TATUA

Annual Report 2018

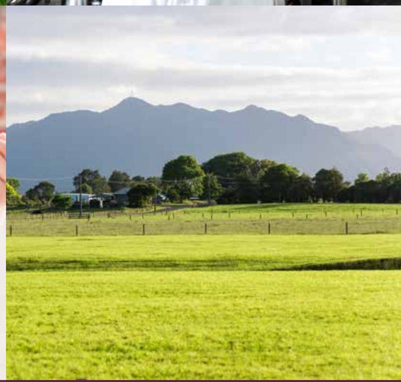
Building the future together


TATUA

2018 key highlights

Together we are building the future of specialised dairy



Group operating revenue of

$349

million


$8.10

Cash payout to shareholders per kg/milksolids




$8.62
Total earnings
per kg/milksolids




Reinvestment of
52¢
per kg/milksolids

Contents

STEPHEN ALLEN
Chairman

BRENDHAN GREANEY
Chief Executive Officer

2018 THE YEAR IN REVIEW

Report from the Chairman and Chief Executive Officer

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

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

Tatua's grass fed milk supply was impacted for the second year running by especially wet spring weather conditions, resulting in a 2% reduction in annual shareholder supplied milksolids to 14.69 million kilograms. Despite the challenging conditions and lower volumes, milk quality remained high.

Global commodity prices remained favourable for our bulk ingredient product mix of caseinate, whey protein concentrate and anhydrous milkfat. This was despite some softening of the record anhydrous milkfat prices during the year.

Continued development of our more specialised products, alongside our bulk ingredients business, contributed favourably to increased revenue and our full year result.

The growth of our specialised products was in response to strong demand across a number of our product groups and key markets, including Australia, China, Japan, USA, and South East Asia. Many of these products are based on externally procured dry ingredients, enabling production growth without milk collection expansion.

Total income for the Group grew to a record $357 million. This equated to total earnings of $8.62 per kilogram of shareholder supplied milksolids, before retentions and taxation. A decision was taken to retain 52 cents per kilogram of milksolids for reinvestment in the business, resulting in a cash payout to shareholders of $8.10 per kilogram of milksolids.

In line with our strategic priorities we are increasing our sustainability focus across our entire supply chain. This has included the establishment of a wastewater management roadmap for our manufacturing site, and with the support of our farmers, development and introduction of the Tatua 360 responsible farming programme.

There has been much discussion within the industry and media relating to the environment, genetic modification, alternative proteins and disruptive food technologies. We remain aware of these developments and the need to be well positioned strategically to respond as appropriate.

Climate change has emerged as a potentially significant issue for ruminant animal based agriculture. We have actively engaged in the conversation on the future shape of a zero carbon economy and how we can best contribute toward this as a dairy based business.

We will continue to develop and evolve our sustainability initiatives with a long term view, and for the benefit of our future generations.

We welcomed Tim Keir as our General Manager Operations that had been vacant for over 12 months. Tim joined us from Fonterra in January.

We farewelled John Powell, General Manager Marketing and Sales in February, and were fortunate to have Susanne Rolfe from Mondelez International join us as John's replacement in April.

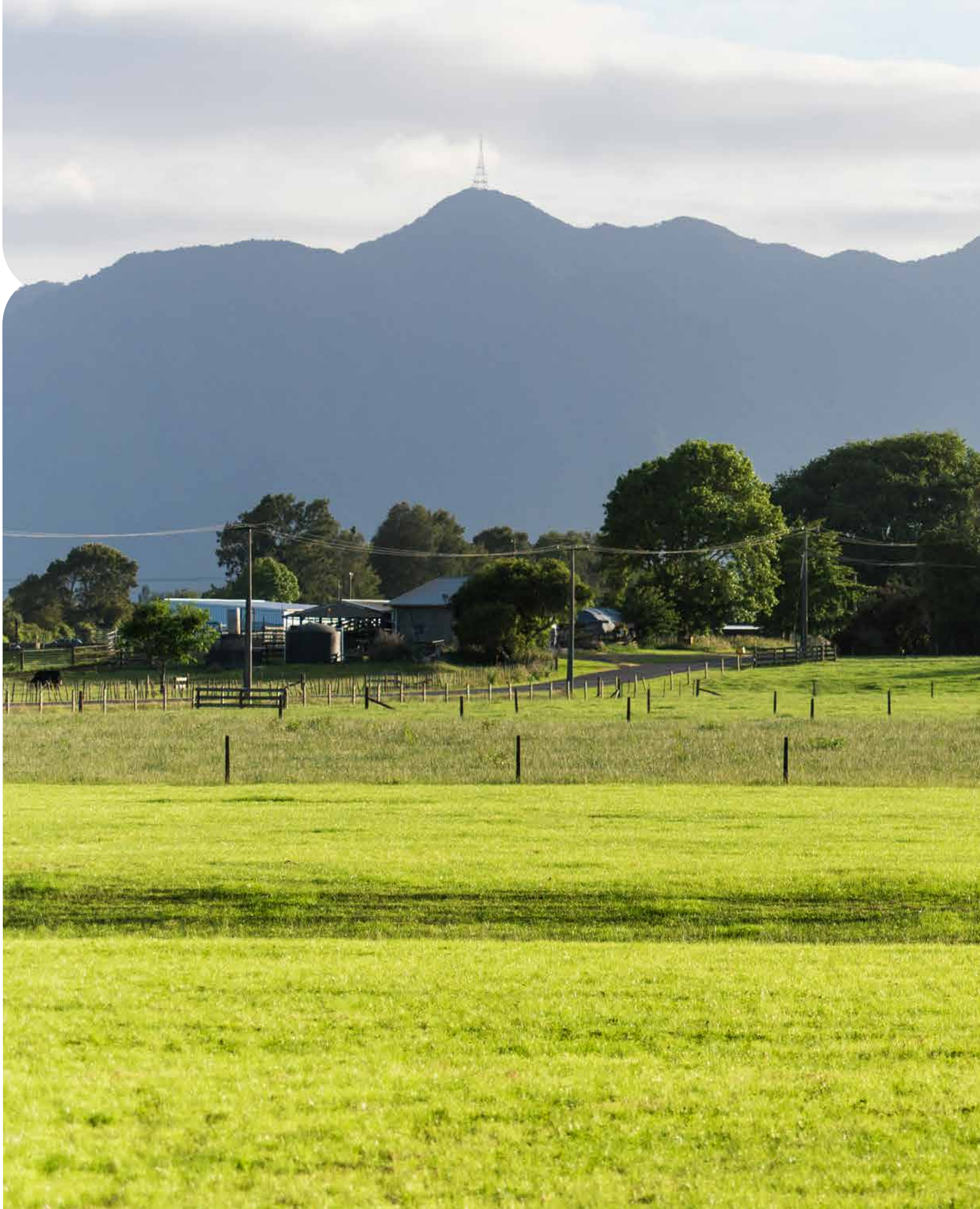
Colin Foster, General Manager Finance and Administration departed Tatua at year end. Michelle Bull was internally appointed to this role from her previous role as Financial Controller.

Tributes to John and Colin and introductions to Tim, Susanne and Michelle are included in this report.

Our new Enterprise Resource Planning system was implemented at the beginning of the year. This represented significant change for many of our people and impacted most in some way. It is generally acknowledged the system has simplified work in a number of areas and provides a sound foundation on which we will continue to build functionality.

"We were never going to be the biggest, so we embarked on a niche strategy of adding value to our milk to be a specialised food and ingredients producer for the rest of the world. Our success has been a great team effort by an incredibly passionate and dedicated team of people."

Stephen Allen | Chairman



Tatua 360 is our on-farm responsible farming programme. It includes the core elements of environmental custodianship, animal care, farm systems, milk quality and central to the programme is the welfare, wellbeing and development of our people. The programme is consistent with the range of commitments included in the New Zealand dairy industry's Dairy Tomorrow strategy.

Our People programme includes training and development, welfare and wellbeing of people.

Our Milk Quality programme includes management and quality of milk supply.

Our Animal Care programme involves the health, welfare, wellbeing and management of animals.

Our Farm Systems programme includes biosecurity, biodiversity and sustainable systems.

Our Environment programme involves environmental sustainability of land, waterways and climate.

Tatua 360

Tatua has historically concentrated its added value activities within the business, working collaboratively with our customers to design and produce specialist food ingredient solutions. While we expect that this will continue in future, we are mindful that our customers are increasingly interested in the provenance of their food and food ingredient products.

In acknowledgement of both customer and consumer interest in activities and practices behind the farm gate we spent much of the past year engaging with our farmers on how we could best respond. The outcome of this process was the Tatua 360 responsible farming programme.

