Westland Milk Products
Hokitika · New Zealand

Annual Report 2017

One generation supporting the next.

Sustainable Success

Here's what we've been doing to help deliver a sustainable future.

Westland Milk Products
Hokitika · New Zealand

Contents

"We have a new way of working at Board and management levels, and this has permeated through the staff. I am seeing and hearing a new confidence and culture emerging."

Chairman
Pete Morrison

The 2016-17 financial year for Westland Milk Products was characterised by challenge and change, with new leadership at Board and management levels. With Westland finishing the 2015-16 year in the unenviable position of offering its shareholders the lowest payout of any New Zealand dairy company, we began the new financial year under considerable financial pressure. Understandably, our shareholders were demanding answers and calling for both the Board and management to do much better.

The departure of our Chief Executive Rod Quin in July 2016 began a challenging period for the Board as we sought to manage his departure and the recruitment of his replacement, while dealing with the issues of company performance and shareholder pressure for us to deliver a better result. In retrospect, as I have said to shareholders more than once, the Board could have handled this period better.

Within the time that followed, Toni Brendish commenced work as our new Chief Executive Officer, Jeremy Edmonds was engaged as the interim Chief Financial Officer, and I was elected as Chairman.

Toni initiated a review of the company, which has included a change in management process, strongly supported by an introduction of a new structure, new ways of working and the fresh talent she has brought to Westland's Senior Management Team. In particular, she brought a strong focus on managing costs and increasing efficiency.

At the same time, the Board concentrated on reviewing its own performance, finding better ways of working together, initiating a governance review and addressing Board behaviours so that we could more effectively monitor and hold to account not only managerial performance, but also our own.

At the time of writing, the shareholder-initiated governance review process was still underway. It was scheduled for presentation to a special meeting of shareholders in October 2017.

Shareholders at the 2016 Annual General Meeting, and district meetings in March 2017, asked the Board and management team to improve communications with them. It's good to report that recent feedback suggests this has much improved and shareholders are appreciating receiving more comprehensive strategic and tactical information. In turn, the Board has appreciated that shareholders have respected the sensitivity of this information.

As a result of all of this change, Westland's year has ended with a sense of confidence. In partnership with our management team we have taken this co-operative from one that was offering unsustainably low returns, to a position where our prediction for the 2017-18 season is industry competitive, setting Westland and its shareholders up for a more secure future.

That said, our final 2016–17 Net Average Cash Payout of $5.18 was not the result our shareholders needed, though it will not have come as a surprise. At our Annual General Meeting in November 2016, both Board and management warned shareholders that it would not be possible to "close the gap" between Westland's performance and that of other New Zealand dairy companies in the 2016-17 year. Shareholders will be watching our performance carefully to ensure we can deliver on our 2017-18 predictions and then maintain that competitive position into future seasons.

Parent revenue in the 2016-17 year, despite reduced supply, increased by 8.6%, off improving commodity prices. Performance of the Nutritionals and UHT categories was not where we wanted it to be, however important work was done to lay the foundation for increased volume, pricing and positive contribution to payout in 2017-18.

Chairman
Pete Morrison

The parent company results also show an improved cost position, with cost of sales (excluding inventory revaluation) decreasing by 4.2%, and overheads (excluding depreciation) flat. Underlying overhead expenses reduced by 2%, with savings more than covering the short term investment in consulting and other costs to support initiatives to "close the gap".

Our EasiYo business delivered a net loss of $5.3m, an extremely disappointing result. This was partially due to the impact of Brexit, which reduced margins in the UK market, and quality issues in other markets. Under Toni's management, EasiYo management were tasked with restructuring the business to reduce cost and realise efficiencies intended to return the business to profitability.

As part of the process to finalise the financial statements for the 2016-17 season, two adjustments were made to prior year results. The net effect of the changes to 2015-16 Group opening retained earnings, and to 2015-16 deferred tax, was an increase of $1.5m to previously reported Group retained earnings, with no impact to operating results, cashflow or payout. Full details are provided in note 27 to the accounts.

In addition to these adjustments, the company's underlying balance sheet strengthened during 2016-17.
Capital investment was carefully controlled; in conjunction with other cash management initiatives.
This allowed full repayment of all short term debt and an improvement in the debt/equity ratio.

We have a new way of working at Board and management levels, and this has permeated through the staff, where I am seeing and hearing a new confidence and culture emerging.
This is something that I believe will be reflected within our shareholder community as we restore and grow pride in our company and utilise its heritage as an asset. Establishing our point of difference and securing our place in a growing and increasingly diverse international market is vital.
Our goals have been defined by our new strategic approach "to offer differentiated products that leverage our heritage and location". We've also welcomed Westland's new purpose: "Nourishment made beautifully for generations".

This link to our heritage, location and point of difference is exemplified in our shareholders' performance since our Farm Excellence (FarmEx) standards were introduced in the 2014-15 season.
As detailed elsewhere in this annual report, our shareholders have gone the extra mile. Not only have we been able to celebrate our contribution to desired water quality standards in Lake Brunner being achieved five years earlier than predicted, but we have also seen shareholders' compliance with effluent and irrigation standards lift from 56% to 84%, land and nutrient management compliance increase to 77% from 58%, and 73% of shareholders now meeting stock exclusion requirements, with compliance still improving.

The value of this work to our company cannot be overestimated.
Environmental compliance and sustainability is not a temporary issue that gained some prominence during this 2017 election year. It is an issue that will be with us long after the election is over because it relates to our very licence to continue farming and pass our businesses and our land on to future generations. It also helps establish our point of difference for customers who are increasingly demanding an environmental bottom line in their audit of our performance.

We have worked very hard to build a great future for Westland – its shareholders, staff and the communities in which we live, work and play. We want a future in which we'll be proud to say we work in dairy, proud to make beautiful, nourishing products, and proud to be part of a dynamic company that will continue to make a vital contribution to our economy, our communities and our people.

Acknowledgements
It is important that I acknowledge the work of my predecessor, former Chairman Matt O'Regan. Few people have worked as hard or as long for this co-operative as Matt and I thank him for his huge commitment and wish him well. Director Barry Paterson also stepped down in this period and his service to this company was substantial and is appreciated. To Bede O'Connor, whose term ended during this period, thanks for all of your hard work.
To my fellow directors, thank you for your support. As a new Chairman I have appreciated your encouragement, your willingness to share your experience with me, and your continued commitment to the wellbeing of this co-operative.

To all shareholders, thank you for giving this newly led and reconstructed Board the time it needed to play its role in turning the company around.

Toni, Jeremy and the Senior Management Team, thank you for your leadership.

To all Westland staff; I know, like our shareholders, you have gone through some tough and anxious times. Your Board appreciates your commitment and willingness to engage with a new way of doing things, especially the way you worked with Powerhouse to produce more than 100 ideas to increase efficiencies and save costs. We could not have done it without you.
Thank you.

Pete Morrison
Chairman

Over 1 million blocks of Westgold butter sold in New Zealand

Twice awarded in 2017 NZ Champions of Cheese Awards

Westgold™

BRONZE MEDAL BUTTER 2017

BRONZE MEDAL BUTTER 2016

CATEGORY CHAMPION 2016

GOLD MEDAL BUTTER 2016

Chief Executive Officer
Toni Brendish

We are bringing about a change of culture in the company.

At the time of preparing this report, it was ten months since I commenced my role as Chief Executive Officer of Westland Milk Products.

It is always a challenge to step into a new leadership role and handle the dual tasks of having to learn all you can about the company and its people, while also dealing with the inevitable demands for immediate action.

However, I have relished the challenge and deeply appreciated the confidence and support that has been shown to me by the Board, shareholders and staff. It has allowed me to get on with the job at hand.

As Chairman Pete Morrison mentions in his report, it has been a period of enormous change for Westland, not without its anxieties and difficulties. However, it is that change, I believe, that has resulted in a company now set up to perform far more efficiently, and with a more sustainable culture, to deliver the results that our shareholders deserve. It was clear from the start that Westland needed to overhaul its structure and business systems.

There was a lot of excellent work going on, but the focus needed a shift to looking at how we ensured the company was operating to be the best it could be to build and sustain a prosperous future.

To that end, we started from the top and the bottom, bringing in changes at senior management level while simultaneously examining every role in Westland to ensure everyone was adding value and working efficiently, and assessing whether the right people were in the right place to deliver on the company's objectives.

There were a number of key areas that needed to be addressed.

Closing the gap
The gap between what other New Zealand dairy companies were paying out to their shareholders in comparison to what Westland was paying was unacceptable to shareholders and unsustainable. For many it was well below break-even point.

"There was a lot of excellent work going on, but the focus needed a shift to looking at how we ensured the company was operating to be the best it could be to build and sustain a prosperous future."

Chief Executive Officer
Toni Brendish

We addressed this in two ways. We looked at our processes with a focus on 'ruthless efficiency' and considered our costs. Ultimately, it was costing our company a lot more to process its 'bucket of milk' than our competitors and this had to change.

We created the Powerhouse Project and gave the team a target of achieving a $78-million saving (equivalent to $1.20 per kilo of milk solids) through increased efficiencies, reduced costs and margin improvements across key areas of our operation.

