZ IFRS 16 Leases**

  NZ IFRS 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It becomes effective on 1 January 2019 and will be adopted in the year ended 31 July 2020.

  NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

  A preliminary assessment indicates an expected significant impact on the amounts recognised in the Group's financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete their review.

- **Other**

  The Group has reviewed all other Standards, Interpretations and Amendments to existing Standards in issue not yet effective and, except as noted above, does not expect these Standards to have a material effect on the consolidated financial statements of the Group. There are no new standards and amendments effective for the first time in this reporting period which have had a material impact on these consolidated financial statements.

This section explains the financial performance of the Group by giving additional details on the material components of revenue and expenses that are included in the consolidated statement of comprehensive income. This section also shows how cash flow from operating activities reconciles to the profit after income tax that is presented in the consolidated statement of comprehensive income.

Section A — Financial performance

1 Revenue and other income

Revenue and other income comprises all income derived by the Group during the year, excluding finance income which is reported separately in the consolidated statement of comprehensive income. Revenue includes the impact of foreign exchange gains and losses that relate to sales transactions.

The Group enters forward exchange agreements when products are sold in a foreign currency in order to guarantee the exchange rate that will apply when cash is received from customers for the particular sale. A foreign exchange gain or loss occurs when the actual exchange rate at the time the customer pays for the goods differs from the rate agreed under the foreign exchange agreement. If the spot exchange rate is more favourable than the hedged rate at the time cash is received a foreign exchange loss arises.

If the spot exchange rate is less favourable a foreign exchange gain arises.

An increase in revenue indicates products have been sold for higher values, larger quantities of goods have been sold, or exchange rates have been more favourable for export sales. A decrease in revenue indicates the opposite.

A 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, the amount of revenue can be measured 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.

Net foreign exchange hedging gains and losses mainly arise from the dairy revenue foreign exchange exposures and are recognised in the consolidated statement of comprehensive income.

	2018 $'000	2017 $'000
Dairy revenue	**672,335**	607,400
Freight and distribution recoveries	**9,742**	11,212
Net foreign exchange gain	**10,508**	11,038
	692,586	629,650

B Other income

Other income includes sales of dairy ingredients, toll processing income and insurance claim proceeds.

2 Expenses

Expenses include amounts incurred by the Group in the course of operating the business and earning income during the year. Expenses are deducted from income to give profit before income tax.

	2018 $'000	2017 $'000
The following items of expenditure are included in administration and other expenses:		
Donations	**39**	32
Paid on behalf of suppliers	**603**	560
Operating lease	**864**	1,028
Employer Kiwisaver and superannuation contributions	**2,739**	2,657
Administration expenses	**10,161**	7,821
Communications	**483**	559
Compliance costs	**1,665**	1,526
Security	**376**	338
IT systems	**2,012**	2,099
Travel and accommodation	**2,164**	1,816
Insurance and rates	**6,322**	5,338
Employee related expenses	**3,530**	3,384
Wages and salaries	**57,559**	56,024
	88,516	83,182
Auditors' fees		
During the year the following fees were paid or payable for services provided by the auditor of the Group and its related practices:		
Deloitte Limited services included in administration and other expenses		
(a) Audit of financial statements	**189**	183
(b) Taxation compliance services	**27**	84
(b) Taxation advisory services	**42**	157
(c) Other services	**41**	59
Total Deloitte Limited services	**299**	483
Total administration and other expenses	**88,815**	83,665

(a) Audit of financial statements includes the statutory audit of Westland Milk Products (Shanghai) Company Limited of $52,000 (2017: $48,000) paid to Deloitte China.

(b) Taxation compliance and advisory services relate to work performed with transfer pricing, joint venture structures and compliance.

(c) Other services include assistance with procurement process reviews.

Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated statement of comprehensive income when they are due.

(ii) Other long-term employee benefits

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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 measured reliably.

3 Income tax

Income tax is tax payable or receivable on taxable income for the year. Taxable income differs from profit before tax as shown in the consolidated statement of comprehensive income because some items are treated differently for tax purposes than accounting purposes. An example of this is a capital gain on the sale of an asset which is income for accounting purposes but is not income for tax purposes.

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

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

The tax rate used is the corporate tax rate of 28% (2017: 28%) payable by New Zealand corporate entities on taxable profits under tax law.

	2018 $'000	2017 $'000
A Income tax expense / (benefit)		
Current tax		
Current tax on profits for the year	**244**	379
Adjustments relating to prior years	**24**	(81)
Total current tax	**268**	298
Deferred tax		
Current year adjustments to deferred tax	**2,177**	(1,092)
Prior year adjustments to deferred tax	**246**	(683)
Total deferred tax	**2,423**	(1,775)
Income tax expense / (benefit)	**2,691**	(1,477)
B Reconciliation of effective tax rate		
Profit from continuing operations before income tax	**3,251**	29
Income tax at 28% (2017: 28%)	**910**	8
Add / (deduct) tax effect of:		
• Income not subject to tax	**-**	(625)
• Share of joint venture loss not subject to tax	**367**	20
• Expenses not deductible for tax purposes	**411**	250
• Prior year over / (under) provision	**270**	(890)
• Effect of tax rates in foreign jurisdictions	**(8)**	(73)
• Deferred tax adjustments	**403**	-
• Tax loss offset	**99**	(167)
• Other	**239**	-
Income tax expense / (benefit)	**2,691**	(1,477)

C Imputation credits

The Westland Co-operative Dairy Company Limited Group forms an imputation credit group for taxation purposes which allows imputation credits to be utilised as if they are a single entity. The Group has $12,674,000 of imputation credits as at 31 July 2018 (2017: $13,744,000).

4 Reconciliation of profit after income tax to net cash inflow from operating activities

Net cash flows from operating activities includes all cash inflows and cash outflows as a result of the normal day to day trading of the entities in the Group. Profit after income tax comprises revenue earned during the year, less expenses incurred and taxes payable.

The table below shows how the profit after income tax reconciles to net cash flows from operating activites by removing all items from the consolidated statement of comprehensive income that are not cash transactions, for example depreciation expense, and all items in the consolidated balance sheet which do have an impact on operating cash flows, for example movements in trade and other payables during the year.

A positive net operating cash flow shows that more cash was received than what was paid during the year for day to day operating activities.