The Tatua 360 programme has the core components of environmental custodianship, animal care, farm systems including biosecurity, and milk quality. Central to these components is the welfare, wellbeing and development of people.

Tatua 360 will be progressively implemented on farm over coming years and will continue to be developed alongside our farmers, customers, and community.

In time, we anticipate Tatua 360 will become an integral part of our value add proposition.

Outlook

Our capital investment for the year ahead will be broadly in line with our depreciation and will be focussed on plant upgrades, sustainability and infrastructure projects.

The investments we have made in processing equipment and support systems over the past several years have given us capacity for volume growth of our specialist products. We will utilise this to achieve value growth from additional sales volume across our markets, as well as further product mix optimisation.

We will need to remain agile to respond to the volatility and uncertainty that we expect will continue in our global markets. Despite this, we remain optimistic in our outlook for the business for the year ahead.

Acknowledgements

Firstly, thank you to all of our people at Tatua for your commitment, dedication and hard work in all that has been achieved in a very productive and transformational year. A solid financial result does not fully reflect all that has been achieved through your efforts.

Thank you to our Shareholders. Your full and continued support and engagement with the co-operative and our people is both valued and appreciated, along with the high quality of milk that you continue to supply.

We would also like to thank our suppliers and providers of goods and services. Across our supply chain you are vital to our ongoing success.

Thank you to our customers in all of our markets. We value the trust that you place in us as a supplier and the relationships that we have with each of you that are so important to us.

S.B. Allen

Stephen Allen | Chairman

Brendhan Greaney | Chief Executive Officer

Farewell

During the year we said farewell to two key members of our leadership team, John Powell and Colin Foster. In March, after 15 years' service, we farewelled John Powell, General Manager Marketing and Sales and in July we farewelled General Manager Finance and Administration, Colin Foster after 23 years' service to Tatua.

John Powell

John led Tatua's customer facing teams for over 15 years, initially as General Manager Nutritionals from 2002 – 2007, and then General Manager Marketing and Sales from 2007 until March 2018.

The business developed considerably over this period, becoming a fully integrated global food ingredient supplier with subsidiaries in Japan, China and the USA, and with customers in more than 60 countries.

When John became General Manager of Marketing and Sales, he reorganised the commercial division into six business units to enable and support the growth of the specialised product streams that we have today, and that remain integral to Tatua's proposition as a supplier of specialised dairy ingredients.

John was highly respected for his knowledge of the markets and customers, and his deep understanding of dairy. His "big picture" thinking and extensive network of valued relationships throughout the industry have been instrumental in shaping the business we have today.

We would like to thank John for his contribution to the success of Tatua and wish him the very best for whatever he chooses as his next challenge.

Colin Foster

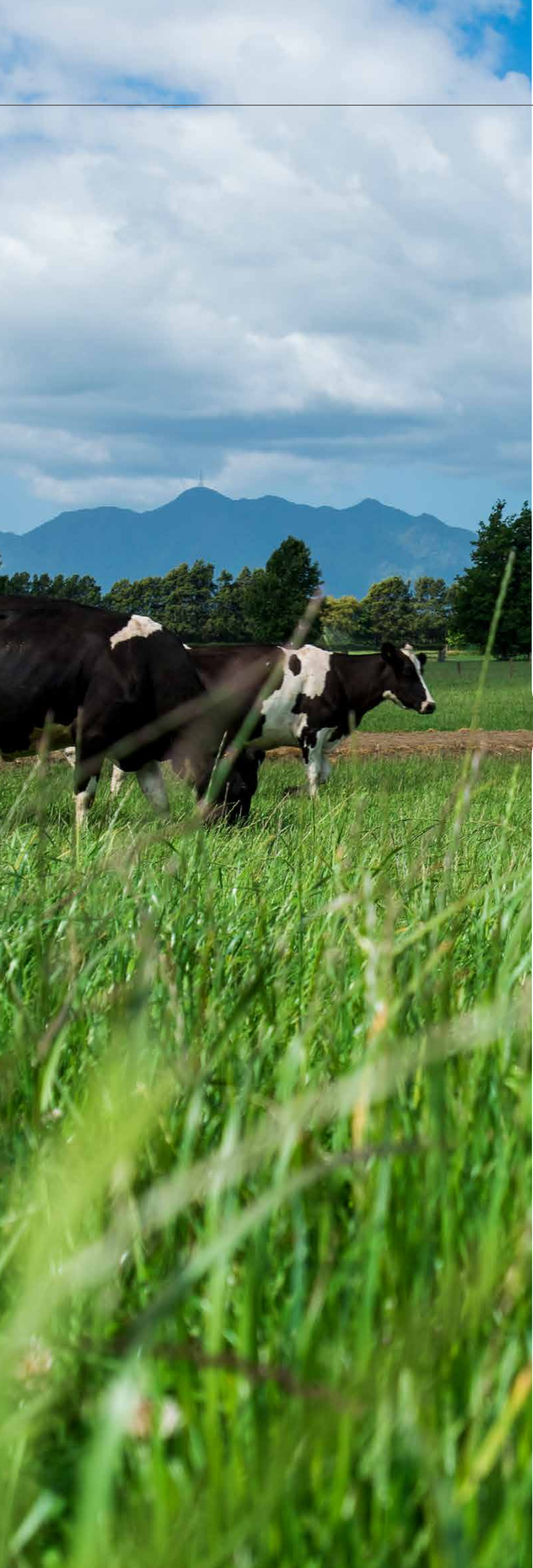
Colin joined Tatua in 1995 as Financial Accountant before becoming General Manager Finance and Administration from 2001. He held that role until July 2018.

He has been a well-respected constant through all of the changes that have occurred at Tatua over his 23 years of service. Over this time the business has grown from revenue of $63 million to more than $350 million, and has become considerably more complex in all areas including Finance and Administration.

In his time at Tatua he worked with three Chief Executives who have especially valued his analytical capabilities, his leadership of treasury and his deep understanding of the business and the industry.

Colin was highly respected within Tatua and by our finance, insurance, legal and other professional service providers.

We take this opportunity to thank Colin for his commitment and contribution to Tatua throughout his tenure and wish him very well for the future.



Bruce Wilton

2018 is Bruce Wilton's final year as a Tatua Director. The Wilton family's association as shareholders of Tatua goes back over 100 years.

Bruce's 15 years of service as a board member has included contributions to the People and Remuneration Committee, as well as serving on the Finance, Audit and Risk and Farm Advisory Committees. Bruce also led the inaugural Emerging Leaders Programme for the development of future directors and leaders. This programme has been hugely successful for Tatua and continues to evolve today.

With an extensive background in the fertiliser industry, Bruce was a recipient of a FAME Scholarship and this has resulted in extensive study of the international agricultural food sector.

When Bruce joined the Tatua Board in 2003 the Company was in the very early stages of deregulation and operation as a standalone fully independent company, after having exited the New Zealand Dairy Board in 2001.

Bruce has been part of a board which has overseen the development of Tatua's international marketing and sales operations, including the establishment of our three subsidiaries. He has worked with three Chief Executives and been part of the decision making that has seen significant investment in Tatua's manufacturing and logistics capabilities.

Bruce has always held both Tatua and its shareholders interests and wellbeing at the forefront of his thinking. His empathy with people, calm demeanour and friendship will be greatly missed. Fortunately he will remain with us as a shareholder amongst the Tatua family, continuing the Wilton family's association with Tatua.

Welcome

During this financial year we welcomed three new members into the Tatua Leadership Team. Tim Keir joined the Company in January 2018, as General Manager Operations, and Susanne Rolfe joined the team as General Manager Marketing and Sales in April 2018, following the departure of John Powell. Michelle Bull joined the team in August 2018, following Colin Foster's departure.

Tim Keir

Tim Keir joined Tatua in January after an extensive career with Fonterra and New Zealand Dairy Group. Tim leads Tatua's manufacturing, technical services, engineering, supply chain, procurement and waste water teams.

Tim's dairy experience includes working in commodity and high value nutrition areas, engineering and milk collection. He has spent time in NZ, Asia, USA, Europe and the Middle East working with vendors and customers optimising value streams. Tim holds a Master's degree in Dairy Science and Technology, and a Bachelor of Technology majoring in Environmental Engineering from Massey University.

Susanne Rolfe

Susanne was appointed General Manager Marketing and Sales in April. She leads Tatua's marketing and sales team which includes the NZ based business units and the subsidiary offices in Japan, China and the USA.