Through the Powerhouse Project, with the assistance of PwC, every aspect of the Westland Group's business, including subsidiaries, was examined. More than 170 initiatives were identified, resulting in savings ranging from a few thousand to many millions of dollars. Of particular note is the work the team has done on product rationalisation; nutritional and UHT pricing reviews, an overhaul of planning processes; and in procurement, where transparent reviews of all major spend categories have been carried out. In parallel, the EasiYo team has followed a similar process to identify and implement cost saving and margin enhancement initiatives. These savings enabled us to recommend to the Board that Westland could support an industry-competitive payout prediction for the 2017-18 season.

Strategy
Our cost-saving achievements cannot be one-offs if we want to create a sustainable and positive future for Westland and its shareholders.

The efficiencies and savings have to be embedded as part of the way we work; this has included a review of our strategy to ensure it was fit for purpose for the dairy market and, more specifically, the future of Westland. In considering Westland's strategy, the state of the market had to be taken into consideration.

Key elements of this were:

- Increasing excess of global nutritional plant capacity
- Increasing commoditisation of generic cow-sourced nutritional base powder
- Significant competition as the market attempts to sell excess capacity
- Cows' milk under threat from alternative milks.

With these factors in mind we have built a strategy based upon:

- Leveraging our heritage and authenticity
- Taking advantage of our location
- Establishing our points of difference
- Building our capacity for flexibility and segregation.

As Pete has referred, our new strategy is: ***"To offer differentiated products that leverage our heritage and location"***.

Segregation allows Westland to develop more than one type of milk and gives us the option of producing specialty products where there is higher value and an available market niche, and where additional costs are outweighed by the superior premiums these niche products can command.

We've supported this with the development of a new purpose to define and unite Westland: ***"Nourishment made beautifully for generations"***. This purpose links us to our place, our land, the environment in which we produce milk, and our people. It reaches out to our community, our way of life, customers and consumers through all generations.

Pure Nutrition
I'm pleased to report that progress on the establishment of our Pure Nutrition plant at Rolleston – a joint venture with Ausnutria – is on track and, at time of writing, was scheduled to start commissioning trials. We are putting more energy into developing these types of strategic relationships with key customers, where we can take advantage of shared intellectual property to develop new and/or differentiated products, and then utilise the customer's established connections and distribution systems within the market.

People and capacity
Alongside our cost and efficiency efforts, we had to look at our people and the capacity of the company to do the work that was needed. I have emphasised to media and will do so again here – this was not simply a cost-cutting exercise. It was about making sure we had the right roles, and the right people in those roles, across the company. While some jobs were lost, others were created to ensure we had the people and capacity in the places required for the company to deliver for its shareholders.

The focus on staff also included growing a culture of 'right first time' and taking waste and losses out of the system by ensuring that processes were clear and efficient, and products were being made exactly to the required specifications the first and every time.

Health and safety
The focus on the intergenerational values of Westland is also reflected in our increased efforts in the area of health and safety. 'Home safe every day' is not just a slogan. We have been working hard in this last year to make it a reality and I am pleased to report that our safety statistics are improving.

Specifically, the Westland team is to be applauded for the excellent work they did on addressing a number of critical risks in our business. This too, is an investment in Westland's business continuity and reduces the risk of costs, as well as being the responsible and 'human' thing to do. In this coming season, we will be looking at how to support initiatives to take that focus on 'home safe every day' out of the factory and on to our shareholders' farms.

Closing the gap for FY18
Target savings by function

Cents/kgMS savings figures assumes an annual milk solids production of 65m kg. Target savings figures subject to risk weighting.

Westland CEO Toni Brendish with Wei Bin Yan, Chairman Ausnutria Dairy Corporation Ltd

Chief Executive Officer
Toni Brendish

The agricultural industry's record for health and safety in New Zealand is not at a level of which we can be proud, and it is in the interests of everyone to see this improve on our farms.

Farming excellence
Pete has noted that our shareholders, through our Farm Excellence (FarmEx) programme, have stepped up to the requirements of the Water Accord (of which Westland Milk Products is a 'friend') and recorded other substantial improvements in FarmEx standards. This achievement is strategically important to Westland in establishing its point of difference with our existing and potential customers.

The West Coast, where most of our shareholders farm, is a location that can be seen as creating barriers to efficiency and cost-competitive production. That very long and narrow stretch of coast from Karamea to South Westland creates collection challenges with its long distances between farms and from farm to factory; then there is the issue of transporting our products back and forth across the Main Divide, given that the vast majority of our products get to our customers from the Port of Lyttelton. And, of course, as all of our West Coast shareholders know, there is the ever-present challenge of rainfall that is measured in metres, not centimetres.

However, the area's isolation, natural beauty and generally high state of environmental standards, and even its rainfall, are also assets we can use to help Westland command a premium for its products and differentiate itself in the market.

Our rainfall means few of our shareholders need to irrigate to the same extent as their eastern colleagues, and that reduces the pressure for intensification – more than 90 percent of Westland's rivers already meet the Government's standards for 'swimmability'. There is also no question that our hectares of lush green pastures, backed by a vista of native forest and snow-capped peaks, all isolated from the industrial world, are genuine assets when it comes to marketing and branding our products.

However, these assets cannot be taken for granted. Westland's FarmEx standards incorporate not only environmental requirements but also standards around employment conditions, financial reporting, quality and safety, traceability and even farm appearance.

During the last season, we experienced first-hand how important these standards are to our customers. A Nestlé audit across a randomly selected number of farms, while 'passing inspection' showed we cannot rely solely on the benefits of where we farm. We have to 'walk the talk' and deliver on FarmEx to maintain our point of difference and ensure that our customers' increasingly stringent measurements, across a broad spectrum of requirements, are at least met, if not exceeded.

The future
So, indeed, 2016-17 has been a season of change for Westland, but this company and its shareholders are in a stronger position to secure a vibrant and sustainable future.

We have increased our efficiency and cut costs; we have made sure the right roles are in the positions the company needs to flourish and ensured the right people are in those roles; we are bringing about a change of culture in the company so we get it right first time and have encouraged our staff to continually present ideas that will help lift our performance even further; we have seen our shareholders stepping up to the plate on the Farming Excellence requirements; and we now have our new purpose and strategy in place.

Acknowledgements
At my first meetings with shareholders I asked for the time and space to work out what needed to be done and get on with it. They understood the request and obliged. I am grateful for their support through this initial period of change.

Many thanks to Pete Morrison, our Chairman, and the Board for your support, and to my senior managers and, indeed, all Westland staff for embracing this change with openness and determination.

We are promising a lot to our shareholders and together, I sincerely believe we can achieve our goals.

T. Brendish.

Toni Brendish
Chief Executive Officer

Customer
Ausnutria Dairy Corporation Ltd

As Westland grows its relationship with Ausnutria we will innovate and develop new products together.

Facts and figures for Ausnutria

- Founded in 2003
- Listed on Hong Kong Stock Exchange 2009
- Manufacturing sites in China, the Netherlands, New Zealand and Australia
- Key brands: Allnutria, Puredo, Kabrita, Hyproca, Neolac, Mygood
- Ausnutria Revenue – ¥2 billion in 2016
- Volume: more than 10,000mt of branded ITN products

Left: The Pure Nutrition plant at Rolleston
Right: Pure Nutrition products

Strategic Partnerships for Mutual Benefit

Westland's future sales strategy will be built on strategic partnerships – strong relationships where, as partners, our businesses' future successes are intertwined. One example of a strategic partnership Westland has been fostering for more than four years is the relationship we have with Ausnutria. Our engagement started in the early days of infant and toddler nutrition production at Westland in 2012, with Ausnutria becoming a foundation customer. Since then the relationship has strengthened; volumes sold to Ausnutria have climbed to more than 4,500mt.

In 2016, discussions began on forming an alliance to build Westland's capability and capacity to supply finished infant nutrition product to Ausnutria. Part of Ausnutria's strategy has been to increase their overseas investments. They have been proactive in collaborating with supplying companies in the Netherlands, Australia and New Zealand.

With infant nutrition products packed outside of China still commanding a significant premium, and new regulations restricting the number of brands any one processor can manufacture, the supply chain has never been more important for Chinese brand owners. Westland's unique source story and security of supply, coupled with Ausnutria's brand strength and distribution channels in China, led the Westland and Ausnutria Boards to agree to form joint venture company Pure Nutrition Limited to meet this demand. Westland's investment in Pure Nutrition was in the form of land at the Rolleston site. Ausnutria is funding the venture through a cash investment plus a loan to the joint venture to build the blending and canning facility.

Construction began late in 2016 and is scheduled to be commissioned toward the end of 2017.

The strategic partnership locks in Westland as a supplier of nutritional ingredient powders to Ausnutria China, and also creates a new customer, Pure Nutrition, where the volume of ingredient powder sales is additional to that sold directly to Ausnutria, and will increase as the partnership itself grows. As Westland grows its relationship with Ausnutria we will innovate and develop new products together. In this way we build our sales volumes, extend our reach and expertise into finished formulations and products, gain deeper insight and understanding of the end consumers, and, ultimately, build value for shareholders.

Strategic partnerships are all about working closely with customers to build mutual value through insight, expertise and trust – together we become stronger than the sum of our parts.