	2018 $'000	2017 $'000
Profit for the year attributable to members	**560**	1,506
Non-cash items in operating profit		
Depreciation	**26,426**	31,219
Amortisation	**750**	1,790
Loss on sale of assets	**633**	3,532
Unrealised foreign exchange losses / (gains)	**4,086**	(7,953)
Movement in deferred tax	**2,423**	(1,775)
Share of loss in joint venture	**1,310**	72
Movements in other working capital items		
Trade and other payables	**3,319**	(16,803)
Owing to suppliers	**5,392**	25,894
Current tax assets and liabilities	**88**	2,689
Trade and other receivables	**(22,251)**	7,255
Inventories	**(31,247)**	(4,479)
Less items classified as investing and financing activities		
Issue of shares	**6,338**	-
Loans to joint venture	**800**	-
Capex accruals	**(5,189)**	-
Net cash (outflow) / inflow from operating activities	**(6,562)**	42,947

This section gives information on the short-term assets and liabilities that are used by the Group to fund day to day operations.

Section B — **Working capital**

5 Trade and other receivables

Trade and other receivables represents the value of products that have been sold to customers but where the cash has not yet been received. The amounts included in trade and other receivables are recognised as revenue in the consolidated statement of comprehensive income at the time the goods are sold. When cash is received from customers, the trade and other recievables balance reduces and the cash balance increases.

Trade receivables are amounts due from customers for goods and services sold. Trade receivables are recognised initially at their fair value, which is represented by their face value, and subsequently measured at amortised cost.

Estimates are used in determining the level of receivables that may not, in the opinion of management, be collected. A provision for impairment is established when there is sufficient evidence that the Group will not be able to collect all amounts due.

	2018 $'000	2017 $'000
Gross trade receivables	**90,709**	74,159
Provision for doubtful debts	**(97)**	(101)
Other receivables	**6,652**	2,696
	97,264	76,754
Loan to joint venture	**800**	-
GST	**2,522**	3,268
Prepayments	**2,898**	1,211
	6,220	4,479
Total trade and other receivables	**103,484**	81,233

The loan to the joint venture has been made on commercial terms. Interest is charged on a monthly basis at a rate equal to the 90 day bank bill rate plus a margin of 2.3%. The loan is due to be repaid on 30 June 2019.

The table below shows the total receivables that are greater than 30 days outstanding. Due to commercial trading terms, various debtors have terms greater than 30 days and therefore this table does not infer that these amounts are overdue.

	Gross receivable 2018 $'000	**Impairment 2018 $'000**	Gross receivable 2017 $'000	Impairment 2017 $'000
Total receivables outstanding greater than 30 days	7,584	(97)	5,293	(101)
	7,584	**(97)**	5,293	(101)

6 Inventories

The inventories value on the consolidated balance sheet includes finished goods that are available for sale and materials to be used to produce finished goods.

Inventories are measured at the lower of cost and net realisable value, determined on the first-in first-out basis, after due allowance for damaged and obsolete stock. Materials including ingredients and packaging are measured at cost.

Dairy products are valued at net realisable value which is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Freight and documentation costs are excluded. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

In 2018, raw materials, consumables and changes in finished goods and work in process recognised as cost of sales amounted to $544,995,000 for the Group (2017: $492,530,000).

	2018 $'000	2017 $'000
Retail	**4,609**	3,762
Materials	**25,830**	26,343
Dairy products	**109,370**	78,457
Total inventories	**139,809**	108,562

7 Trade and other payables

Trade and other payables represents goods and services that have been received by the Group, but which the Group has not yet paid for. The amounts included in trade and other payables are recognised as an expense in the consolidated statement of comprehensive income when the goods or services are provided. The payment of trade and other payables will, therefore, decrease the Group's cash balance but will not impact expenses.

Trade and other payables includes employee entitlements which are amounts the Group's employees have earned but which have not yet been paid. For example, annual leave which an employee has accrued but has not yet taken.

Trade and other payables, excluding amounts owing to farmer Shareholders, are initially recognised at the amount invoiced by the supplier. They are subsequently measured at amortised cost using the effective interest method. Due to their short term nature, trade and other payables are not discounted.

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

7 Trade and other payables (continued)

	2018 $'000	2017 $'000
Trade payables	**32,280**	25,671
Other payables	**7,101**	11,320
	39,381	36,991
Employee benefits payable	**4,268**	3,340
Total trade and other payables	**43,649**	40,331

8 Owing to suppliers

Amounts owing to suppliers are amounts the Group owes to farmer Shareholders for the collection of milk, including any end of season adjustment, offset by the amounts owing from farmer Shareholders for goods and services paid on their behalf by the Group.

Amounts owing to suppliers are initially recognised at cost, being the amount due to the supplier for the milk provided. They are subsequently measured at amortised cost using the effective interest method.

The Board uses its discretion in establishing the rate at which Westland will pay suppliers for the milk supplied over the season. This is referred to as the advance rate.

	2018 $'000	2017 $'000
Owing to suppliers as at 31 July	**31,616**	26,224

This section gives information on the financing of the Group and associated costs, share capital, retained earnings and reserves.

Section C — **Debt and equity**

9 Reserves and retained earnings

Reserves and retained earnings includes share capital, reserves and retained earnings. Share capital is the amount contributed by Shareholders to the capital of the business through the purchase of shares. Retained earnings are profits which have been retained within the business, rather than paid out to Shareholders in order to fund the future growth of the Group. Reserves are capital amounts that have been put aside for a particular purpose, such as the foreign currency translation reserve that comprises the amount arising when financial information of Group entities that operate in foreign jurisdictions are translated to New Zealand dollars.

Capital management and structure

The Board's objective is to maximise Shareholder returns over time by maintaining a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on Shareholder returns is also recognised.

The Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group provides returns to Shareholders through the milk price. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. Other than Group banking covenants, the Group is not subject to any other externally imposed capital requirements.

The Group's capital includes co-operative shares classified as liabilities, reserves and retained earnings. There have been no material changes in the Group's management of capital during the period.

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 highly probable forecast transactions.

Foreign currency translation reserve

The foreign currency translation reserve comprises the effect arising on consolidation, where assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in the consolidated statement of comprehensive income on disposal of the foreign operation.

Contingency reserve

The contingency reserve was ratified by the Board of Directors in March 2003 to set aside funds for uninsurable risks. In 2014, the Board agreed that no further increase to the contingency reserve was required.

10 Co-operative shares classified as a liability

The value of co-operative shares classified as a liability on the consolidated balance sheet represents the value of shares that the Parent company is required to issue to Shareholders and the amount the Parent company is required to pay to Shareholders who have surrendered their shares. The amount is recognised as a liability on the basis that it represents an amount the Parent company is required to pay at some time in the future in the event that Shareholders come to cease supply arrangements.