Susanne has extensive experience leading marketing and commercial teams for Nestle, Coca-Cola Amatil, Danone and Mondelez International. Over the course of her career she has led the development and growth of successful local, regional and global brands and businesses and has lived and worked in Australia, Indonesia, Malaysia, Russia, Switzerland and Singapore. She holds a Master's degree in Business Administration (MBA) from Insead, Paris and a Bachelor of Management Studies degree majoring in Marketing and Finance, from the University of Waikato.

Michelle Bull

Michelle was appointed General Manager Finance and Administration in August. She leads Tatua's finance and ICT team. Her previous role was as Financial Controller, a position which she held for 16 years. She worked for Audit New Zealand and Waikato DHB in Hamilton prior to joining the Finance team as the Management Accountant for Tatua Nutritionals in 1996. She has worked for three Chief Executives during her time at Tatua and was a key member of the ERP implementation team. Michelle holds a Bachelor of Management Studies degree, majoring in Accounting, from the University of Waikato.

"Like every family, we have our challenges; we look after each other and take these on together."

Brendhan Greaney | Chief Executive Officer


FDA BIR 10 bar 150 psi (S.F. 3:1) hose

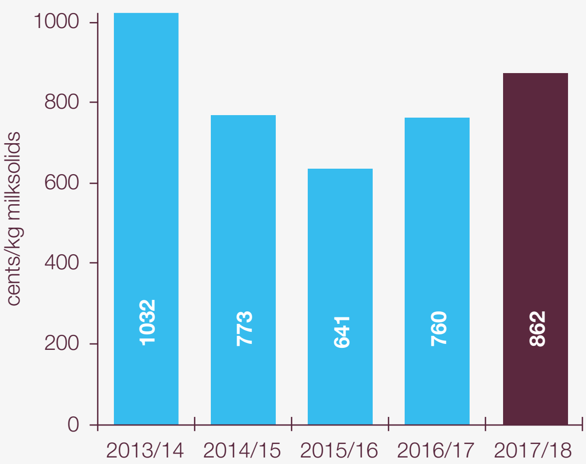

TATUA

KEY FINANCIAL PERFORMANCE SUMMARY

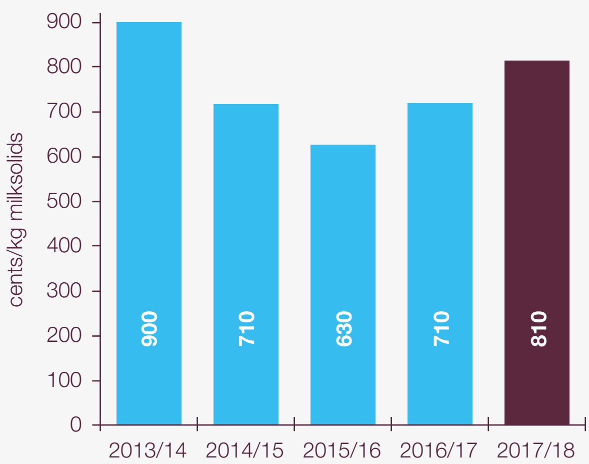
2017/2018 in Review

Summary		2017/18	2016/17
Milk Received from Suppliers	litres	165,693,452	166,517,809
Milksolids Received from Suppliers	kgs	14,686,362	14,968,366
Group Operating Revenue	$	$349,039,451	$327,992,294
Group Surplus Before Payout & Tax	cts/kg m'solids	862	760
Group Depreciation	cts/kg m'solids	84	75
Cash Payout to Suppliers	cts/kg m'solids	810	710
Capital Expenditure	$	$15,159,139	$10,922,953
Group Assets	$	$254,913,805	$250,038,701
Gearing: Debt to Debt + Equity	%	37%	35%

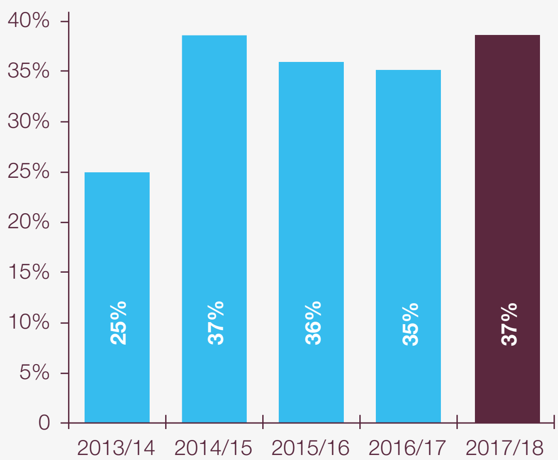
Group Surplus Before Payout And Tax



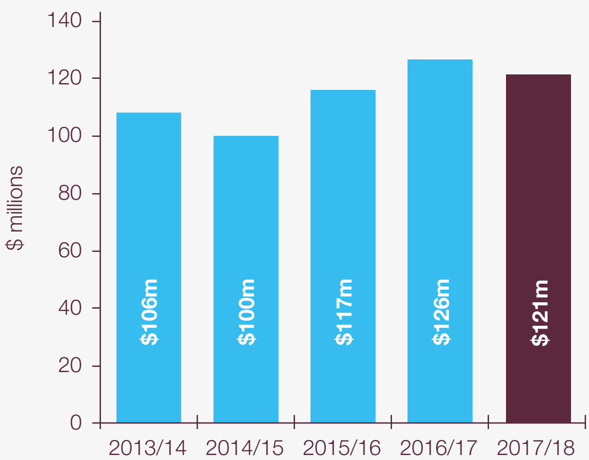
Payout – Income Equivalent



Gearing (%Debt To Debt Plus Members Funds)



Members Funds



STATUTORY INFORMATION

For the Year Ended 31 July 2018

PRINCIPAL ACTIVITIES

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

CO-OPERATIVE COMPANY

The Board of Directors resolved on the 27th July 2018 that, in the opinion of the Board, the Company has been a co-operative company during the year ended 31st July 2018 because its principal activity has been processing and marketing products derived from milk supplied by its shareholders and because 100% of the voting rights in the Company are held by those shareholders.

ROLE OF THE BOARD

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

Key responsibilities of the Board include:

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

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

FRAMEWORK

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

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

BOARD COMPOSITION

The Board can have up to seven elected directors from Shareholders, and up to three appointed directors. Pursuant to the Constitution of the Company, one third of elected directors retire by rotation each year, while appointed directors are appointed for a term not longer than three years, after which they are eligible for re-appointment for a further three year term. Elected directors, Stephen Allen and David Muggeridge retired by rotation during the year and were re-elected.

BOARD MEETINGS HELD DURING THE YEAR

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

BOARD COMMITTEES

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

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

Farm Advisory Committee: Membership comprises David Muggeridge (Chairman), Stephen Allen, Louise Cullen, Kevin Old, and Bruce Wilton. The function of the committee is to assist and advise the Board on the effectiveness, integrity and compliance of Tatua's responsible farming programme - Tatua 360.

STATUTORY INFORMATION

For the Year Ended 31 July 2018

DIRECTORS' REMUNERATION

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

Stephen Allen	$112,000
Mark Dewdney	$50,917
Louise Cullen	$44,905
David Muggeridge	$59,667
Kevin Old	$53,417
Peter Schuyt	$59,667
Ross Townshend	$44,667
Bruce Wilton	$44,667
	$469,905

DIRECTORS' SHAREHOLDINGS

At 31 July 2018 Directors held the following shares in the company:

	Beneficially Held	Non-Beneficially Held	Held By Associated Persons
Stephen Allen	2,003,920	–	733,300
David Muggeridge	1,064,260	–	-
Kevin Old	1,143,000	–	2,682,790
Mark Dewdney	2,241,640	–	-
Bruce Wilton	1,350,790	–	-
Louise Cullen	3,049,360	–	-

DIRECTORS' INSURANCE

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

DISCLOSURE OF INTERESTS

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

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

Director	Position	Company
Stephen Allen	Director, Shareholder	Claybrook Farms Ltd
	Director, Shareholder	Claybrook No 7 Ltd
	Director, Shareholder	Claybrook South Ltd
	Director	RDGP Ltd
	Director	Mowata GP Ltd
	Director, Shareholder	Cheadle Farms Ltd
	Director, Shareholder	Allen Children Ltd
	Director	FMG Insurance Ltd
	Trustee	Sarah Ethne Allen Trust
	Trustee	SB & BL Allen Family Trust
	Trustee	Cheadle Trust
	Trustee	David Johnstone Charitable Trust
	Trustee	JES Allen Estate
Louise Cullen	Director, Shareholder	Cookson Trust Farms Ltd
	Director, Shareholder	Balachraggan Farms Ltd
	Director, Shareholder	Capra Farming Ltd
	Trustee	Te Aroha Free Kindergarten Association Incorporated
Mark Dewdney	Director	Yanakie Farm Management Pty Ltd
	Director	Dairy Goat Co-operative
	Trustee/ Beneficiary	Dewdney Family Trust
	Trustee	Marvic Family Trust
	Trustee	Mark Dewdney Family Trust
	Director, Shareholder	Namaste Farming Pty Ltd
	Director, Shareholder	Namaste Land Pty Ltd
	Trustee	V Dewdney Trust

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

EMPLOYEES' REMUNERATION

During the year to 31 July 2018 the following number of employees of the Group received total remuneration of at least $100,000: Total remuneration includes salaries, bonus payments, and other benefits received in the capacity as an employee during the year, e.g. company vehicles, insurance and superannuation. Bonus payments may relate to multiple years, but paid in one lump sum.