Products
Categories & Products

New Season Forecasts

- Our forecast sales for customer-branded cream are firming up as we make progress on finalising a supply contract with a key distributor in China
- Interest in producing customer-branded whipping cream is also significant, from within New Zealand as well as Australia and China
- Early in the 2017-18 season, the development of a third generation of UHT Westgold cream will start with the aim of ensuring the product continues to meet evolving needs in the market, while continuing to leverage Westgold cream's favourable attributes of flavour and whip yield
- 2017 will also see more UHT milk being processed by the Rolleston plant for customer-branded products

Westgold continues to develop globally as Westland's flagship consumer and foodservice brand with sustained growth in both markets and formats.

Westgold
In 2016, Westgold launched in China under the Westgold Mu En brand (pronounced 'moo ern'). Mu En literally translates as 'nourishment from the pasture.' Westgold Mu En delivers a wide range of authentic New Zealand dairy products to Chinese consumers, currently comprising of UHT whipping cream and butter offerings. We plan to expand this range with new products that will meet the needs of consumers. Continuing the trend observed in second half 2016-17, UHT whipping cream production will see a net increase in the 2017-18 year, with Westgold UHT whipping cream leading the volume growth. The driver of this predicted increase comes predominately from China, where demand continues to be strong, arising from the increasing trend toward consumption of western food, specifically in the bakery sector.

The demand for Westgold UHT whipping cream is not limited to China, however. New customers are now able to taste our products on other shores and we anticipate being able to fully report on these negotiations early in the new season. Westgold's expert butter makers use the time-honoured Fritz method to churn fresh cream into delicious, golden butter.

Butter continues to grow on the world stage as consumers increasingly perceive natural foods as healthier and more desirable. Westgold's focus is to grow consumer butter volumes, while developing foodservice offerings for hotels, restaurants and cafes.

The 2017-18 season will see Westland's first commercial manufacture and export of a functional milk developed in partnership with a key New Zealand producer. This will be paving the way to a range of single-serve UHT milk beverages aiming to deliver nutrition and taste to targeted consumer groups.

Highlights and Awards
Since being stocked in New Zealand's Countdown supermarkets in June 2016, Westgold butter has gone from strength to strength; surpassing one million blocks sold in what is a highly commoditised local market.
Today, Westgold butter is available in supermarkets nationwide and continues to grow a loyal following amongst consumers, with excellent market share growth. Following on from the Gold Medal and Category Champion Awards in 2016 (unsalted), Westgold butter again took home medals for both salted and unsalted varieties at the esteemed NZ Champions of Cheese Awards 2017.

This is a huge honour for Westgold, particularly in light of the extensive experience of the international and local judges on the panel, and demonstrates the commitment and care taken from our farms, through the supply chain, to the consumer.

Westland Milk Products was named as a finalist in the Best Use of Design category in the prestigious New Zealand International Business Awards 2016. Entrants had to have achieved success by integrating design into their business model, with a high degree of design competency across their products, services, environment and culture. Westland's entry focused on the design of both the company brand and Westgold, and how these were developed with an international audience in mind.

Redefining
Westland's Purpose

n . m . b . f . g

Nourishment	made beautifully for	generations
of people	our place	past
of land	our care	current
of environment	our ethics	future
of community	our trust	of shareholders
of our way of life	our authenticity	of employees
of customers	our capability	of customers
of consumers	our innovation	of consumers
	our flexibility	of families
	our systems	of partners
	our customer focus	
	our quality	
	our safety	

In a global dairy market where Westland must meet the challenges of an excess of nutritional plant capacity, the commoditisation of 'standard' nutritional base powder, and increasing competition, the ability of a company to establish its point of difference becomes paramount.

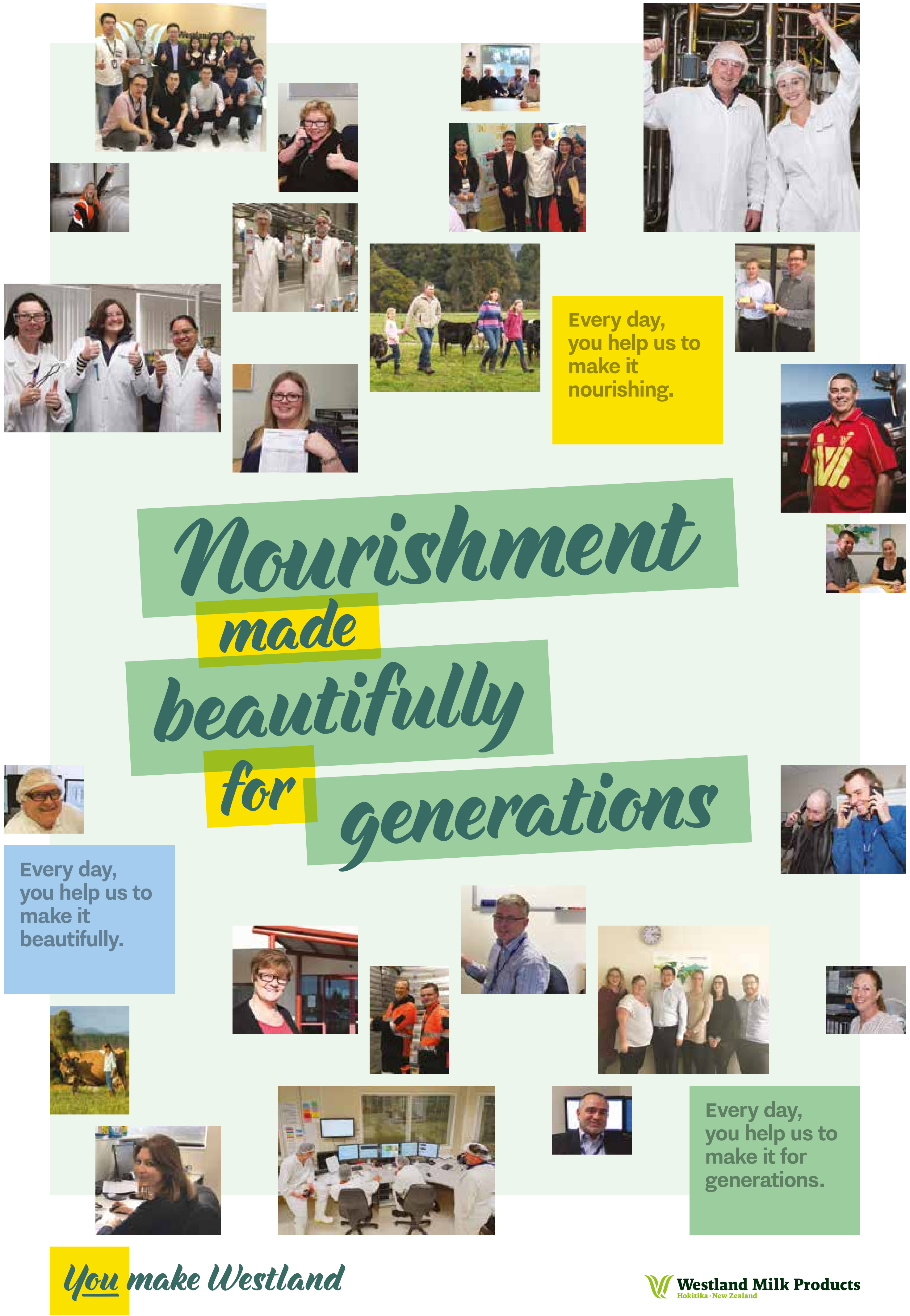
Westland recognised that its best opportunities to grow and return greater value to shareholders lay in being differentiated in the eyes of target customers and consumers. This was the pathway to being sustainably profitable into the future. To that end, Westland redefined its strategy as: "To offer differentiated products that leverage our heritage and location."

The foundation of a differentiation strategy is the 'purpose' of the company, a simple statement of intent that everyone can relate to, both internally and externally. A diverse group of individuals from throughout the business was selected to lead the development of Westland's purpose, as well as the strategy to move us towards this purpose.

'Nourishment made beautifully for generations' brings out the best of who we are and what we do. It is future focused and enables us to align ourselves around a simple, memorable and motivating statement; one that will help everyone in the organisation – from farmers to tanker drivers, operators to accountants – to see how their work contributes.

Our purpose is supported by four strategic pillars: Who are we? What makes us special? Who cares? And Who can help? Within each strategic pillar are numerous projects that will be prioritised in 2017-18 to truly differentiate Westland so that we stand out from the crowd and drive future value.

Our new purpose will be rolled out throughout the organisation in 2017-18. We will bring it to life in our customer communications.



Shareholder
Hayden Kendrick

The past three years have been some of the toughest we've had.

What attracted farmer Hayden Kendrick to the dairy industry were the endless opportunities and the many pathways down which a career as a dairy farmer can venture.

His career wasn't prompted by heritage or a family connection, but rather a love for the outdoors and the unique West Coast location. "I left school at 16 because I liked working outside and that just made me always want to be a farmer," he said.

Hayden was raised in Greymouth, in a town environment, and had no farming background, so when he was looking for experience, it was the Robb family with its four farms, that provided the opportunity for him to learn the ropes. Over six years working with the Robbs, he progressed through the ranks from farm hand to shed manager and, later, to contract milking.

He supplemented the hands-on experience with a national certificate in agriculture at what was then the Open Polytechnic based in Wellington through AG ITO and completed a couple of herd manager's courses.