Co-operative shares may only be held by a Shareholder supplying milk to the Parent company. The constitution of the Parent company requires a Shareholder to hold a number of shares fixed by reference to the quantity of milksolids the Shareholder supplies or is estimated to supply to the Parent company in each financial year ("the share standard"). At the conclusion of each season the Parent company will calculate the quantity of milksolids each Shareholder has supplied for the season and, if the Shareholder holds fewer shares than you are required to under the share standard, the Shareholder is required to purchase additional shares to comply with the share standard. Any sale or transfer of shares is subject to the restrictions in the constitution of the Parent company on transfers of shares.

10 Co-operative shares classified as a liability (continued)

Those restrictions include the right for the Board to refuse to register a transfer:

- where the Board resolves that it is not likely that the transferee will become a supplying Shareholder of the Parent company.
- where the transferee would hold shares exceeding the number of shares to be required under the share standard in the constitution.
- where the Board resolves that is not in the best interests of the Parent company to register the transfer.

By agreement with the Parent company, Shareholders that cease to supply the Parent company may request to surrender their shares. The Parent company is required to accept the surrender of shares where:

- the Shareholder has not been a supplying Shareholder during the immediately preceding five years.
- the Shareholder has disposed of, or changed the use of, their property and other assets with the result that they do not have the capacity to continue to be a supplying Shareholder.

The Board may defer payment for the surrender of the shares for up to five years after the surrender is accepted or deemed to take effect.

The Parent company has six classes of ordinary shares with the same rights attached to all. Shares carry a right to dividend and a pro-rata share of net assets on wind-up. The rights attached to the Co-operative shares are set out in the Parent company's constitution.

The Parent company's share capital is classified as a liability on the basis that under certain conditions specified in the Co-operative Companies Act 1996 Shareholders have the right to surrender shares to the Parent company, and certain share classes have differing paid-in amounts.

Shares in Class C, Class D, Class E, and Class F, shall not be transferable (notwithstanding Section 39(1) of the Act) and shall be surrendered to the Parent company on transfer or cessation of milk supply relating to that shareholding except as provided in Clause 10.5A of the Parent company's constitution.

	2018 Quantity	2017 Quantity	**2018 $'000**	2017 $'000
The number of shares by class is as follows:				
Ordinary shares				
"B" class shares ($1.50 per share)	**17,447,537**	17,486,232	**26,171**	26,229
"C" class shares ($0.70 per share)	**1,339,236**	1,345,555	**937**	942
"D" class shares ($0.90 per share)	**716,496**	724,380	**645**	652
"E" class shares ($1.10 per share)	**304,434**	325,120	**335**	358
"F" class shares ($1.30 per share)	**1,304,780**	1,323,926	**1,696**	1,721
"G" class shares ($1.50 per share)	**51,120,637**	50,646,094	**76,680**	75,969
	72,233,120	71,851,307	**106,465**	105,871

The movement in shares for the Parent company is as follows:

	2018 $'000	2017 $'000
Opening balance at 1 August	**105,871**	106,016
Issues of ordinary shares during the year		
Share issues	**7,458**	276
Share resumptions	**(6,864)**	(421)
Closing balance of ordinary shares issued	**106,465**	105,871

At balance date, under the Parent company's constitution and the Co-operative Companies Act 1996, the Parent company was obligated to:

- Issue $373,769 of shares (2017: $940,023).
- Acquire $10,848,142 of shares (2017: $4,185,567).

11 Loans and borrowings

Loans and borrowings on the consolidated balance sheet comprises bank loans drawn down by the Group to fund the growth of the business. Finance expense, disclosed in the consolidated statement of comprehensive income, is incurred in respect of the bank loans.

The Group borrows in the form of bank facilities. Borrowings are recognised initially at fair value, net of transactions costs incurred and are subsequently measured at amortised cost using the effective interest method.

The Group banking arrangements require compliance with certain balance sheet and working capital covenants. The Group had no breaches of its bank covenants during the period.

The bank borrowing facilities are secured by a Composite General Security Agreement and Guarantee between the parties. This includes mortgage securities over its land and buildings. The contractual terms of the Group's interest-bearing loans and borrowings are as follows:

- Secured overdraft facility of $15,000,000 that is repayable on demand.
- Secured seasonal working capital facilities that vary throughout the period and are repayable within 12 months (but expected to be extended annually). At 31 July 2018 these facilities amounted to $50,000,000.
- Secured term facility of $50,000,000 that matures 31 August 2020.
- Secured term facility of $50,000,000 that matures 31 August 2021.
- Secured term facilities of $40,050,000 that mature on 6 March 2020 to fund the construction of the UHT plant.
- Secured term loan facilities of $50,000,000 that mature on 30 June 2020.
- Secured term loan facilities of $50,000,000 that mature on 30 June 2021.

	2018 $'000	2017 $'000
Bank loans	**232,780**	232,780
Total secured non-current interest bearing borrowings	**232,780**	232,780

This section gives information on the financial risk exposures identified by the Group and how these risks are managed to protect the financial performance and financial position of the Group. Financial instruments are used to mitigate interest rate and foreign currency risks.

Section D — **Financial risk management**

12 Financial risk management

The Group is exposed to the following financial risks in the course of business operations:

- Foreign exchange risk is the risk that movements in exchange rates will negatively impact the Group's financial performance and financial position. The Group is exposed to foreign currency risk as a result of selling products, purchasing goods and services and holding investments in foreign currencies. Foreign exchange risk is managed through the use of forward exchange contracts.
- Credit risk is the risk of financial loss due to a customer being unable to meet payment obligations under a contract. This risk is managed through a policy that the Group will only enter transactions with credit worthy counterparties. In addition, the Group holds a trade credit insurance policy to mitigate the risk of default.
- Dairy commodity price risk is the risk of financial loss due to changes in the global prices for commodity dairy products. The Group manages this risk through determining the most appropriate mix of products to produce based on pricing trends, and regularly reviewing current market pricing and activity.
- Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. In order to manage this risk, the Group monitors cashflows to ensure there are sufficient cash and cash equivalents on hand to meet debts and liabilities as they fall due.
- Interest rate risk is the risk that floating interest rates will negatively impact the Group's financial performance. The Group is exposed to interest rate risk due to borrowing funds at floating interest rates. Interest rate risk is managed through the use of interest rate swaps for debts in line with treasury policy.

Global financial and commodity markets remain volatile. The nature of the Group's business is such that managing risks in the foreign exchange, interest rate, commodity, credit and liquidity markets is critical to minimising the volatility in returns to Shareholders.