	Number of Employees Group
$100,000 - $109,999	53
$110,000 - $119,999	19
$120,000 - $129,999	14
$130,000 - $139,999	11
$140,000 - $149,999	3
$150,000 - $159,999	5
$160,000 - $169,999	7
$170,000 - $179,999	3
$180,000 - $189,999	2
$190,000 - $199,999	6
$200,000 - $209,999	1
$210,000 - $219,999	2
$220,000 - $229,999	1
$230,000 - $239,999	1
$240,000 - $249,999	1
$250,000 - $259,999	2
$300,000 - $309,999	1
$320,000 - $329,999	1
$330,000 - $339,999	1
$400,000 - $409,999	1
$450,000 - $459,999	1
$700,000 - $749,999	1
	137

DONATIONS AND GRANTS

Donations and grants for the year ended 31 July 2018 were $0 (2017: less than $24,558).

BALANCE SHEET

As at 31 July 2018

	Note	GROUP 2018 ($)	GROUP 2017 ($)
Current Assets			
Cash & Cash Equivalents	14	9,302,159	6,925,407
Derivatives	18	1,640,760	16,796,500
Receivables & Prepayments	13	48,506,299	43,520,709
Tax Receivable		-	30,029
Inventories	12	54,868,652	49,839,017
Biological Assets		437,281	137,125
Total Current Assets		**114,755,151**	**117,248,787**
Non Current Assets			
Property, Plant & Equipment	9	127,406,241	124,730,322
Investment Property	11	1,175,000	1,175,000
Intangible Assets	10	6,154,272	6,236,466
Deferred Tax Asset	8	4,653,946	-
Investments		769,195	648,126
Total Non Current Assets		**140,158,654**	**132,789,914**
Total Assets		**254,913,805**	**250,038,701**
Current Liabilities			
Loans & Borrowings	16	56,176,909	10,030,200
Derivatives	18	6,185,267	2,247,256
Accounts Payable & Accruals	17	24,540,780	23,970,221
Tax Payable		1,658,641	923,205
Owing to Suppliers		22,559,535	19,404,831
Total Current Liabilities		**111,121,132**	**56,575,713**
Non Current Liabilities			
Loans & Borrowings	16	23,150,000	66,000,000
Deferred Tax Liability	8	-	969,365
Total Non Current Liabilities		**23,150,000**	**66,969,365**
TOTAL Liabilities Excluding Co-operative Shares Classified as a Liability		**134,271,132**	**123,545,078**
PLUS Co-operative Shares		72,603,030	72,583,474
Total Liabilities		206,874,162	196,128,552
Net Assets		**48,039,643**	**53,910,149**
Retained Earnings		38,406,559	33,025,471
Reserves		9,633,084	20,884,678
Equity		**48,039,643**	**53,910,149**
Members Funds Memorandum Account:			
Co-operative Shares Classified as a Liability	15	72,603,030	72,583,474
Retained Earnings		38,406,559	33,025,471
Reserves		9,633,084	20,884,678
Total Members Funds		**120,642,673**	**126,493,623**

For and on behalf of the Board:

S.B. Allen

SB Allen
Chairman of Directors
9 November 2018

P.M. Schuyt

PM Schuyt
Chairman of Finance, Audit & Risk Committee
9 November 2018

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

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 July 2018

	Note	GROUP Year Ended 31 July 2018 ($)	GROUP Year Ended 31 July 2017 ($)
Profit or Loss Items			
Total Operating Revenue		349,039,451	327,992,294
less Payments for Milk Supplied		(118,919,379)	(106,241,424)
less Other Cost of Sales		(190,731,005)	(185,956,125)
Gross Profit		**39,389,067**	**35,794,745**
plus Other Income	3	2,090,242	1,476,705
less Sales & Marketing Expenses		(24,116,040)	(21,073,612)
less Administration Expenses	4	(11,879,693)	(10,092,059)
Surplus from Operating Activities		**5,483,576**	**6,105,779**
Finance Income	6	5,930,427	5,319,583
less Finance Expenses	6	(3,683,148)	(3,860,015)
Net Finance Income		**2,247,279**	**1,459,568**
Surplus before Income Tax		**7,730,855**	**7,565,347**
less Income Tax (Expense)	7	(2,349,767)	(2,003,318)
Net Surplus		**5,381,088**	**5,562,029**
Other Comprehensive Income			
Movement in Land Revaluation Reserve		-	-
Change in Fair Value of Cash Flow Hedges		(16,705,769)	11,313,897
Movement in Foreign Exchange Reserve		776,560	(738,730)
Income Tax on Other Comprehensive Income		4,677,615	(3,167,891)
Other Comprehensive Income for the Year			
		(11,251,594)	**7,407,276**
Total Comprehensive Income		**(5,870,506)**	**12,969,305**

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 July 2018

GROUP	Translation Reserve ($)	Hedging Reserve ($)	Revaluation Reserve ($)	Retained Earnings ($)	Total Equity ($)
Balance at 1 August 2016	**236,780**	**1,262,784**	**11,977,838**	**27,463,442**	**40,940,844**
Other Comprehensive Income					
Movement in Foreign Exchange Reserve	(738,730)	-	-	-	(738,730)
Movement in Land Revaluation Reserve	-	-	-	-	-
Movement in Hedging Reserve, Net of Tax	-	8,146,006	-	-	8,146,006
Total Other Comprehensive Income	**(738,730)**	**8,146,006**	**-**	**-**	**7,407,276**
Tax Paid Surplus/(Deficit)	-	-	-	5,562,029	5,562,029
Total Comprehensive Income	**(738,730)**	**8,146,006**	**-**	**5,562,029**	**12,969,305**
Transactions with owners of Company					
Issue of ordinary shares under bonus share issue	-	-	-	-	-
Balance at 31 July 2017	**(501,950)**	**9,408,790**	**11,977,838**	**33,025,471**	**53,910,149**
Balance at 1 August 2017	**(501,950)**	**9,408,790**	**11,977,838**	**33,025,471**	**53,910,149**
Other Comprehensive Income					
Movement in Foreign Exchange Reserve	776,560	-	-	-	776,560
Movement in Land Revaluation Reserve	-	-	-	-	-
Movement in Hedging Reserve, Net of Tax	**-**	**(12,028,154)**	**-**	**-**	**(12,028,154)**
Total Other Comprehensive Income	**776,560**	**(12,028,154)**	**-**	**-**	**(11,251,594)**
Tax Paid Surplus/(Deficit)	-	-	-	5,381,088	5,381,088
Total Comprehensive Income	**776,560**	**(12,028,154)**	**-**	**5,381,088**	**(5,870,506)**
Transactions with owners of Company					
Issue of ordinary shares under bonus share issue	-	-	-	-	-
Balance at 31 July 2018	**274,610**	**(2,619,364)**	**11,977,838**	**38,406,559**	**48,039,643**

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

STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2018

	Note	GROUP Year Ended 31 July 2018 ($)	Year Ended 31 July 2017 ($)
Cash Flows From Operating Activities			
Cash was provided from:			
Receipts from Customers		354,839,216	326,557,311
Dividends Received		330	-
Interest Received		29,186	105,500
		354,868,732	326,662,811
Cash was applied to:			
Payments for Milk		(114,476,309)	(106,297,631)
Payments to Creditors & Employees		(217,525,397)	(201,996,366)
Interest Paid		(3,657,425)	(3,829,358)
Taxation Paid		(2,529,998)	(354,804)
		(338,189,129)	(312,478,159)
Net Cash Flows From/(Applied To) Operating Activities	21	**16,679,603**	**14,184,652**
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds From Sale of Property, Plant & Equipment		131,723	241,261
Proceeds From Investments		-	41,973
		131,723	283,234
Cash was applied to:			
Acquisition of Property, Plant & Equipment		(16,341,404)	(10,848,305)
Acquisition of Intangible Assets		-	(5,883,194)
Purchase of Share Investments		(121,069)	-
		(16,462,473)	(16,731,499)
Net Cash Flows From/(Applied To) Investing Activities		**(16,330,750)**	**(16,448,265)**
Cash Flows From Financing Activities			
Cash was provided from:			
Increase in Co-operative Shares	15	19,556	1,136,735
Proceeds from Borrowings		3,296,709	519,330
		3,316,265	1,656,065
Cash was applied to:			
Decrease in Co-operative Shares		(1,288,366)	(3,193,565)
Repayment of Borrowings		-	-
		(1,288,366)	**(3,193,565)**
Net Cash Flows From/(Applied To) Financing Activities		**2,027,899**	**(1,537,500)**
Net Increase/(Decrease) in Cash & Cash Equivalents		2,376,752	(3,801,113)
Add: Opening Cash & Cash Equivalents Balance		6,925,407	10,726,520
Closing Cash & Cash Equivalents Balance	14	**9,302,159**	**6,925,407**