"Ultimately, though, the best way for me to learn was to get my first calves and learn from having that responsibility," Hayden said.

It was after two years of working on the Robb family farms that Hayden began purchasing his first mobs of Jersey calves from Buller, Hamilton and Taupo to graze locally on the West Coast, including on his parents' (Trevor and Barbara Kendrick) new 10-hectare property in the Grey Valley. He then leased them as in-calf heifers to start building a herd. Since that time Hayden has made farming the new Kendrick tradition when his parents and his brother Justin Kendrick, who was a skilled builder by trade, joined forces to create enough equity to buy the original 90 hectares on which to graze and milk 160 cows through a 20-a-side herringbone shed in 2001.

Hayden worked in the farm's cow shed for a couple of years, before purchasing the neighbouring property in 2003, to start a major development project and to expand the farm's size to 188ha, and to slowly build the herd to a size of more than 500 Jersey cows. At this point, his mother Barbara joined the operation to work full-time on the farm too.

In 2007, the whole family became part of everyday farm life, with Justin returning from overseas to work with Hayden and Barbara to build a new automated 50 bale rotary cow shed, a calf-rearing shed, workshop and larger farmhouse to accommodate the growing family.

The same year, Hayden married Claire, who is a registered nurse from Christchurch. Her role on the farm is managing the administration and organising family life, as well as providing valuable feedback and ideas on the day-to-day running of the farm.

"We have all worked very hard, particularly when we were developing the farm and over the duration of the downturn, but we have looked after ourselves and our family's lifestyle too," Hayden said.

The couple has remained on the farm since 2014 as the sole owners, after the Kendricks all had a discussion about what was next and decided to part ways. Hayden's parents retired and his brother moved to Wanaka with his family to pursue a new business opportunity.

"But for Claire and me, it was always about creating a future on the farm." Claire and Hayden have two children – Jake (9) and Violet (7) – who also love the farm environment. "They have their moments when they want to help," Hayden laughed.

Hayden appreciates that the last three years have "been hard", but he has tried to look at his business's average performance over the past 10 years and also gauges success on whether the family are "still enjoying what [they] are doing". "The past three years have been some of the toughest we've had, but I'm looking forward to this season ahead," he added.

Shareholder

Hayden Kendrick

Hayden has been providing milk to Westland since his first days on his farm and is thankful for the $1.50 share price. "If not for that share price, there was no way we could have got into farm ownership when we did."

He also has faith that Westland is "turning itself around" to offer a competitive payout. "At the end of the day, I have always had trust in Westland – if I didn't have trust in them, I wouldn't work with them. Westland is an extension of our farm and I am proud to see how it has developed and created opportunities for the whole of the West Coast region."

The Kendrick's farm along the Ahaura Plains, just north of Ngahere, is described by others as a model-looking farm, with high standards across the board.

It's something Hayden attributes to just being the way his family prefers to operate. "We've always tried to keep the farm tidy and operate a tidy business beyond just tracking and worrying about cash flow," he said.

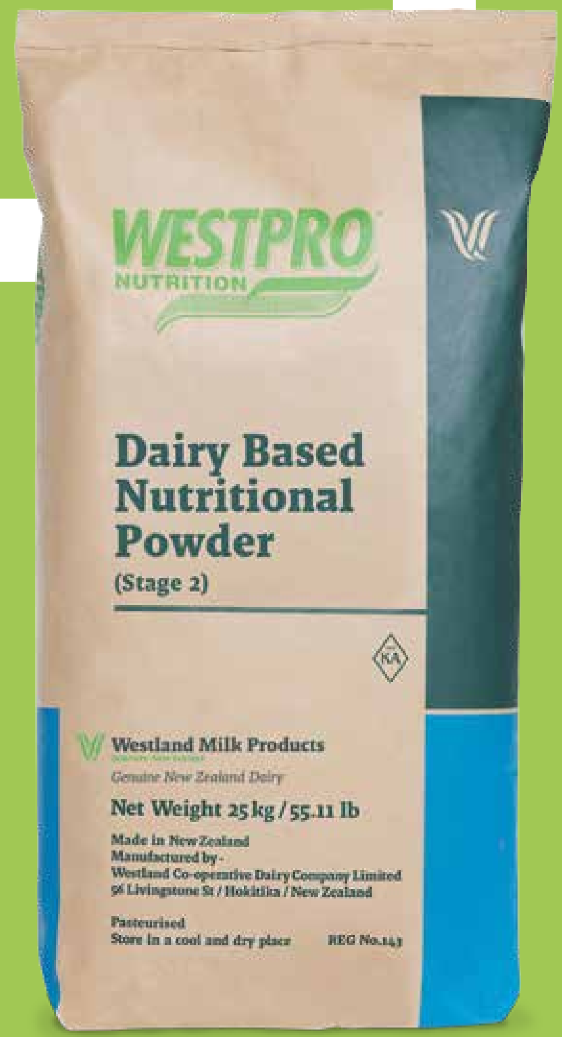
After all, he needs to keep the whole business in order – a learning he has taken from his time as a farm worker and applied to his journey into farm ownership – to create his own West Coast family legacy.

"Westland is an extension of our farm and I am proud to see how it has developed and created opportunities for the whole of the West Coast region."

Produced 120,000 tonnes of product

Including...

3.3million bags of milk powder



2.5 million litres of UHT milk and cream including...

1.8 million litres of UHT whipping cream to the American cruise line industry

300,000 EasiYo yogurt makers and 11 million yogurt sachets sold worldwide

Our Team

Ben Sutton

In 2013 Ben Sutton was looking for a corporate, in-house legal role and found a position at Westland that suited him perfectly, prompting him to move from Wellington to take up residence in Hokitika with his young family.

"I always liked the idea of a co-operative where shareholders own their own company and Westland struck me as a small company that was doing big things," Ben said.

Ben is one of Westland's recent internal promotions, taking up the position of General Counsel in June after four years in the Legal Counsel role. As General Counsel, he is Westland's senior lawyer and head of the legal team. He brought years of legal experience across multiple jurisdictions to the position, including roles as a Senior Solicitor with the Ministry of Health, Assistant Manager with the NZ Defence Force and as a Trading Law Manager with Tesco Stores in the United Kingdom.

When you're with a company every day, you live and breathe it a lot more.

It was the role at Tesco Stores that really piqued his interest for in-house legal roles. "When you're with a company every day, you live and breathe it a lot more," Ben said. "You can get into the heart of the business and be involved with more than just giving advice. I've also always liked the fact that in house you can work with other departments too."

In 2016, Ben was engaged as the Powerhouse Programme Leader, a job that came with the task, assigned by CEO Toni Brendish, to save an initial $12 million through operational efficiencies. He worked alongside a team of managers and senior staff members from across the business. "It was a great opportunity for me to go out and get into the business" Ben said. "I was initially surprised by how complex our site really is and how we manage the whole operation, given the wide range of products we produce."

To succeed with big initiatives such as improving 'right first time', reducing losses and identifying potential roadblocks to achieving goals more efficiently, Powerhouse called for ideas from throughout the company. The project asked for suggestions from everyone at Westland on how jobs could be done more efficiently – the side of Powerhouse of which Ben is most proud. "We were keen to find more ideas," he said. "So we put a call out to the whole business and the response was great; we had more than 100 suggestions, many of which we managed to incorporate into our plan at some level.

As a dedicated project team is now tasked with managing Powerhouse, and is on track to produce nearly $78 million in savings and efficiencies for Westland, Ben looks forward to settling into the role as General Counsel and leading the legal team.

"It's what I've always wanted to do and what you aspire to be as an in-house lawyer," he said. His new role will include involvement at a more strategic level working with the Board and Senior Management Team. "It's an exciting time for the company; we're starting to see the results from Powerhouse and the dramatic effect of more sophisticated processes," Ben said.

"We've turned a corner and hit our stride. I'm not sure what the future will bring, but I know it's bright and that Westland will continue to do innovative things."

Looking forward to another 80 years.

Looking forward **to another 80 years**

Eighty years on, we look back with gratitude to the company's pioneers.

July 2017 marked 80 years of existence for Westland Milk Products after the amalgamation of Westland, Kokatahi and Waitaha Co-operative Dairy companies in 1937.

Starting in with a pioneering, co-operative spirit, under the leadership of founding chairman Mark Wallace, the company's original 60 suppliers milked 3,129 cows by hand and produced 200mt of butter. By the 1955-56 season, butter production had quadrupled thanks, in part, to the introduction of the Benhil semi-automatic butter patter. This machine more than doubled packing speed from 20 boxes to 45 boxes per hour. Initially, Westland Milk Products' product range was almost exclusively butterfat, until 1968, when milk tankers began whole milk collection, replacing the existing system of home separation. Until this time, pigs were fed skim milk discarded from the creamery separators that the farmers used. The skim milk 'waste' also fed calves, cows, chickens and a variety of other farm animals. Westland's powder factory was commissioned on 2 August 1968 with a one ton per hour evaporator and drier and auxiliary equipment.

Today, Westland's products are exported to nearly all corners of the globe as well as sold on the domestic market. In the 2016-17 season, our 429 supplying farms milked 183,000 cows, producing 121,517mt of product in Hokitika and 2.5 million litres from Rolleston's UHT plant. This included one million blocks of Westgold butter sold in New Zealand and 11 million sachets of EasiYo powdered yogurt base (plus 300,000 yogurt makers) sold worldwide.