The Board has the overall responsibility for the establishment and oversight of the Group's financial risk management. The Board:

- Has established financial risk management processes and procedures to identify, analyse and, where appropriate, manage the financial risk faced by the Group.
- Has an approved treasury policy that covers appropriate financial risk limits and controls (including, but not limited to, delegated authority levels and authorised use of various instruments).
- Monitors financial risks and adherence to approved limits.

The Group's overall financial risk management focuses primarily on maintaining a prudent financial risk profile that provides the flexibility to implement the Group's strategies, while optimising the return on assets.

A Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk on sales, purchases and investments, that are denominated in foreign currencies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The main impacts of foreign exchange movements on the Group arise from:

- Transaction risk variations in the New Zealand dollar value of the Group's sales receipts and other cashflows.
- Translation risk of the value of the Group's investment in foreign operations.

Foreign currency transactions are translated using the exchange rate at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation using the exchange rates at the balance date, of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

The Group's objective is to ensure foreign exchange exposure is managed in a prudent manner in order to reduce volatility on the return to Shareholders.

In respect of transaction hedging, the Group's policy is to hedge between 70 and 100 per cent of the net recognised foreign currency trade receivables and foreign currency trade payables, and can range from 0 to 100 per cent of forecast cash receipts from sales for the period of up to 24 months. The level of hedging undertaken is influenced by current exchange rates and the time until the expected cash flows occur, within the limits approved by the treasury policy and Board. The Group seeks to designate items in a hedge relationship where it is practical to do so.

12 Financial risk management (continued)

The Group uses forward exchange contracts and currency options to hedge foreign exchange exposures arising from sales receipts and other cashflows. Approximately 60% (2017: 82%) of the Group's net transaction foreign exchange exposure, before taking into consideration hedge activity, is against the United States dollar.

The exposure to foreign currency risk in New Zealand dollars can be summarised as follows:

	2018 $'000	2017 $'000
United States dollar	**49,697**	56,429
Australian dollar	**23,234**	5,913
Pounds sterling	**2,237**	3,225
Euro	**3,123**	1,504
Chinese Yuan	**2,496**	1,543
Other currencies	**1,919**	2
Foreign currency trade receivables	**82,706**	68,616
Forward exchange contracts and options	**82,706**	68,616
Net unhedged exposure	**-**	-

Hedging

The net fair value of the Group's forward exchange contracts (FECs) and interest rate swaps (IRSs) used as hedges of forecast transactions at balance date:

	2018 $'000	2017 $'000
Asset fair value of FECs and IRSs	**968**	26,430
Liability fair value of FECs and IRSs	**(12,741)**	(219)
Net fair value of FECs and IRSs	**(11,773)**	26,211

Foreign exchange sensitivity

Management consider that the only material currency exposure is that of the United States dollar and Australian dollar. It is estimated that a general increase of one cent in the value of the New Zealand dollar against the United States dollar would have decreased the Group's profit before income tax and equity by approximately $7,006,000 for the period ended 31 July 2018 (2017: $6,576,000). The forward exchange contracts have been included in this calculation. This is before any assessment as to how the movement in exchange rate would impact on the final supplier payment.

A Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. In relation to derivative financial instruments, the Group has a policy to limit its exposure to credit risk by entering into transactions only with financial counterparties that have a credit rating of at least 'A-' from Standards and Poor's or equivalent. Given this high credit rating threshold, management does not expect these counterparties to fail to meet their obligations. Exceptions to this policy require Board approval. The maximum credit risk on cash and cash equivalents, trade and other receivables, derivative financial instruments and other investments is best represented by their carrying values. The Group has no undue concentrations of credit risk.

B Dairy commodity price risk

Dairy commodity price risk is the risk of volatility in profit and loss from the movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on the Group's earnings and milk price by eroding selling prices and increasing input costs.

The Group primarily manages its dairy commodity price risk by:

- Determining the most appropriate mix of products to manufacture based on the milk supply curve and global demand for dairy products.
- Governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where appropriate, linked to Global Dairy Trade (GDT) prices.

12 Financial risk management (continued)

The table below summarises the impact on dairy commodity prices on the Group's equity and profit after tax.

The analysis is based on the assumption that dairy commodity prices had changed by 10% with all other variables held constant:

	2018 $'000	2017 $'000
Impact of 10% increase in quoted dairy commodity prices	**57,202**	54,764
Impact of 10% decrease in quoted dairy commodity prices	**(57,202)**	(54,764)

C Fair values and classifications

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

Changes in the fair value of the derivative hedging instruments designated as a cash flow hedge are recognised in other comprehensive income and accumulated as a separate component of equity in the hedge reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the consolidated statement of comprehensive income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the hedging reserve remains there until the forecast transaction occurs.

When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to finance gain or loss in the consolidated statement of comprehensive income in the same period that the hedged item affects the consolidated statement of comprehensive income.

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings including ordinary shares, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for financial assets not at fair value through the consolidated statement of comprehensive income, any directly attributable transaction costs. For financial liabilities not recognised at fair value through the consolidated statement of comprehensive income the liabilities are initially recognised inclusive of directly attributable transaction costs. A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

D Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.
The fair value of forward exchange contracts and interest rate swaps is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity and options of the contract using a market rate of interest.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

12 Financial risk management (continued)

An analysis of financial instruments that are measured subsequent to initial recognition at fair value has been performed with all financial instruments assessed as falling into levels 1 to 3, based on the degree to which inputs to valuation techniques used to measure the fair value are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on the quoted market prices at the balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market prices used for financial assets held by the Group is the current exit price. Instruments that meet these criteria would be included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The fair value of forward exchange contracts and interest rate swaps are derived using inputs supplied by third parties that are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Therefore the Group has categorised these assets and liabilities as Level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on the observable yield curve.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of the following financial assets and liabilities approximate their carrying amounts:

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Loans and borrowings

A Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has a policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 60 days, including servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

The Group manages its liquidity by retaining cash and through the availability of funding from an adequate amount of committed credit facilities. Funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken to ensure an appropriate availability of liquidity. Liquidity and refinancing risks are also managed by ensuring access to multiple credit facility providers.