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

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Tatua Co-operative Dairy Company Limited (the parent company) is a co-operative company domiciled and incorporated in New Zealand, and registered under the Co-operative Companies Act 1996 and the Companies Act 1993. At 31 July 2018 the Group consists of The Tatua Co-operative Dairy Company Ltd and its subsidiaries Tatua Japan Co. Ltd, Tatua Dairy Products (Shanghai) Co., Ltd and Tatua USA Ltd.

Tatua is an FMC reporting entity in terms of the Financial Markets Conduct Act.

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

These financial statements are for the year ended 31 July 2018.

2. BASIS OF PREPARATION

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

(a) Statement of Compliance and Basis of Preparation

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

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

These financial statements were approved by the Board of Directors on 9 November 2018, and have been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Reporting Act 2013.

(b) Basis of Measurement

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

- Land and improvements are valued at fair value. Refer to Note 9
- Biological assets are measured at fair value less point-of-sale costs.
- Investment property is measured at fair value. Refer to Note 11
- Derivative financial instruments are measured at fair value. Refer to Note 18

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgement

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

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

Note 12. - Milk cost included in inventory

(e) Goods and Services Tax

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

2. BASIS OF PREPARATION (CONTINUED)

(f) New Standards and Interpretations

(i) New and amended standards adopted by the Group

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

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

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

(i) NZ IFRS 15 'Revenue from contracts with customers' (effective for the 2019 financial statements). This standard will replace the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to fully assess NZ IFRS 15's impact.

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

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

3. OPERATING REVENUE AND OTHER INCOME

	GROUP	
	2018 ($)	2017 ($)
Operating Revenue	349,039,451	327,992,294
Other Income		
Sundry Asset Sales/Gain on Disposal of Property, Plant & Equipment	33,082	3,680
Rental Income from Investment Property	75,000	97,000
Rental Income from Farm Houses	52,338	38,781
Insurance Claim Proceeds	-	79,234
MilkTest NZ Ltd Income	239,823	244,684
Royalties/Commission	949,519	655,910
Sundry Income	740,480	357,416
	2,090,242	1,476,705
Operating Revenue and Other Income	**351,129,693**	**329,468,999**

Policy

(a) Operating Revenue

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

(b) Other Income

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

4. ADMINISTRATION EXPENSES

	GROUP	
	2018 ($)	2017 ($)
The following items are included in administration expenses:		
Auditors Remuneration (KPMG)		
Audit of Financial Statements	143,864	129,851
Other Services	6,275	28,500
Directors' Fees	469,905	472,000
Directors' Expenses	5,548	4,383

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

5. PERSONNEL EXPENSES

	GROUP	
	2018 ($)	2017 ($)
Wages and Salaries	39,708,369	36,537,252
Superannuation Contributions and Other Employee Related Expenses	3,831,486	3,825,325
Increase in Liability for Short-term Employee Benefits (Annual Leave and Days in Lieu)	542,554	135,707
	44,082,409	**40,498,284**

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

Policy
Employee Benefits

- **Defined Contribution Plans**
  Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

- **Short-term Benefits**
  Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

6. FINANCE INCOME AND EXPENSES

	GROUP	
	2018 ($)	2017 ($)
Recognised in Profit or Loss		
Interest Income	29,186	105,500
Net Foreign Exchange Gain	5,901,241	3,744,606
Net Change in Fair Value of Derivatives	-	1,469,477
Total Finance Income	5,930,427	5,319,583
Net Foreign Exchange Loss	-	-
Financial Overheads	(25,723)	(30,657)
Net Change in Fair Value of Derivatives	-	-
Interest Expense on External Borrowings	(3,657,425)	(3,829,358)
Total Finance Expenses	(3,683,148)	(3,860,015)
Net Finance Income/(Expenses)	**2,247,279**	**1,459,568**

Policy

(a) Finance Income and Expenses

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

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

(b) Foreign Currency Transactions

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

7. INCOME TAX EXPENSE

	GROUP	
	2018 ($)	2017 ($)
Income Tax Recognised in Profit or Loss		
Current Tax Expense		
Current Period	3,286,358	1,222,019
Adjustment for Prior Periods	9,105	(96,584)
	3,295,463	1,125,435
Deferred Tax Expense		
Origination and Reversal of Temporary Differences	(978,885)	780,612
Adjustment for Prior Periods	33,188	97,271
	(945,697)	877,883
Total Income Tax Expense	**2,349,766**	**2,003,318**

7. INCOME TAX EXPENSE (CONTINUED)

	GROUP		GROUP	
	2018 (%)	2018 ($)	2017 (%)	2017 ($)
Reconciliation of Effective Tax Rate				
Profit for the Period		5,381,088		5,562,029
Total Income Tax Expense		2,349,767		2,003,318
Profit Excluding Income Tax		7,730,855		7,565,347
Income Tax Using the Group's Domestic Tax Rate	28.0%	2,164,640	28.0%	2,118,298
Impact of Tax Rate in Foreign Countries	(0.7%)	(56,812)	(0.2%)	(18,740)
Tax Exempt Income	(0.0%)	(3,357)	(0.2%)	(16,800)
Non-deductible Expenses	3.4%	263,386	(0.2%)	(16,868)
Tax Credits Converted to Losses	(0.0%)	(92)	(0.0%)	(92)
Recognition of Previously Unrecognised Tax Losses	(0.8%)	(60,291)	(0.8%)	(63,165)
Under/(Over) Provided in Prior Periods	**0.5%**	**42,293**	**0.0%**	**685**
	30.4%	**2,349,767**	**26.5%**	**2,003,318**

	GROUP	
	2018 ($)	2017 ($)
Income Tax Recognised Directly in Other Comprehensive Income		
Derivatives	4,677,615	(3,167,891)
Total Income Tax Recognised Directly in Other Comprehensive Income		
	4,677,615	**(3,167,891)**

	GROUP	
	2018 ($)	2017 ($)
Imputation Credits		
Imputation Credits Available for use in Subsequent Reporting Periods	**24,329,569**	**22,620,804**

Policy

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

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

8. DEFERRED TAX ASSETS AND LIABILITIES

Recognised Deferred Tax Assets and Liabilities – GROUP

	Assets		Liabilities		Net	
	2018 ($)	2017 ($)	2018 ($)	2017 ($)	2018 ($)	2017 ($)
Deferred tax assets and liabilities are attributable to the following:						
Property, Plant and Equipment	1,351,007	1,195,703	-	-	1,351,007	1,195,703
Investment Property	-	-	(81,014)	(81,014)	(81,014)	(81,014)
Derivatives	1,018,641	-	-	(3,658,974)	1,018,641	(3,658,974)
Biological Assets	-	-	-	-	-	-
Inventory	1,119,482	443,907	-	-	1,119,482	443,907
Provisions and Accruals	1,245,830	1,134,750	-	-	1,245,830	1,134,750
Other items	-	-	-	(3,736)	-	(3,736)
Tax Assets/(Liabilities)	**4,734,960**	**2,774,360**	**(81,014)**	**(3,743,724)**	**4,653,946**	**(969,364)**

Movement in Temporary Differences During The Year

	Balance 1 August 2016 ($)	Recognised in Profit or Loss ($)	Recognised in Other Comprehensive Income ($)	Balance 31 July 2017 ($)	Recognised in Profit or Loss ($)	Recognised in Other Comprehensive Income ($)	Balance 31 July 2018 ($)
Deferred tax assets and liabilities are attributable to the following:							
Property, Plant and Equipment	885,688	310,015	-	1,195,703	155,304	-	1,351,007
Investment Property	(81,014)	-	-	(81,014)	-	-	(81,014)
Derivatives	(491,083)	-	(3,167,891)	(3,658,974)	-	4,677,615	1,018,641
Biological Assets	-	-	-	-	-	-	-
Inventory	1,243,159	(799,252)	-	443,907	675,575	-	1,119,482
Provisions and Accruals	1,514,925	(380,175)	-	1,134,750	111,080	-	1,245,830
Other Items	4,734	(8,470)	-	(3,736)	3,736	-	-
Tax Assets/(Liabilities)	**3,076,409**	**(877,882)**	**(3,167,891)**	**(969,364)**	**945,695**	**4,677,615**	**4,653,946**