Eighty years on, we look back with gratitude to the company's pioneers who provided the vision, leadership and persistence needed to ensure our existence today.

Our main focus now, is on improving our systems and processes to ensure that we are still here in another 80 years, providing competitive payouts to new generations of shareholders, maintaining jobs for passionate, talented staff and supporting the West Coast and Canterbury economies.

80 years in the making **Timeline**

1937 – 1990

1937
Westland Co-operative Dairy Company Ltd incorporated under the Companies Act

1949
Westland took over the organisation of the Hokitika town milk supply

1962
'M' type vacreator installed increasing throughput of cream treatment

1967
Amalgamation of Inter Wanganui Dairy Company with Westland Co-operative Dairy Company

1968
Powder factory opened on 2nd August

1975
New cool store built on present butter factory site

1987
Amalgamation of Karamea Co-operative Dairy Company

1991 – 2000

1991
New tanker wash facility installed

1992
New Powder plant commissioned opened by Prime Minister Jim Bolger. Could produce 5.2 tonnes of skim milk powder an hour

1993
Peak milk supply exceeds one million litres for the first time

1994
ISO9002 Quality Assurance Accreditation

1995
Milk Protein Concentrate plant commissioned allowing us to produce high protein skim milk powder with 56% protein content

1996
DAF (Dissolved Air Floatation) commissioned enabling us to treat effluent more effectively

2001 – 2017

2001
Westland shareholders voted to remain independent from Fonterra

2004
Westgold brand launched

2005
Began manufacturing and selling specialist protein products

2009
Rolleston Storage and Sales and Marketing offices opened

2010
EasiYo acquisition completed

2011
Milk collection from Canterbury shareholders begins

2012
Hokitika Infant and Toddler Nutritional (ITN) products plant commissioned

2014
Westland opened overseas office in Shanghai, China, and construction of Dryer 7 (ITN) in Hokitika began

2015
Project 8 (UHT) factory built

2016
Westgold Mu En UHT products launched in China

2017
Milestone of 1 million blocks of butter sold

Our tanker drivers travelled more than 6 million kilometres

Made 98,750 pick-ups from farms in the community (and)

all qualified in National Certificate in Milk Collection – an industry first!

46,000 pallet stacks inspected

5600 containers shipped

Environmental Highlights
Raising the bar at Westland

Since the commencement of the 2014-15 season, Westland Milk Products has been promoting its Farm Excellence Standards (FarmEx) to shareholder farmers as the co-operative's response to the growing need to ensure quality, accountability, transparency and safety are embedded in production from the farm to the retail shelf. The FarmEx standards also support Westland's obligations as a 'friend' of the Water Accord and help Westland comply with a wide range of standards expected of the company by large customers such as Nestle. Our measures show that in the third year of applying the standards, levels of compliance have steadily improved and that this trend is continuing. The following graphs detail some of these achievements.

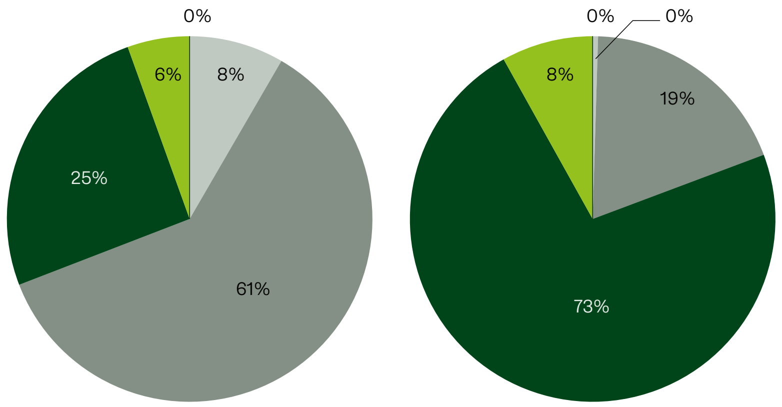
An excellent example of riparian planting in the sensitive Lake Brunner catchment.

- *Immediate Action*
- *Must Improve*
- *Below FarmEx Standard*
- *Meets FarmEx Standard*
- *Role Model*

2014-15 Season | *2016-17 Season*

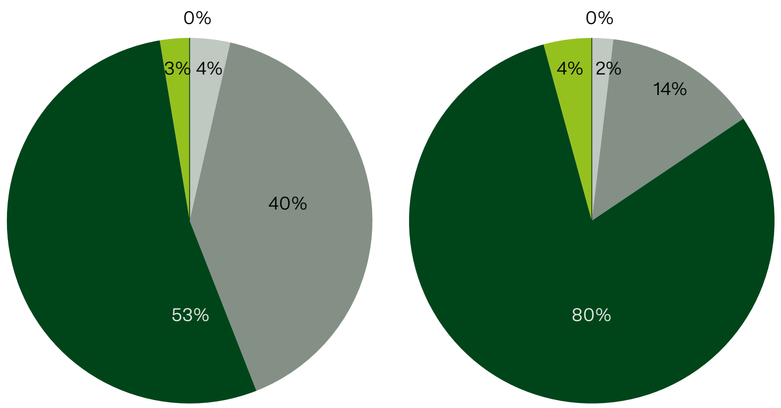
People and risk management

Increase from 31% compliance to 81%
This measure requires: that people on-farm understand and manage systems to make sure farming activities meet required legal and Westland standards of risk management and safety.



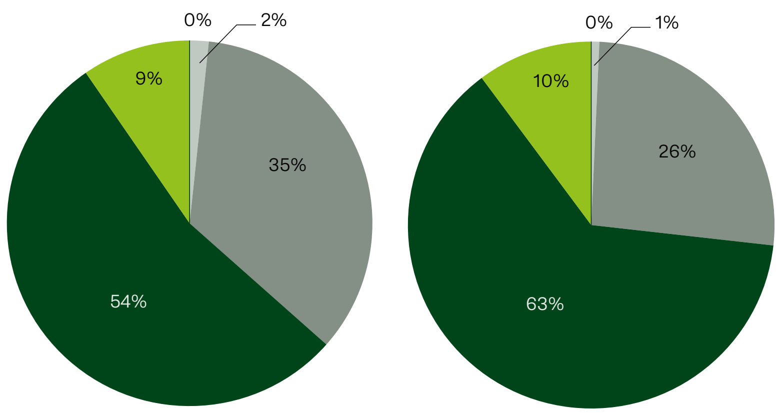
Effluent and irrigation

Increase from 56% compliance to 84%.
This measure requires: that farm dairy effluent systems are compliant 365 days a year; that effluent discharge is correctly managed to avoid contamination of surface and ground water; and that effluent risk areas are identified and managed.



Stock exclusion*

Increase from 63% to 73%
This measurement requires: Stock are excluded from all waterways and significant wetlands; riparian margins are managed to maintain and/or enhance water quality.



**Note: the geography and rainfall on the South Island's West Coast makes stock exclusion from waterways a more difficult challenge than for other areas. Nevertheless compliance is steadily increasing. In Canterbury, 100% of Westland's shareholders are compliant with this standard.*

Health and Safety
Westland's record improves

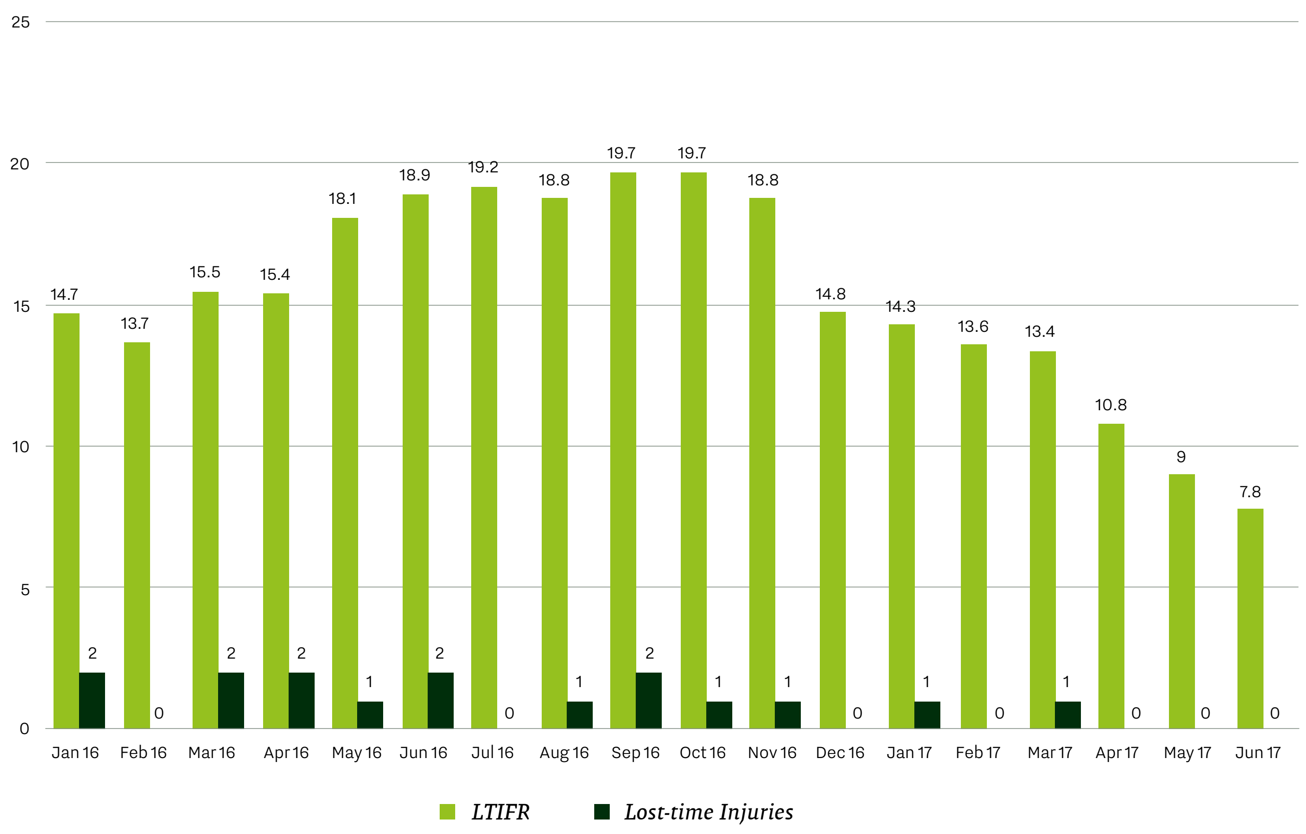
The 2016-17 year saw a major improvement in health and safety as Westland increased its focus on the mantra of "everyone home safe every day." Lost time due to injuries and the overall injury frequency rate have both trended down over the year and Westland is preparing programmes to ensure this continues in the 2017-18 season. General Manager People and Safety Caro Findlay says a genuine concern for staff wellbeing is the major driver behind the focus on "home safe every day" but notes that a strong health and safety record is an investment and directly contributes to a company's "bottom line".