The Group had access to the following undrawn borrowing facilities at the reporting date:

	2018 $'000	2017 $'000
Current liabilities		
Facility limit available	**65,000**	45,000
Facility utilised	**21,000**	-
Facility available	**44,000**	45,000
Non-current liabilities		
Facility limit available	**240,050**	240,050
Facility utilised	**232,780**	232,780
Facility available	**7,270**	7,270

12 Financial risk management (continued)

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

	Less than 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
At 31 July 2018						
Secured bank loans	27,978	139,399	101,586	-	268,963	253,780
Co-operative share capital classified as a liability	-	-	106,465	-	106,465	106,465
Share resumption liability	-	-	10,848	-	10,848	10,848
Trade and other payables	70,998	-	-	-	70,998	70,998
Derivative financial instruments	10,362	1,264	433	682	12,741	12,741
Total financial liabilities	109,338	140,663	219,332	682	470,015	454,832
At 31 July 2017						
Secured bank loans	6,614	5,868	237,748	-	250,230	232,780
Co-operative share capital classified as a liability	-	-	105,871	-	105,871	105,871
Share resumption liability	-	-	4,186	-	4,186	4,186
Trade and other payables	63,215	-	-	-	63,215	63,215
Derivative financial instruments	24	181	16	-	219	219
Total financial liabilities	69,853	6,049	347,820	-	423,721	406,270

Co-operative shares have been included as being repayable between 2 and 5 years as the Board may defer payment for the surrender of the shares for up to 5 years after the surrender is accepted or deemed to take effect.

Cash flow relating to variable interest rates has been determined using approximate interest rates at the balance date.

B Interest rate risk

Borrowings issued and funds on deposit held at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group treasury policy requires interest rate hedging where core debt exceeds $100,000,000.

Included in borrowings at year end is seasonal funding which is not considered core debt and which amounts to $21,000,000 as at 31 July 2018 (2017: $Nil).

Interest was charged on secured bank loans throughout the year at rates between 2.57% and 3.49% (2017: between 2.59% and 3.35%).

At 31 July 2018, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax and equity by approximately $2,538,000 (2017: $2,328,000).

This is before any assessment as to how the movement in interest rates would impact on the final supplier payout.

	Currency	Nominal interest rate	Period of maturity	Carrying amount 2018 $'000	Carrying amount 2017 $'000
Secured bank loans	NZD	2.67%	< 12 months	21,000	-
		2.88%	> 2 years	232,780	232,780

This section gives information on the long-term investments the Group has made to operate the business and generate returns for Shareholders.

Section E — **Long-term assets**

13 Property, plant and equipment

Property, plant and equipment comprises physical assets owned by the Group for the purposes of operating the business and producing goods to sell to customers. Property, plant and equipment are assets in the consolidated balance sheet. The cost of each asset is allocated over its useful life as a depreciation expense in the consolidated statement of comprehensive income.

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and include capitalised borrowing costs where appropriate. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. 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.

Items of property, plant and equipment are tested for impairment annually, or more frequently when there is an indication that items may be impaired.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of comprehensive income as incurred.

Depreciation

Depreciation is recognised in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- Buildings: 15 - 50 years
- Plant and equipment: 3 - 15 years
- Vehicles: 5 - 10 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Capital work in progress

Amounts expended on capital work in progress are capitalised until such time as the asset is placed in service and then is transferred to property, plant and equipment or intangibles and is depreciated or amortised from that date.

13 Property, plant and equipment (continued)

	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Capital work in progress $'000	Total $'000
At 31 July 2016					
Cost	140,464	395,819	10,332	15,961	562,576
Accumulated depreciation	(33,483)	(184,988)	(6,265)	-	(224,736)
Net book amount	106,981	210,831	4,067	15,961	337,840
Year ended 31 July 2017					
Opening net book amount	106,981	210,831	4,067	15,961	337,840
Additions	-	410	-	14,496	14,906
Disposals	(2,432)	(868)	(278)	-	(3,578)
Reclassification	(4,062)	3,423	106	-	(533)
Transfers in	649	10,533	2,619	-	13,801
Transfers out of capital work in progress	-	-	-	(13,802)	(13,802)
Transfers to intangible assets (note 14)	-	-	-	(4,349)	(4,349)
Depreciation charge	(3,888)	(25,897)	(1,667)	232	(31,220)
Depreciation (disposals)	107	454	278	-	839
Depreciation (reclassification)	1,762	(1,005)	70	(294)	533
Closing net book amount	99,117	197,882	5,195	12,243	314,437
At 31 July 2017					
Cost	134,619	409,317	12,779	12,305	569,021
Accumulated depreciation	(35,502)	(211,435)	(7,584)	(62)	(254,583)
Net book amount	99,117	197,882	5,195	12,243	314,437
Year ended 31 July 2018					
Opening net book amount	99,117	197,882	5,195	12,243	314,437
Exchange differences	-	104	-	13	117
Additions	-	552	-	21,441	21,993
Disposals	-	(715)	(22)	(711)	(1,448)
Reclassification	2,004	(510)	(132)	385	1,747
Transfers in	332	11,976	533	-	12,841
Transfers out of capital work in progress	-	-	-	(12,841)	(12,841)
Transfers to intangible assets (note 14)	-	-	-	(490)	(490)
Depreciation charge	(1,794)	(22,553)	(1,521)	62	(25,806)
Depreciation (disposals)	-	797	18	-	815
Depreciation (reclassification)	(620)	(78)	78	-	(620)
Closing net book amount	99,041	187,452	4,150	20,102	310,745
At 31 July 2018					
Cost	136,956	420,543	13,159	20,102	590,760
Accumulated depreciation	(37,915)	(233,091)	(9,009)	-	(280,015)
Net book amount	99,041	187,452	4,150	20,102	310,745

Security

The bank facilities are secured by a first charge over the Parent company's net assets and mortgage securities over its land and buildings.

14 Intangible assets

Intangible assets comprise non-physical assets which are used within the business for the purposes of operating the business and producing goods to sell to customers. Like property plant and equipment, intangible assets are assets shown on the consolidated balance sheet. The cost of the asset is allocated over the expected useful life of the asset as an amortisation expense in the consolidated statement of comprehensive income.

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, being 3 to 10 years, on a straight line basis.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will generate probable economic benefits exceeding the costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding 3 to 10 years.

Goodwill

Goodwill arising on the acquisition of a subsidiary or associate represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Product development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of comprehensive income when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognised in the consolidated statement of comprehensive income when incurred. Development expenditure is amortised over a useful economic life of between 3 and 5 years on a straight line basis.