Policy

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

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

9. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land & Improvements ($)	Buildings ($)	Plant & Equipment ($)	Vehicles ($)	Capital Work In Progress ($)	Total ($)
Cost or Deemed Cost						
Balance at 1 August 2016	19,108,226	49,684,894	166,273,183	3,931,032	6,959,077	245,956,142
Additions	82,435	177,961	3,841,310	102,251	6,718,996	10,922,953
Revaluation of Land and Improvements to Fair Value	-	-	-	-	-	-
Disposals		(20,014)	(701,691)	(471,084)	-	(1,192,789)
Balance at 31 July 2017	19,190,661	49,842,841	169,412,532	3,562,199	13,678,073	255,686,306
Balance at 1 August 2017	19,190,661	49,842,841	169,412,532	3,562,199	13,678,073	255,686,306
Additions	-	689,242	20,011,897	127,217	(5,669,214)	15,159,140
Revaluation of Land and Improvements to Fair Value	-	-	-	-	-	-
Disposals	-	-	(211,202)	(302,507)	-	(513,709)
Balance at 31 July 2018	19,190,661	50,532,083	189,213,227	3,386,909	8,008,859	270,331,737
Depreciation and Impairment Losses						
Balance at 1 August 2016	1,231,086	13,355,719	103,203,079	2,871,045	-	120,660,929
Depreciation	177,496	1,294,974	9,574,372	183,866	-	11,230,708
Disposals	-	(17,659)	(618,733)	(299,261)	-	(935,653)
Balance at 31 July 2017	1,408,582	14,633,034	112,158,718	2,755,650	-	130,955,984
Balance at 1 August 2017	1,408,582	14,633,034	112,035,681	2,878,687	-	130,955,984
Depreciation	175,298	1,264,606	10,775,039	186,541	-	12,401,483
Disposals	-	-	(197,019)	(234,953)	-	(431,972)
Balance at 31 July 2018	1,583,880	15,897,640	122,613,701	2,830,275	-	142,925,495
Carrying Amounts						
At 1 August 2016	17,877,140	36,329,175	63,330,610	799,211	6,959,077	125,295,213
At 31 July 2017	**17,782,079**	**35,209,807**	**57,514,590**	**545,773**	**13,678,073**	**124,730,322**
At 1 August 2017	17,782,079	35,209,807	57,514,590	545,773	13,678,073	124,730,322
At 31 July 2018	**17,606,781**	**34,634,444**	**66,599,526**	**556,634**	**8,008,859**	**127,406,241**

Policy

(a) Recognition and Measurement for Assets at Cost

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs capitalised during the year were nil (2017: nil).

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

9. PROPERTY, PLANT AND EQUIPMENT POLICY (CONTINUED)

(b) Depreciation

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

The Group has established the following useful lives:

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

(c) Impairment

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

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

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

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

(d) Recognition and Measurement for Assets at Fair Value

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

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

The value of the land and improvements at cost is $7,233,294 (2017: $5,305,121).

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

The Board determined that a third party valuation of land and improvements as at 31 July 2018 was not required.
This was after performing an analysis on current industry data which suggested that land prices had not changed materially.

Capital Commitments

During the period ended 31 July 2018, the Group entered into contracts to purchase plant and equipment. The balance outstanding at balance date is $982,617 (2017: $4,284,506). These commitments are expected to be settled in the following financial year.

10. INTANGIBLE ASSETS

	GROUP	
	Software ($)	Total ($)
Cost		
Balance at 1 August 2016	2,859,486	2,859,486
Additions	5,883,194	5,883,194
Disposals	-	-
Balance at 31 July 2017	8,742,680	8,742,680
Balance at 1 August 2017	8,742,680	8,742,680
Additions	794,155	794,155
Disposals		
Balance at 31 July 2018	9,536,835	9,536,835
Amortisation and Impairment Losses		
Balance at 1 August 2016	2,244,809	2,244,809
Amortisation for the Year	261,405	261,405
Disposals	-	-
Balance at 31 July 2017	2,506,214	2,506,214
Balance at 1 August 2017	2,506,214	2,506,214
Amortisation for the Year	876,349	876,349
Disposals	-	-
Balance at 31 July 2018	3,382,563	3,382,563
Carrying Amounts		
At 1 August 2016	614,677	614,677
At 31 July 2017	**6,236,466**	**6,236,466**
At 1 August 2017	6,236,466	6,236,466
At 31 July 2018	**6,154,272**	**6,154,272**

Policy

(a) Recognition and Measurement

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

(b) Amortisation

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

- Software – 2.5 to 10 years
- Resource Consent – 15 years

11. INVESTMENT PROPERTY

	GROUP	
	2018 ($)	2017 ($)
Balance at 1 August	1,175,000	1,175,000
Change in Fair Value	-	-
Balance at 31 July	**1,175,000**	**1,175,000**

Policy

Investment property is held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss. Investment property comprises the land and buildings that are leased to PGG Wrightsons Ltd.

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

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

12. INVENTORIES

	GROUP	
	2018 ($)	2017 ($)
Finished Goods	44,908,284	36,898,556
Raw Materials	9,960,368	12,940,461
	54,868,652	**49,839,017**

Policy

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on weighted average cost, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of milk within inventory is a key judgement as it involves a number of inputs and estimations. The cost of milk within inventory is based on a weighted average of both shareholder supplied milk and third party supplied milk. Shareholder supplied milk is valued at the Farmgate milk price rate. The weighted average cost of milk is then separated into three core ingredients, Fat, Whey Protein and Casein Protein, with the Valued Component Ratio (value of fat to protein) being a key input to calculate the separation.

Impairment

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

There was a write down of $769,305 during the period (2017: $421,569) relating to inventory that had a net realisable value less than its cost of manufacture.

	GROUP	
	($)	($)
	2018	2017
Inventory valued at net realisable value included in finished goods above:	581,991	5,612,525

13. RECEIVABLES AND PREPAYMENTS

	GROUP 2018 ($)	GROUP 2017 ($)
Trade Receivables	45,450,324	40,576,258
Prepayments and Sundries	3,055,975	2,944,451
	48,506,299	**43,520,709**

GROUP Trade Receivables Denominated in Foreign Currencies	USD ($)	AUD ($)	JPY (¥)	EUR (€)	CNY (¥)
2018	8,451,164	2,391,783	1,655,592,518	-	13,952,164
2017	12,391,795	3,819,245	738,528,619	126,400	32,847,405

Policy

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

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

14. CASH AND CASH EQUIVALENTS

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

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

	GROUP 2018 ($)	GROUP 2017 ($)
JPY Bank Deposits	646,962	2,215,628
USD Bank Deposits	1,586,421	1,687,269
CNY Bank Deposits	2,921,000	2,849,178
NZD Bank Deposits	4,147,776	212,601
Bank Deposits	9,302,159	6,964,676
Bank Overdrafts Used for Cash Management Purposes	-	(39,269)
Cash and Cash Equivalents in the Statement of Cash Flows	**9,302,159**	**6,925,407**

15. MEMBERS FUNDS

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

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

Policy

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

15. MEMBERS FUNDS (CONTINUED)

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

	2018		2017	
	Shares	($)	Shares	($)
Shares at the beginning of the Year	145,146,947	72,573,474	151,837,339	75,918,670
Shares Issued	6,394,993	3,197,497	2,273,470	1,136,735
Shares Repurchased	(6,335,880)	(3,167,940)	(8,963,862)	(4,481,931)
Fully Paid Shares at the end of the Year	**145,206,060**	**72,603,030**	**145,146,947**	**72,573,474**
Treasury Stock	7,103,835		7,162,948	

Reserves

Translation Reserve

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

Hedging Reserve

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

Revaluation Reserve

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

Retained Earnings

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

16. LOANS AND BORROWINGS

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

	GROUP	
	2018 ($)	2017 ($)
Current		
JPY Bank Loans	13,854,120	6,130,200
USD Bank Loans	7,322,789	-
NZD Bank Loans	35,000,000	3,900,000
	56,176,909	**10,030,200**
Non Current		
JPY Bank Loans	-	-
NZD Bank Loans	23,150,000	66,000,000
	23,150,000	**66,000,000**
Total	**79,326,909**	**76,030,200**

2018	Currency	Nominal Interest Rate	Year of Maturity	Face Value	Carrying Amount (NZD)
Current Bank Loans	JPY	1.04%	2019	¥1,050,000,000	$13,854,120
	USD	3.28%	2019	$5,000,000	$7,322,789
	NZD	3.7%	2019	$35,000,000	$35,000,000
Non Current Bank Loans	NZD	2.98%	2020	$20,000,000	$20,000,000
	NZD	2.73%	2021	$3,150,000	$3,150,000

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

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

The Group has committed (but undrawn) facilities with expiry dates through to 2021 of NZD $56.8 million, JPY ¥JPY 350 million and USD $2 million.