Lost Time Injuries Frequency Rate

The downward trend in LTIFR started in November 2016 and is continuing. Westland is aiming to get the rate as low as possible and achieving a LTIFR below five will be the objective for the 2017-18 season.

We are focusing on increasing the number of Safety Conversations that happen every day, ensuring that all incidents are being reported, and introducing Safety Champions into each department to continue the downward trend.

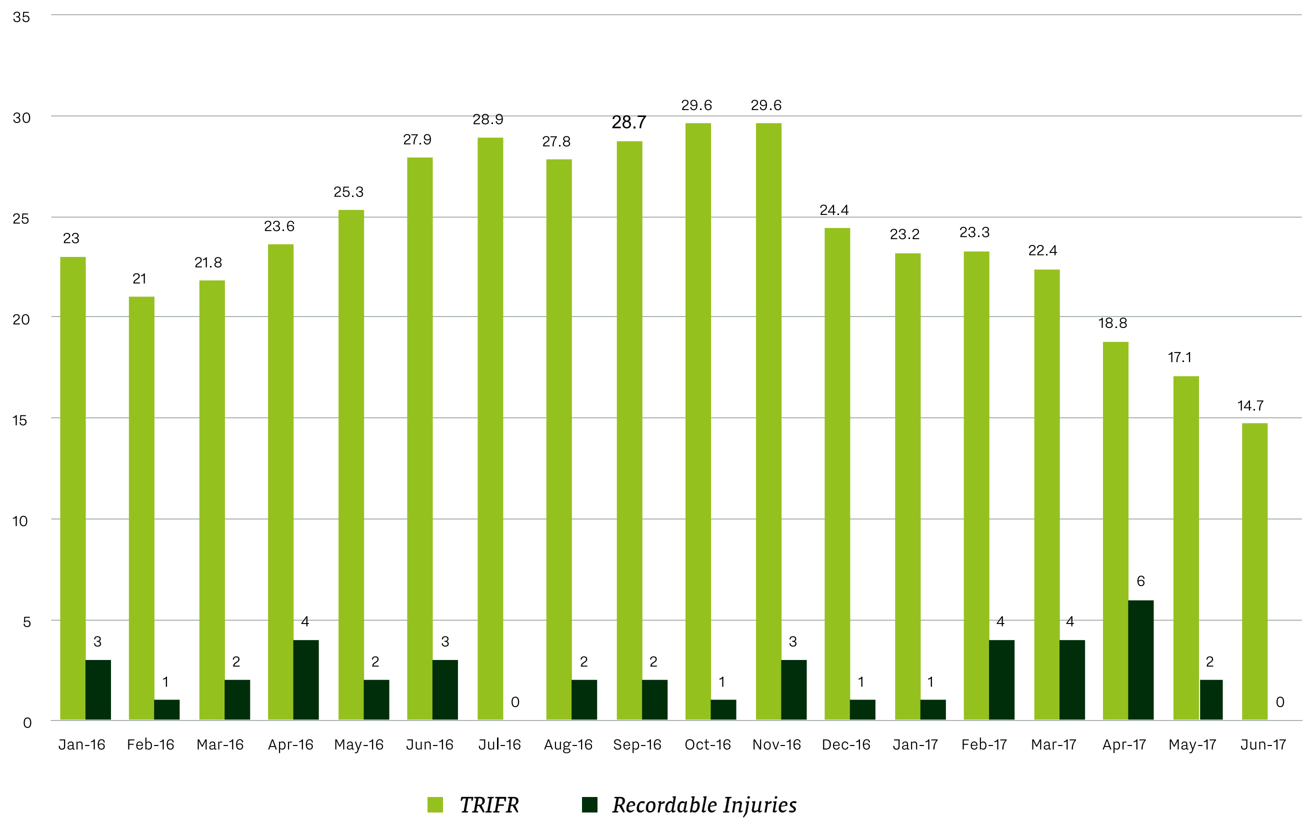
Lost Time Injuries (monthly) & frequency rate (12 month rolling)



Total Recordable Injuries Frequency Rate

The downward trend started in December 2016 and is continuing. We aim to get the rate as low as possible and achieve a TRIFR below ten for the 2017-18 season.

Total Recordable Injuries (monthly) & frequency rate (12 month rolling)



> *"The Westland team is to be applauded for the excellent work they did on addressing a number of critical risks in our business."*
>
> *Toni Brendish, Chief Executive Officer*

Health and Safety
Westland's record improves

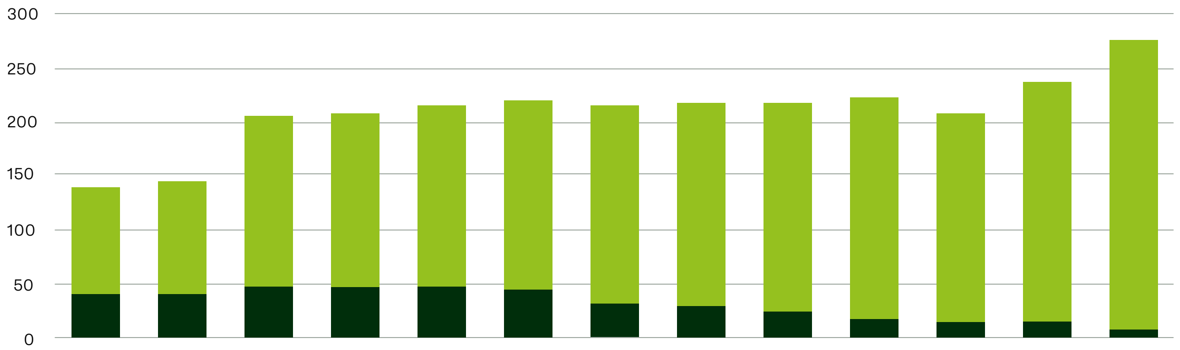
Everyone home safe every day.

Critical Risk Program

Since the Critical Risk (CR) Programme commenced in February 2015, 390 CRs had been identified. Of these, 268 CRs have been turned green and closed down. These have moved into maintenance phase and all relevant departments will ensure that safety controls are maintained at an acceptable level.

There are 110 CRs in progress which, at the time of writing, were expected to be closed within a few weeks. Some of these controls turn green during this coming financial year.