Brand and patents

Brand and patents acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Brands and patents are considered to have indefinite useful lives due to the registered trademark protection and the continual investment in maintaining the brand and are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

14 Intangible assets (continued)

	Goodwill $'000	Brands and patents $'000	Computer software $'000	Product development $'000	Total $'000
At 31 July 2016					
Cost	5,815	6,063	7,974	673	20,525
Accumulated amortisation and impairment	-	(64)	(7,278)	(627)	(7,969)
Net book amount	5,815	5,999	696	46	12,556
At 31 July 2017					
Opening net book amount	5,815	5,999	696	46	12,556
Additions	-	52	-	-	52
Transfers from fixed assets	-	-	2,346	2,003	4,349
Amortisation charge	-	-	(1,172)	(618)	(1,790)
Closing net book amount	5,815	6,051	1,870	1,431	15,168
At 31 July 2018					
Opening net book amount	5,815	6,051	1,870	1,431	15,168
Additions	-	18	-	-	18
Transfers from fixed assets (note 13)	-	-	490	-	490
Reclassification	-	-	-	(2,004)	(2,004)
Amortisation charge	-	-	(1,368)	(1)	(1,370)
Amortisation reclassification	-	-	-	620	620
Closing net book amount	5,815	6,070	992	46	12,923

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to the EasiYo business unit are as follows:

	2018 $'000	2017 $'000
EasiYo business unit		
Goodwill	5,815	5,815
Brands and patents with indefinite useful lives	6,070	6,051

During the year ending 31 July 2018, the Group determined that there is no impairment of cash generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amount of the EasiYo business unit has been determined on the basis of value in use calculations.

The calculation uses cashflow projections based on forecasts adopted by management. The forecast covers a 10-year period for the EasiYo business unit which is considered appropriate due to the long term nature of the investment. The discount rate applied in calculations was 8.8% (2017: 8.8%).

Cash flows beyond the forecast period have been extrapolated using a long term average growth rate of 2% based on management expectations and past experience.

The Group has determined that the recoverable amount calculations are sensitive to changes in raw materials prices, changes in the cost of capital and revenue growth assumptions beyond the forecast period. Management believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the business unit's carrying amount to exceed its recoverable amount.

This section gives information on the legal structure of the Group including those entities that are consolidated into the Group financial statements and the joint venture that is equity accounted.

Section F — **Group structure**

15 Related parties

Group entities include subsidiaries and other investments in which the Parent company has a shareholding. Subsidiaries are entities 100% owned by the Parent company and are included in the consolidated financial statements. A portion of the income and assets of other investments are included in the consolidated financial statements in proportion to the Parent company's shareholding percentage. Related party transactions are goods and services provided between the Parent company and other group entities, including the supply of milk products and services of key management personnel.

Parent and ultimate controlling party

The Parent of the Group is Westland Co-operative Dairy Company Limited.

Suppliers' milk

As a co-operative dairy company, the dairy farmers who supply the Parent company with milk, its main raw material, own all the shares in the Parent company. Those directors that are Shareholders also supply milk to the Parent company on normal terms. The total payment made for milk during the year amounted to $386,032,000 (2017: $338,691,000) for the Group.

A Group entities

The group is comprised of the following entities:

Name	Principal activity	Place of incorporation	Ownership interest 2018	Ownership interest 2017	Reporting date
Westland Milk Products Investments Limited	Investment holding company	New Zealand	100%	100%	31-Jul
EasiYo Products Limited	FMCG manufacturer	New Zealand	100%	100%	31-Jul
EasiYo Products (UK) Limited	FMCG manufacturer	United Kingdom	100%	100%	31-Jul
EasiYo Products (Aust) Limited	FMCG distribution	New Zealand	100%	100%	31-Jul
Westland Milk Products (Shanghai) Company Limited	FMCG distribution	China	100%	100%	31-Dec
Investments accounted for using the equity method:					
Pure Nutrition Limited	Dairy product manufacturing	New Zealand	40%	40%	31-Dec

Westland Milk Products (Shanghai) Company Limited has a balance date of 31 December due to statutory requirements in China. Consolidated results for Westland Milk Products (Shanghai) Company Limited are for the period 1 August to 31 July.

15 Related parties (continued)

A Key management and personnel compensation

Key management personnel compensation for the years ended 31 July 2018 and 31 July 2017 is set out below. The key management personnel are the members of the executive leadership team and the directors of the Parent company.

During the 2017 financial year two directors were engaged in additional roles and received remuneration amounting to $127,821.

	Short-term benefits $'000	Directors' remuneration $'000
2018	**3,626**	**669**
2017	3,705	808

B Transactions with other related parties

The Company has a receivable of $3,000,000 due from Westland Milk Products Investments Limited relating to the investment in Pure Nutrition Limited (2017: $3,000,000) included in trade and other receivables.

A loan of $800,000 was made to Pure Nutrition Limited during the year (2017: $Nil) for working capital purposes prior to the commencement of operations. The loan is due to be repaid on 30 June 2019.

16 Investments accounted for using the equity method

In September 2016, the Group entered into a joint venture agreement with a third party, Ausnutria Dairy Corporation Limited. The Group acquired 40% of the shares in the joint venture, Pure Nutrition Limited. As at 31 July 2018, Pure Nutrition Limited was awaiting confirmation of meeting China regulations for the blending and canning facility in Rolleston. The Group's investment is represented by the transfer of land to the joint venture.

The investment is not individually significant to the Group. The Group's share of this equity accounted investment is:

	2018 $'000	2017 $'000
A Results of joint venture		
Share of loss from operations before income tax	**(1,310)**	(72)
B Movement in carrying amount		
Investment opening balance	**2,928**	3,000
Share of total recognised loss	**(1,310)**	(72)
Balance at 31 July	**1,618**	2,928

This section includes other notes and disclosures that are required to be presented to ensure compliance with financial reporting requirements and to assist in understanding the Group's financial performance and position.

Section G — **Other**

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities arise as a result of temporary differences between the accounting and tax values of items in the Group's consolidated balance sheet. A deferred tax liability indicates income tax will be payable in the future and a deferred tax asset indicates income tax will be recoverable in the future.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. 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.

The Group does not have any unrecognised deferred tax assets.