17. ACCOUNTS PAYABLE AND ACCRUALS

	GROUP	
	2018 ($)	2017 ($)
Trade Payables	9,053,003	10,786,142
Employee Entitlements	6,591,707	6,049,153
Income in Advance	-	-
Accruals	8,896,070	7,134,926
	24,540,780	**23,970,221**

Policy

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

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

18. DERIVATIVES

Interest Rate Hedges

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

	GROUP	
Interest Rate Swaps	2018 ($)	2017 ($)
Notional Contract Amount	44,000,000	47,000,000
Fair Value		
Assets	-	-
Liabilities	(945,392)	(1,175,295)
Net Fair Value	**(945,392)**	**(1,175,295)**

2018	Less than 12 Months	More than 12 Months	Total
Interest Rate Hedges	12,000,000	32,000,000	44,000,000

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

Foreign Currency Hedges

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

2018		Less than 12 Months	More than 12 Months	Total
Foreign Exchange Contracts:				
	Buy	92,582,615	43,387,388	135,970,003
	Sell	-	-	-
Option Contracts:				
	Call	80,321,705	18,850,171	99,171,876
	Put	(85,436,541)	(19,836,985)	(105,273,526)

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

Fair Value	2018 ($)	2017 ($)
Assets	1,640,760	16,796,500
Liabilities	(5,239,875)	(1,071,961)
Net Fair Value	**(3,599,115)**	**15,724,539**

18. DERIVATIVES (CONTINUED)

Interest Rates Used for Determining Fair Value

The Group uses the government yield curve as of 31 July 2018, plus an appropriate credit spread to discount financial instruments. The interest rates for determining fair values are as described in note 16.

Policy

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

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

Hedge Accounting

All derivatives are classified as cash flow hedges.

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

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

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

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

Offsetting of Financial Assets and Liabilities

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

GROUP	Financial Assets/ (Liabilities) Presented	Amounts Not Offset	Net
2018			
Derivative Financial Assets	1,640,760	(1,640,760)	-
Derivative Financial Liabilities	(6,185,267)	1,640,760	(4,544,507)
	(4,544,507)	**-**	**(4,544,507)**
2017			
Derivative Financial Assets	16,796,500	(2,247,256)	14,549,244
Derivative Financial Liabilities	(2,247,256)	2,247,256	-
	14,549,244	**-**	**14,549,244**

19. FINANCIAL RISK MANAGEMENT

Capital Management

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

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

The Board primarily monitors capital on the basis of the gearing ratio. For the period ending 31 July 2018 the gearing ratio was 37% (2017: 35%). This ratio is calculated as net interest bearing debt divided by total capital. Net interest bearing debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as members funds plus net interest bearing debt. Tatua is a co-operative company, and as such, members funds change in proportion to milk supplied. Refer to Note 15. The Group is required to meet certain ratios under its bank covenants, which have been met, including a requirement that Group members funds be not less than $70,000,000 (2017:$70,000,000), but otherwise the Group is not subject to any externally imposed capital requirements.

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

Quantitative Disclosures

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

(a) Credit Risk

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

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

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

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

	GROUP	
	Carrying Amount 2018 ($)	Carrying Amount 2017 ($)
Australasia (NZ and AUS)	7,879,660	8,689,016
Asia/ Pacific	28,979,514	22,095,727
Americas/Europe	8,591,149	9,667,201
Other	-	124,314
	45,450,323	**40,576,258**

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

	Gross Receivable 2018 ($)	Impairment 2018 ($)	Gross Receivable 2017 ($)	Impairment 2017 ($)
Not Past Due	42,722,118	-	37,291,817	-
Past Due 0-30 days	1,828,371	-	3,128,120	-
Past Due 31-120 days	899,834	-	156,321	-
	45,450,323	**-**	**40,576,258**	**-**

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk

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

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

GROUP	2018 Balance Sheet ($)	Contractual Cash Flows ($)	Less than 6 Months ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Loans and Borrowings (note 16)	79,326,909	79,326,909	-	56,176,909	20,000,000	3,150,000
Accounts Payable and Accruals (note 17)	24,540,780	24,540,780	24,540,780	-	-	-
Owing to Suppliers	22,559,535	22,559,535	22,559,535	-	-	-
Co-operative Shares	72,603,030	72,603,030	-	72,603,030	-	-
Total Non-derivative Liabilities	**199,030,254**	**199,030,254**	**47,100,315**	**128,779,939**	**20,000,000**	**3,150,000**

GROUP	2017 Balance Sheet ($)	Contractual Cash Flows ($)	Less than 6 Months ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Loans and Borrowings (note 16)	76,030,200	76,030,200	-	10,030,200	31,000,000	35,000,000
Accounts Payable and Accruals (note 17)	23,970,221	23,970,221	23,970,221	-	-	-
Owing to Suppliers	19,404,831	19,404,831	19,404,831	-	-	-
Co-operative Shares	72,583,474	72,583,474	-	72,583,474	-	-
Total Non-derivative Liabilities	**191,988,726**	**191,988,726**	**43,375,052**	**82,613,674**	**31,000,000**	**35,000,000**

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Foreign Currency Exchange Risk

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

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

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

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

2018	USD ($)	AUD ($)	JPY (¥ - 000's)
Net Cash Flow Exposure Before Hedging	101,730,258	20,504,000	5,105,625
less Foreign Exchange Contracts and Options (next 12 months)	(88,000,000)	(12,000,000)	(3,400,000)
Net Unhedged Exposure	**13,730,258**	**8,504,000**	**1,705,625**

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

(d) Interest Rate Risk – Repricing Analysis

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

Variable Rate Instruments (also refer to note 16)

2018	Total ($)	6 Months or Less ($)	6-12 Months ($)	1-2 Years ($)	More Than 2 Years ($)
Cash and Cash Equivalents	9,302,159	9,302,159	-	-	-
NZD Bank Loans	(58,150,000)	-	(35,000,000)	(20,000,000)	(3,150,000)
USD Bank Loans	(7,322,789)	-	(7,322,789)	-	-
JPY Bank Loans	(13,854,120)	-	(13,854,120)	-	-
Total	**(70,024,750)**	**9,302,159**	**(56,176,909)**	**(20,000,000)**	**(3,150,000)**

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Sensitivity Analysis

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

Interest Rates:

At 31 July it is estimated that a general increase of one percentage point in NZ interest rates would decrease Group profit before income tax by approximately $425,993 (2017: $503,000). Interest rate swaps have been included in this calculation.

Foreign Exchange Rates:

The Group has a foreign exchange policy to mitigate the risk associated with the fluctuations in the value of the New Zealand dollar. At 31 July, it is estimated that a general increase of one cent in the Group's most significant foreign exchange exposure (NZD/USD), would decrease the Group's profit by $1,802,026 (2017: $2,273,000). Foreign exchange hedging has been included in this calculation.

20. LEASES

Operating Leases

Leases As Lessor

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

	GROUP	
	2018 ($)	2017 ($)
Less Than 1 Year	-	-
1 - 5 Years	(108,000)	(108,000)
More Than 5 Years	-	-
	(108,000)	**(108,000)**

During the year ended 31 July 2018, $127,338 was recognised as rental income in the income statement (2017: $135,781).
Repairs and maintenance expenses, recognised in the cost of sales, was as follows:

	GROUP	
	Year Ended 31 July 2018 ($)	Year Ended 31 July 2017 ($)
Income Generating Property	2,270	7,407

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP	
	31 July 2018 ($)	31 July 2017 ($)
Profit/(Loss) For The Year	5,381,088	5,562,029
Adjustments for Non Cash Items:		
Depreciation	12,401,483	11,230,708
Amortisation of Intangible Assets	876,349	261,405
Movement in Deferred Tax	(5,623,311)	4,045,774
Movement in Investment Property	-	41,973
Movement in Livestock Valuation	-	14,012
	13,035,610	21,155,901
Movements in Working Capital:		
Trade and Other Receivables	(4,955,561)	(6,293,945)
Derivatives - Assets	15,155,740	(7,520,091)
Derivatives - Liabilities	3,938,011	(5,263,280)
Inventories	(5,029,635)	(38,070)
Biological Assets	(300,156)	747,375
Owing to Suppliers	3,154,704	1,232,159
Trade and Other Payables	1,305,995	4,146,454
	13,269,098	(12,989,398)
Items Classified as Investing/Financing Activities	(9,625,105)	6,018,149
Net Cash Flows From/(Applied to) Operating Activities	**16,679,603**	**14,184,652**

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

22. RELATED PARTY TRANSACTIONS

Directors and Shareholders

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

Key Management Personnel

	GROUP	
Key Management Personnel Compensation	Year Ended 31 July 2018 ($)	Year Ended 31 July 2017 ($)
Short Term Employee Benefits	1,838,776	1,875,507
Long Term Employee Benefits	-	-

Transactions and Balances with Key Management Personnel

Key management personnel may conduct business with the Group.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows: Nil (2017: Nil).