390 CR identified since 2015-2017



	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
Completed CR	97	102	160	162	169	174	181	189	193	204	194	223	268
CR Identified	42	42	46	47	46	45	33	28	24	16	14	14	8

Our shareholders farmed more than 175,000 cows and produced 735 million litres of milk

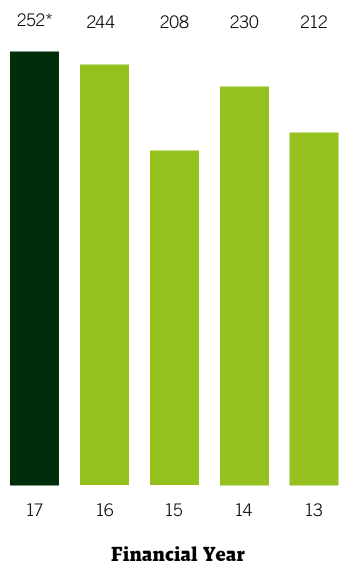
Five Year Trends
2013 – 2017

	2017	2016	2015	2014	2013
Milk Received From Suppliers [M litres]	699	743	765	753	621
Milk Fat - Own Supplier [M kgs]	36.988	39.164	40.286	39.574	32.785
Protein - Own Supplier [M kgs]	28.036	29.260	30.065	29.531	24.363
Milk Solids Received from Suppliers [M kgs]	65.024	68.424	70.351	69.105	57.148
Average Milk Solids per Farm [kgs]	153,010	159,495	163,607	161,085	139,726
Average Milk Fat %	5.29	5.27	5.27	5.26	5.28
Average Protein %	4.01	3.94	3.93	3.92	3.92
Protein : Fat Ratio %	75.80	74.71	74.63	74.62	74.31
Finest Milk %	97.79	98.50	98.70	98.80	98.80
Production [Tonne] - Powder	76,010	78,664	69,997	74,020	65,426
Production [Tonne] - Butter	28,622	32,973	34,394	33,696	30,700
Production [Tonne] - Protein	6,763	6,741	7,062	6,465	5,169
Production [Tonne] - AMF	9,343	10,753	11,631	10,506	7,003
Turnover [$Million]	630	588	639	830	566
Total Assets [$Million]	568	569	538	478	430
Total Equity [$Million] (excl. Shares classified as liabilities)	252	244	208	230	212
Payout to Shareholders					
- Fat [cents/kg]	418	334	413	603	508
- Protein [cents/kg]	697	556	688	1,004	846
- Operating Surplus [cents/kg]	522	362	495	757	634
- Retentions [cents/kg] *	-	26	(10)	(30)	(30)
- Net Average Payout [cents/kg]	518	388	485	727	604
Equity : Assets Ratio [%]	44	43	38	48	49
Tangible Net Worth [%] **	42	40	47	46	48
Current Ratio [%]	345	280	182	196	125
Working Capital to Total Assets Ratio [%]	29	25	18	24	10

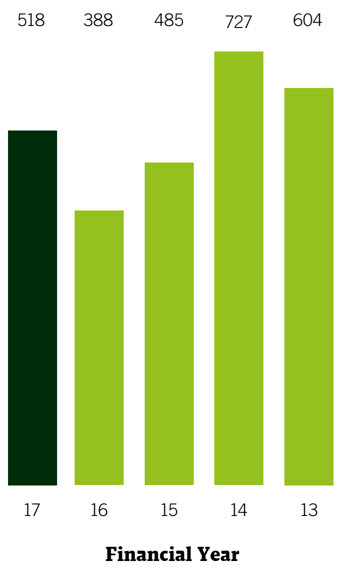
* 2014 included a 30 cent/kg milk accrual that the Board has subsequently taken as a retention in 2015.

** Tangible net worth percentage has been added to the five year trends. This ratio excludes the positive and / or negative impact of derivatives and intangibles from the Equity : Asset Ratio. The tangible net worth forms part of the Group banking covenants.

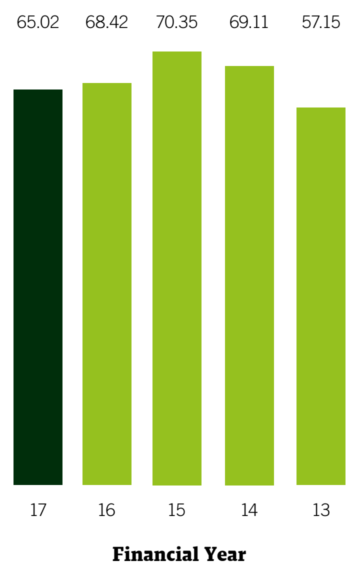
TOTAL EQUITY
Excl. shares classified as liabilities.
(Dollars in millions)



PAYOUT TO SHAREHOLDERS
(Cents/kgms)



MILK SOLIDS
(Million kilograms)



* For further information on Total Equity changes refer Statement of Changes in Members Fund.

Board of
Directors

Pete Morrison
Chairman

Pete Morrison was elected Chairman in March 2017 having been elected to the Board as a Director in 2015 following more than 15 years supplying Westland Milk Products from farms in both Canterbury and the West Coast. He is passionate about the co-operative model and believes it allows shareholders to have a sense of ownership.

Katie Milne
Deputy Chair

Katie Milne was elected to the Westland Board in 2016 and to the position of Deputy Chair in March 2017. 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.

Keith Smith
Appointed Director

Keith Smith 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, Financial Advisor to many medium sized businesses throughout New Zealand and finally as a Professional Director.

Raelyn Lourie
Director

Raelyn Lourie joined the Board of Westland Milk Products in 2008 and was appointed Deputy Chairperson in December 2012. She is also the Chair of Westland's subsidiary EasiYo (retired), Chair of the Milk Management Committee, and a member of the Audit and Remuneration Committees. Raelyn is a dairy farmer with a background in rural and urban lending.

Frank Dooley
Director

Frank Dooley was elected to the Board of Westland Milk Products in 2010 as Director for the Buller Ward 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.

Brent Taylor
Appointed Director

Brent Taylor was elected to the Board as an Independent Director in 2014 and is a member of Westland's Remuneration and Milk Management Committees. He has over 40 years' experience in the New Zealand Dairy Industry with a wide range of employers.

Rebecca Keoghan
Director

Rebecca Keoghan was elected to the Board as a Director in 2015 and is a member of the Production, Remuneration and OSPRI TBFree Committees. She has a Bachelor of Medical Science and diplomas in leadership and business management. 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.

Bob Major
Appointed Director

Bob Major holds a Master's degree in Science from Massey University. He has spent the majority of his career in various roles within the New Zealand dairy industry, working for the New Zealand Dairy Research Institute, the New Zealand Dairy Board and Fonterra Co-operative Group. He held global leadership roles for Fonterra in a number of areas including strategy, mergers and acquisitions, ingredients sales and marketing and innovation.

Noel Robb
Director

Noel Robb was elected to the Board in 2004. He is a member of the Audit and Milk Management Committees and a Director of EasiYo (retired). Noel has a Bachelor of Commerce and Management degree, has been dairy farming since 1995 and currently manages Robb Farms Limited. He has extensive experience in farm development and new dairy conversions.

Senior
Management

Toni Brendish
Chief Executive Officer

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.

Jeremy Edmonds
Interim Chief Financial Officer

Jeremy Edmonds C.A. joined Westland Milk Products in October 2016 as Interim Chief Financial Officer, overseeing the Finance, Audit, Tax, Treasury and Information Services teams. Jeremy has 22 years experience in the food and beverage sector in New Zealand and the UK, Asia and the USA.

Mark Lockington
Company Secretary

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

Craig Betty
Chief Operating Officer

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 COO. Prior to joining Westland, Craig was Regional General Manager Operations for the Lower North Island for Fonterra.

Andrew Simson
General Manager - Quality

Andrew joined Westland in March 2015, following more than 20 years in the Agrifood industry. In this role, Andrew is responsible for ensuring Westland maintains world class quality and regulatory standards. Prior to joining Westland, Andrew held a range of quality and food safety roles with National Foods, Lion and Murray Goulburn in Australia.

Rick Walker
General Manager - Sales and Marketing

Rick was appointed to the role of General Manager Ingredient Sales in September 2013, following almost 20 years' experience in the New Zealand dairy industry. In this role Rick is responsible for managing Westland's global ingredients sales portfolio, which includes milk powders, proteins, cream products and bio-actives.

Caro Findlay
General Manager - People and Safety

Caro joined Westland in 2015 after previously working in Human Resources at the Canterbury and West Coast District Health Boards. Caro was admitted as a Barrister and Solicitor in 2002 after graduating with a LLB and BA. She has previously worked at Parliament in a communications role and for Immigration New Zealand in London.

Simon Bastion
General Manager - Operations

Simon was appointed General Manager Operations in December 2014, following almost 2 years as Manufacturing Manager. Simon has over 23 years' experience in the dairy and beverage industry in New Zealand and offshore.

Raul Elias-Drago
General Manager - Supply Chain

Raul comes to Westland following a 20-year career building and optimising supply chains for dairy (Nutricia), food ingredients (Firmenich), rural (Farmlands) FMCG businesses across New Zealand, Asia and Europe. His specialty is in establishing customer facing supply networks that are fast, flexible and cost effective over distance and through borders.

Gary Yu
General Manager - China

Joining Westland in May 2017, Gary is a Chinese national who has a tremendous amount of experience working in the China market. Most recently he has been the Managing Director of Griffith Foods for the Greater China region.

Corporate Governance
Report 2017

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 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. Directors' performance is regularly evaluated. The company offers Directors individual training and development plans where appropriate. Regular familiarisation tours of the company's different divisions across the Hokitika and Rolleston sites are undertaken and on occasion Directors have the opportunity to visit subsidiary businesses or customer visits in 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 financial 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, Keith Smith (Chair), Frank Dooley, Pete Morrison, Brent Taylor and Katie Milne.

Remuneration Committee
The Remuneration Committee reviews the salaries of Westland's senior managers. The members of this committee, as at 31 July 2017, are Bob Major (Chair), Pete Morrison, Noel Robb, Frank Dooley, Raelyn Lourie.

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 2017, are Raelyn Lourie (Chair), Rebecca Keoghan, Katie Milne, Noel Robb.

Health & Safety Committee
The Health & Safety Committee was established to monitor health and safety matters. The members of this committee, as at 31 July 2017, are Rebecca Keoghan (Chair), Brent Taylor, Raelyn Lourie.