	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Assets		
Intangible assets	**191**	-
Derivative financial instruments	**1,963**	-
Provisions	**2,087**	1,708
Tax losses	**5,715**	7,385
Total deferred tax assets	**9,956**	9,093
Liabilities		
Intangible assets	**(1,610)**	(2,239)
Property, plant and equipment	**(13,529)**	(11,416)
Derivative financial instruments	**(23)**	(8,185)
Total deferred tax liabilities	**(15,162)**	(21,840)
Net deferred tax (liabilities)	**(5,206)**	(12,747)

Movements in temporary differences during the year	**At 31 July 2016 $'000**	**Recognised in the income statement $'000**	**Recognised in other comprehensive income $'000**	**At 31 July 2017 $'000**	**Recognised in the income statement $'000**	**Recognised in other comprehensive income $'000**	**At 31 July 2018 $'000**
Property, plant & equipment	(10,164)	(1,252)	-	(11,416)	(2,113)	-	(13,529)
Intangible assets	(1,457)	(782)	-	(2,239)	820	-	(1,419)
Derivatives	(5,196)	-	(2,989)	(8,185)	-	10,126	1,941
Provisions	910	798	-	1,708	379	-	2,087
Tax losses	4,374	3,011	-	7,385	(1,672)	-	5,713
	(11,533)	1,775	(2,989)	(12,747)	(2,585)	10,126	(5,206)

18 Operating leases

Operating leases represent contracts entered into by the Group for the right to use an asset. The contract does not transfer ownership of the asset or substantially all the risks and rewards of ownership of an asset. If a lease arrangement does substantially transfer all of the risks and rewards of ownership, the lease is classified as a finance lease and is included as an asset on the consolidated balance sheet.

Leases, in which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised on the consolidated balance sheet.

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. The Group's only significant lease contracts relate to the lease of storage and manufacturing facilities by subsidiaries. Non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Less than one year	**1,530**	1,294
Between one and five years	**4,393**	2,014
More than five years	**322**	408
Total non-cancellable operating lease obligations	**6,245**	3,716

19 Commitments

Commitments are agreements the Group has entered into which will result in a financial obligation at a future date.

As at 31 July 2018 the Group had no material capital commitments (2017:$Nil).

20 Contingencies

Contingent assets are possible assets that arise from past events, but that will only be confirmed by an uncertain event occuring or not occuring that is not completely within the control of the Group.

Contingent liabilities are either possible liabilities that arise from past events, but that will only be confirmed by an uncertain event occuring or not occuring that is not completely within the control of the Group; or a current obligation that has not been recognised in the consolidated financial statements because there is either no guarantee that an outflow of resources (eg. cash) will be required to settle the obligation, or the value of the obligation cannot be measured reliably. As at 31 July 2018 the Group had no contingent liabilities or assets (2017:$Nil).

21 Events occurring after the reporting period

Events occuring after the reporting period are events, both favourable and unfavourable, that have occurred after 31 July 2018, but before the consolidated financial statements for the period have been issued.

Where an event occurred after 31 July 2018 but where there is evidence that the conditions existed at 31 July 2018 an adjustment will be made to the financial statements.

Where an event occured after 31 July 2018 that relates to conditions that arose after 31 July 2018, no adjustment is made in the financial statements. The Directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in these consolidated financial statements, that has or may significantly affect the operations of the Group entities.

Five-year trends **2014 - 2018**

	2018	2017	2016	2015	2014
Milk Received From Suppliers [M litres]	**689**	699	743	765	753
Milk Fat - Own Supplier [M kgs]	**35.910**	36.988	39.164	40.286	39.574
Protein - Own Supplier [M kgs]	**27.223**	28.036	29.260	30.065	29.531
Milk Solids Received from Suppliers [M kgs]	**63.133**	65.024	68.424	70.351	69.105
Average Milk Solids per Farm [kgs]	**147,358**	153,010	159,495	163,607	161,085
Average Milk Fat %	**5.21**	5.29	5.27	5.27	5.26
Average Protein %	**4.28**	4.01	3.94	3.93	3.92
Protein : Fat Ratio %	**82.15**	75.80	74.71	74.63	74.62
Finest Milk %	**97.80**	97.79	98.50	98.70	98.80
Production [Tonne] - Powder	**58,007**	64,839	64,477	61,014	67,384
Production [Tonne] - ITN	**17,179**	9,640	13,341	8,983	6,636
Production [Tonne] - Butter	**31,028**	28,622	32,973	34,394	33,696
Production [Tonne] - Protein	**6,072**	6,763	6,741	7,062	6,465
Production [Tonne] - AMF	**5,100**	9,343	10,753	11,631	10,506
Production [KL] - UHT	**6,311**	1,531	846	-	-
Turnover [$Million]	**693**	630	588	639	830
Total Assets [$Million]	**588**	568	569	538	478
Total Equity [$Million] (excl. Shares classified as liabilities)	**230**	252	244	208	230
Payout to Shareholders					
• Fat [cents/kg]	**473**	418	334	413	603
• Protein [cents/kg]	**788**	697	556	688	1,004
• Total available for payout [cents/kg]	**617**	522	362	495	757
• Retentions [cents/kg]	**(5)**	-	26	(10)	(30)
• Payout including premiums [cents/kg]	**612**	522	388	485	727
Equity : Assets Ratio [%]	**39**	44	43	38	48
Tangible Net Worth [%]	**40**	42	40	47	46
Current Ratio [%]	**245**	345	280	182	196
Working Capital to Total Assets Ratio [%]	**26**	29	25	18	24

Statutory Information

For the year ended 31 July 2018

Directors' remuneration

The total remuneration paid to Directors of the Company and its Subsidiary Companies during the year was as follows:

Company Directors	Remuneration $	Hours per month
PH Morrison (Chairman)	**142,500**	130-135
K Milne	**77,500**	60-65
RK Lourie (retired 6 December 2017)	**20,000**	-*
FT Dooley	**70,000**	50-55
RL Keoghan	**72,500**	30-35
RM Major	**72,500**	30-35
NJ Robb (retired 6 December 2017)	**20,000**	-*
KR Smith	**74,500**	30-35
BPD Taylor	**70,000**	30-35
AJF MacPherson (from 6 December 2017)	**50,000**	35-40

* Not applicable as time disclosure requirements came into force after retirement of Director.

Subsidiary company directors

The following companies were subsidiaries of Westland Co-operative Dairy Company Limited as at 31 July 2018:

Easiyo Products (Aust) Limited:
MW Lockington,
TL Brendish (appointed 30 October 2017),
DKT Devers (appointed 30 October 2017),
BD Muller (appointed 30 October 2017),
BD Dewar (retired 30 October 2017).

Easiyo Products Limited:
TL Brendish, MW Lockington, DKT Devers (appointed 31 October 2017).

Easiyo Products (UK) Limited:
MW Lockington (appointed 2 November 2017),
TL Brendish (appointed 2 November 2017),
DKT Devers (appointed 2 November 2017),
BD Muller (appointed 2 November 2017),
BD Dewar (retired 2 November 2017).