Transactions and Balances with Other Related Parties

Elected Directors conduct business with the Group in the normal course of their business activities.

The Group has paid directors fees of $469,905 (2017: $473,000), which is separately disclosed within the directors report. The following entities are considered related parties because they have common directors:

- Tax Management NZ Ltd (Peter Schuyt) - During the year the group utilised the services of Tax Management Limited to make tax payments through to the IRD in the ordinary course of business.
- Foodstuffs North Island Ltd (Peter Schuyt) - Sales during the year (GST exclusive) $2,658,405 (2017: $1,532,077), Receivable at year end (GST exclusive) $270,276 (2017: $252,107).
- RML Engineering Ltd (Ross Townshend) - Amounts paid during the year (GST inclusive) $32,827 (2017: $13,388), Payable at year end (GST inclusive) $446 (2017: $25,058).

22. RELATED PARTY TRANSACTIONS (CONTINUED)

Directors Farm Supply (included in Owing to Suppliers)

	Value of Transactions 17/18 ($)	Balance Outstanding 31 July 2018 ($)	Value of Transactions 16/17 ($)	Balance Outstanding 31 July 2017 ($)
Directors' Farm Supply (including Owing to Suppliers)	8,477,067	1,463,386	6,908,412	1,071,293

23. GROUP ENTITIES

	Country Of Incorporation	Ownership Interest	
Subsidiaries		2018	2017
Tatua Japan Limited	Japan	100%	100%
Tatua USA Limited	USA	100%	100%
Tatua Dairy Products (Shanghai) Co., Limited	China	100%	100%
Equity Accounted Investee			
Milktest New Zealand Limited	New Zealand	10%	10%

Policy

(a) Basis of Consolidation

Subsidiaries

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

Equity Accounted Investees (Joint Ventures)

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

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

Transactions Eliminated on Consolidation

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

(b) Foreign Currency

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

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

24. SUBSEQUENT EVENTS

There were no material events subsequent to 31 July 2018 that would impact these financial statements.

KPMG

Independent Auditor's Report

To the shareholders of The Tatua Co-operative Dairy Company Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of The Tatua Co-operative Dairy Company Limited (the Company) and its subsidiaries (the Group) on pages 22 to 47:

i. present fairly in all material respects the Group's financial position as at 31 July 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

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

Basis for opinion

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

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

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

Our firm has also provided other services to the Group in relation to tax advice and a share registry audit. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Other information

The Director's, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes the Report from the Chairman & Chief Executive Officer, the Key Financial Performance Summary, Statutory Information, Statistics & Progress Table, and Directory. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

The Director's, on behalf of the Company, are responsible for:

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

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

Our objective is:

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

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

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

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

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

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

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

For and on behalf of

KPMG

Hamilton

9 November 2018

STATISTICS

	2017/18	2016/17	2015/16	2014/15	2013/14
Milk Received from Suppliers					
Litres	165,693,452	166,517,809	173,184,398	173,353,171	147,647,758
Milksolids	14,686,362	14,968,366	15,568,586	15,663,949	13,223,427
Income Equivalent Payout (cents/kgms)					
Made up of:					
Cash Payout	810.0	710.0	630.0	710.0	900.0
Total Income Equivalent Payout	**810.0**	**710.0**	**630.0**	**710.0**	**900.0**

Summary of Milk Payment Rates		2017/18 Cents/kg Fat	2017/18 Cents/kg Protein	2016/17 Cents/kg Fat	2016/17 Cents/kg Protein
Advance Rate	20 July	347.0	518.0	252.0	600.0
Retrospective Increase	20 December	21.0	31.0	27.0	64.0
Retrospective Increase	20 March	34.0	50.0	19.0	46.0
Retrospective Increase	20 April	33.0	50.0	16.0	38.0
Retrospective Increase	20 May	33.0	49.0	16.0	38.0
Retrospective Increase	20 June	33.0	50.0	22.0	53.0
Retrospective Increase	20 July	49.0	74.0	22.0	52.0
Retrospective Increase	20 August	50.0	74.0	22.0	52.0
Retrospective Increase	20 September	33.0	49.0	22.0	53.0
Final Payment	20 October	33.0032	49.0347	25.2675	59.3988
Total Payout Averaged Over All Grades		**666.003**	**994.035**	**443.268**	**1,055.399**

PROGRESS TABLE

Year	No. of Suppliers	Milksolids From own Supply (Kg)	Payout Cents/kgms (Income Equivalent)	Total Shareholders Funds $	Commodity Products (tonnes) Proteins	Powders	Cheese	AMF
2017/18	110	14,686,362	810.0	120,642,673	8,590			8,833
2016/17	113	14,968,366	710.0	126,493,623	9,018			10,735
2015/16	113	15,568,586	630.0	116,869,514	9,645			10,194
2014/15	118	15,663,949	710.0	100,371,192	9,654			9,791
2013/14	109	13,223,427	900.0	106,167,944	7,408			9,535
2012/13	108	12,523,609	740.0	87,044,650	7,168			8,069
2011/12	109	13,186,565	750.0	76,825,363	8,037			9,469
2010/11	111	12,041,622	810.0	75,438,331	6,715			7,288
2005/06	121	12,237,952	459.1	50,988,615	6,718			8,364
2000/01	136	8,908,866	552.3	25,376,429	8,000			
1995/96	146	7,989,118	418.7	15,082,806	7,863			
1990/91	130	6,382,505	261.7	11,604,650	2,705			
1985/86	104	5,013,554	241.4	5,611,760	1,753			
1980/81	87	3,618,763	155.2	1,738,208	971	761		
1975/76	74	2,938,277	81.3	752,270	1,144	1,275		
1970/71	70	2,182,343	48.9	275,015	1,005	609		
1965/66	70	1,926,323	47.0	232,534	926			
1960/61	62	1,314,518	40.6	157,920	474			
1955/56	56	1,038,843	42.5	111,051	347			
1950/51	49	916,178	36.1	84,624	318			
1945/46	43	613,418	24.2	40,832		885		
1940/41	45	752,929	19.4	37,342		1,112		
1935/36	46	763,155	14.3	32,113			1,110	
1930/31	49	697,178	12.4	29,788			1,024	
1925/26	51	324,125	20.3	23,213			846	

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

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Chairman	**SB Allen**, B.Com., Dip.P.E.
Directors	**SB Allen**, B.Com., Dip.P.E. **LE Cullen**, B.Sc.(Hons), Ph.D (Lincoln), Dip. Man. **MBN Dewdney**, B.M.S. **DP Muggeridge** **KM Old**, B.M.S., M.B.A., Ph.D (Waikato). **PM Schuyt**, B.Com., C.F. Inst.D. **RE Townshend**, B.Tech., AMP (Harvard). **BR Wilton**, B.Agr.Sc.
Chief Executive Officer	**BA Greaney**, B.M.S.
General Manager Marketing and Sales	**SJ Rolfe**, B.M.S, MBA (Insead).
General Manager Operations	**TA Keir**, B.Tech, M.DairyScTech (Massey).
General Manager Finance and Administration	**CJ Foster**, B.M.S., C.A., Grad.Dip. Treas. & Fin. Mgmt.
(as of 1 August 2018)	**ML Bull**, B.M.S, C.A.
General Manager Co-operative Affairs	**PJ van Boheemen**, B.Sc., PG. Dip. Bus Admin.
General Manager Strategic Projects	**TA Winter**, B.Sc.(Tech), AMP (Insead).
Human Resources Manager	**PA Pilkington**, B.Soc.Sc.
Auditor	KPMG (Hamilton)
Solicitor	Harkness Henry & Co
Banker	Bank of New Zealand Ltd
Insurance Broker	Willis Towers Watson Ltd

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