Westland Milk Products Investments Limited:
TL Brendish, MW Lockington,
DKT Devers (appointed 31 October 2017)

Westland Milk Products (Shanghai) Company Ltd:
RM Major (retired 17 January 2018), TL Brendish,
MW Lockington (appointed 17 January 2018),
DKT Devers (appointed 17 January 2018)

Entries in the interests register

General disclosures of interest

The following general disclosures of interest were made by Directors of the Company and its Subsidiary Companies during the accounting period from 1 August 2017 to 31 July 2018:

FT Dooley	Director and shareholder of FT Dooley Limited, Director of Westlink Investments Limited, Director and Shareholder of Yelood Properties Limited, Chairman of Buller Electricity Limited, Chairman of Cranley Farms Limited, Director and Shareholder of Gatsby Limited, Chairman of BEL Investments NZ Limited, Chairman of Electro Services Limited, Chairman of BEL Investments NZ Limited (previously Pulse Energy Limited), Chair of Management Committee of O'Conor Home Trust, Supplier of Secretarial Services to Buller Vets Limited.
RL Keoghan	Director and past Shareholder of Keoghan Farm Limited, Director and Shareholder of SNK Westland Limited, Director of Buller Holdings Limited, Director of Buller Recreation Limited, Director of Westreef Services Limited, Director of Westport Harbour Limited.
R Lourie	Director of Bryndwyer Limited, Director of Mark Dairies Limited, Director of Tai Poutini Polytechnic.
RM Major	Director of Kiwirail Holdings Limited, Managing Director and Shareholder of Sinotearoa Limited, Director of Biovittoria Limited and of Biovittoria Investments Limited, Chairman of Gibb Holdings (Nelson) Limited and subsidiaries, Chairman of High Value Nutrition National Science Challenge, Chairman of Go Global Avocado Primary Growth Partnership, Member of Oriens Capital Investment Committee.
K Milne	President of Federated Farmers, Member of the OSPRI Stakeholder Council, Member of National Animal Welfare Advisory Council, Trustee of the Hut Creek Trust, Trustee of the NZ Landcare Trust.
PH Morrison	Director and Shareholder of Darfield Service Station Limited, Director and Shareholder of Pauri Bank Farm Holdings Limited, Director of Hidden Valley Timber Limited, Director of Humphrey's Mining Limited, Director and Shareholder of P & E Limited, Director and Shareholder of Estaronline Limited, Trustee of Budge's Hill Holdings Limited.
NJ Robb	Director and Shareholder of Taramakau Farms Limited, Director of Robb Farms Limited and associated companies.
KR Smith	Chairman of Goodman NZ Limited, Deputy Chairman of The Warehouse Limited, Director of Mercury NZ Limited, Chairman of Enterprise Motor Group Limited (including subsidiaries, associated and related companies), Chairman of Healthcare Holdings (including subsidiaries and associated companies), Chairman of Mobile Surgical Services Limited, Trustee of Airlie Lodge entities, Trustee of Hugo Trust, Trustee of Cornwall Park Trust Board (and various Sir John Logan Campbell Trusts), Chairman of H J Asmuss & Co Limited, Chairman of Anderson & O'Leary Limited, Director of Tree Scape Limited, Director of Electronic Navigation Limited (retired 17 July 2018).
B Taylor	Chairman of Investor Audit Committee Challenge Private Equity Fund, Founding Director Brent Taylor and Associates.
AJF MacPherson	Director and Sharehoder of Whitbourne Farm Limited, Director of Focus Genetics S.A. Limited, Chairman of Focus Genetics Management Limited New Zealand, Chairman of Focus Genetics (Australia), Director of Focus Genetics Scotland Limited, Director of Focus Genetics UK Limited, Chairman of Te Ako Wools Limited, Chairman and Shareholder of Sewell Peak Farm Limited, Chairman of Innervision, Chairman of Cobb Group Limited.

No transactions have been entered into with the Company or its Subsidiaries by any Directors other than on normal terms and conditions.

Employee remuneration

Remuneration and other benefits of $100,000 per annum or more received by employees in their capacity as employees during the accounting period to 31 July 2018:

Remuneration Range	Number of Employees
$1,000,000-$1,100,000	1
$500,000-$510,000	1
$430,000-$440,000	1
$410,000-$420,000	1
$300,000-$310,000	1
$230,000-$240,000	4
$220,000-$230,000	3
$210,000-$220,000	1
$200,000-$210,000	2
$190,000-$200,000	2
$180,000-$190,000	3
$170,000-$180,000	4
$160,000-$170,000	3
$150,000-$160,000	5
$140,000-$150,000	11
$130,000-$140,000	6
$120,000-$130,000	14
$110,000-$120,000	25
$100,000-$110,000	37
	125

Annual resolution by directors

The Directors of the Company unanimously resolved on 28th August 2018 that the Company is a Co-operative dairy company within the meaning of the Co-operative Companies Act 1996 ("the Act").

The grounds for the Board's opinion are as follows:

(a) The principal activities of the Company are, and are stated in the Company's constitution, as being all or any of the following:
- the manufacture of butter, cheese, dried milk or casein or any other product derived from milk or milk solids supplied to the Company by its shareholders; and
- the sale to any person of milk or milk solids so supplied; and
- the collection, treatment and distribution for human consumption of milk or cream so supplied;which are co-operative activities as defined by Section 3 of the Act and are the principal activities required by section 35 of the Act for registration as a co-operative dairy company under Part III of the Act; and

(b) No less than 60 percent of the voting rights are held by transacting shareholders of the Company.

That a statement be set out in the annual report and the annual return of the Company setting out the date and terms of the above resolution and the name of any director who did not vote in favour of the resolution and the director's reasons.

Directory 2018

Registered Office
56 Livingstone Street
Hokitika
New Zealand
Telephone +64 3 756 9800
Fax +64 3 755 8208

Chairman
Pete Morrison

Directors
Andrew MacPherson BVSC, MBA(Dist), FNZIM
Bob Major MSc
Brent Taylor BBS
Frank Dooley BCom
Katie Milne
Keith Smith BCom
Rebecca Keoghan BMLSc MNZM

Chief Executive Officer
Toni Brendish BCom, Grad Dip BA, FAICD

Chief Operating Officer
Craig Betty NZCS Chem, Dip Mgt

Chief Financial Officer
Dorian Devers BSc (Hons), ACMA

Company Secretary
Mark Lockington NZCE, BCM, CA

General Manager People and Safety
Caro Findlay LLB BA

General Manager Sales
Jeff Goodwin

General Manager Marketing and Innovation
Hamish Yates

General Manager China
Gary Yu

Bankers
ASB, HSBC, Westpac

Auditors
Deloitte

Insurance Brokers
Aon New Zealand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