Governance Review Committee
The Governance Review Committee was established in January 2017 to review the co-operative's governance, including the Board's size and composition, and the measurement of the Board's performance and shareholder engagement. It is due to report its recommendations (including any recommended amendments to the Constitution) to the Board no later than September 2017.

As at 31 July 2017, the members of this committee are: Sue Suckling (Independent Chair); directors Rebecca Keoghan, Brent Taylor and Pete Morrison; and shareholders Barbara O'Neil-Nolan, Terry Sheridan, Marcus Tuck, Colin van der Geest and Richard Reynolds.

Milk Management Committee
The Milk Management Committee that was established in 2016 to develop a new policy on milk supply by shareholders to the co-operative was disestablished on 25 July 2017.

EasiYo Products
The Board of EasiYo Products was reconstituted to a management board, comprising Westland's Chief Executive Officer, Toni Brendish and Company Secretary Mark Lockington.

Westland Milk Products (Shanghai)
As at 31 July 2017, the Board of Westland Milk Products (Shanghai) was comprised of Toni Brendish, Bob Major and Catherine Walker.

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

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

Remuneration
Shareholder Directors
Generally the Board reviews shareholder director remuneration annually and shareholder approval of any changes to this is obtained at the Annual General Meeting.

Appointed Directors
The Board reviews and sets appointed director remuneration from time to time.

Deloitte.

Independent Auditor's Report

To the Shareholders of Westland Co-operative Dairy Company Limited

Opinion

We have audited the consolidated and separate financial statements of Westland Co-operative Dairy Company Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated and separate balance sheets as at 31 July 2017, and the consolidated and separate income statements, statements of comprehensive income, statements of changes in members funds and statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements, on pages 46 to 76, present fairly, in all material respects, the financial position of the Group and Company as at 31 July 2017, and the consolidated financial performance and cash flows of the Group and Company 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 and Separate 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 and the provision of taxation compliance services, taxation advisory services and other 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 and separate financial statements and the audit report.

Our opinion on the consolidated and separate 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 and separate 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 and separate financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated and separate 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 and separate financial statements, the directors are responsible on behalf of the Group for assessing the Group's and Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 and separate financial statements.

A further description of our responsibilities for the audit of the consolidated and separate financial statements is located on the External Reporting Board's website at:

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

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
Christchurch, New Zealand
26 September 2017

Pure Nutrition Joint Venture created September 2016

In the opinion of the directors of Westland Co-operative Dairy Company Limited ("the Company"), the financial statements and notes, on pages 46 to 76:

- comply with generally accepted accounting practice and present fairly the financial position of the company and the group as at 31 July 2017 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 financial position of the company and the group and facilitate compliance of the financial statements with the Companies Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the company and 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 financial statements.

The directors are pleased to present the financial statements of Westland Co-operative Dairy Company Limited for the year ended 31 July 2017.

The financial statements were approved by the Board of Directors on the 26 September 2017.

For and on behalf of the Board of Directors:

PH Morrison
Chairman

KS Milne
Deputy Chair

Balance Sheet
as at 31 July 2017

	Note	Group		Company	
		As at 31 July 2017	As at 31 July 2016 Restated	**As at 31 July 2017**	As at 31 July 2016 Restated
		$'000	$'000	**$'000**	$'000
Assets					
Cash and cash equivalents	7	**19,425**	13,059	**7,587**	7,347
Trade and other receivables	8	**81,233**	88,489	**111,322**	106,338
Current tax assets		**-**	2,520	**412**	1,856
Derivatives		**21,373**	9,868	**21,320**	9,071
Inventories	9	**108,562**	104,084	**89,624**	79,403
Total current assets		**230,593**	218,020	**230,265**	204,015
Property, plant and equipment	12	**314,437**	337,840	**309,497**	332,621
Intangibles	13	**15,168**	12,556	**3,239**	679
Investments in Subsidiaries		**-**	-	**828**	828
Investment in Joint Venture	21	**2,928**	-	**-**	-
Non current receivables		**133**	290	**-**	-
Derivatives		**5,057**	98	**5,057**	98
Total non-current assets		**337,723**	350,784	**318,622**	334,226
Total assets		**568,316**	568,804	**548,887**	538,241
Liabilities					
Loans and borrowings	17	**-**	20,000	**-**	20,000
Trade and other payables	10	**40,332**	57,135	**33,812**	42,782
Current tax liabilities		**169**	-	**-**	-
Derivatives		**24**	1,400	**24**	1,221
Owing to suppliers	11	**26,224**	330	**26,224**	330
Total current liabilities excluding co-operative shares classified as a liability		**66,748**	78,865	**60,060**	64,333
Loans and borrowings	17	**232,780**	230,490	**232,780**	230,490
Share resumption liability	16	**4,186**	4,387	**4,186**	4,387
Derivatives		**195**	-	**195**	-
Deferred tax liabilities	14	**12,747**	11,533	**13,677**	10,737
Total non-current liabilities excluding co-operative shares classified as a liability		**249,908**	246,410	**250,838**	245,614
Total liabilities excluding co-operative shares classified as a liability		**316,656**	325,275	**310,898**	309,947
Net assets excluding shares classified as a liability		**251,660**	243,529	**237,989**	228,294
Co-operative shares classified as a liability	16	**(105,871)**	(106,016)	**(105,871)**	(106,016)
Net assets after co-operative shares classified as a liability		**145,789**	137,513	**132,118**	122,278
Memorandum account:					
Members' funds					
Co-operative shares classified as a liability	16	**105,871**	106,016	**105,871**	106,016
Reserves	15	**30,992**	24,221	**30,684**	23,316
Retained earnings	15	**114,797**	113,292	**101,432**	98,962
Total members' funds before co-operative shares classified as a liability		**251,660**	243,529	**237,987**	228,294
Less co-operative shares classified as a liability	16	**(105,871)**	(106,016)	**(105,871)**	(106,016)
Total members' funds excluding co-operative shares classified as a liability	15	**145,789**	137,513	**132,118**	122,278

The notes on pages 50 to 76 are an integral part of these financial statements.

Income Statement
for the year ended 31 July 2017

	Note	Group		Company	
		12 months to 31 July 2017	12 months to 31 July 2016	**12 months to 31 July 2017**	12 months to 31 July 2016
		$'000	$'000	**$'000**	$'000
Revenue	3	**629,650**	588,114	**587,935**	541,112
Amount paid to Westland suppliers for milk		**(338,691)**	(264,183)	**(338,691)**	(264,183)
Other cost of sales	4	**(153,839)**	(187,687)	**(133,079)**	(177,527)
Gross margin		**137,120**	136,244	**116,165**	99,402
Selling and distribution expenses		**(24,177)**	(33,606)	**(16,231)**	(17,446)
Administration and other expenses	4	**(83,665)**	(85,566)	**(68,645)**	(67,993)
Depreciation & amortisation	12 & 13	**(33,009)**	(30,175)	**(32,173)**	(28,923)
Other income	3	**13,791**	4,439	**13,240**	5,031
Share of profit / (loss) in joint venture	21	**(72)**	-	**-**	-
Earnings / (loss) before net finance costs and income tax		**9,988**	(8,664)	**12,356**	(9,929)
Finance income	5	**308**	384	**367**	387
Finance expense	5	**(10,267)**	(9,326)	**(10,336)**	(8,601)
Net finance expenses		**(9,959)**	(8,942)	**(9,969)**	(8,214)
Profit / (loss) before income tax		**29**	(17,606)	**2,387**	(18,143)
Income tax benefit[1]	6	**1,477**	7,285	**83**	7,073
Profit / (loss) after income tax		**1,506**	(10,321)	**2,470**	(11,070)
Profit / (loss) for the year attributable to members		**1,506**	(10,321)	**2,470**	(11,070)

[1] The income tax credit for the year ended 31 July 2016 has been restated. For details relating to the restatement please refer to note 27.

Statement of Comprehensive Income
for the year ended 31 July 2017

	Note	Group		Company	
		12 months to 31 July 2017	12 months to 31 July 2016	**12 months to 31 July 2017**	12 months to 31 July 2016
		$'000	$'000	**$'000**	$'000
Profit / (loss) for the year		**1,506**	(10,321)	**2,470**	(11,070)
Other comprehensive income					
Items that may be reclassified subsequently to the income statement:					
Movement in cash flow hedges		**10,129**	76,316	**10,385**	75,862
Income tax relating to components of other comprehensive income	14	**(2,989)**	(25,503)	**(3,017)**	(25,069)
Movements in foreign currency translation reserve		**(368)**	369	**-**	-
Total other comprehensive income net of tax		**6,772**	51,182	**7,368**	50,793
Total comprehensive income for the year net of tax		**8,278**	40,861	**9,838**	39,723

The notes on pages 50 to 76 are an integral part of these financial statements.

Statement of Changes in Members' Funds

for the year ended 31 July 2017

	Note	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Contingency reserve $'000	Retained earnings $'000	Attributable to shareholders of the parent company $'000	Co-operative shares classified as a liability $'000	Total including shares $'000
Group								
Balance at 1 August 2015 as previously stated		**(36,961)**	**-**	**10,000**	**126,292**	**99,331**	**108,457**	**207,788**
Restatement of prior year retained earnings	27	-	-	-	(2,679)	(2,679)	-	(2,679)
Restated balance at 1 August 2015		(36,961)	-	10,000	123,613	96,652	108,457	205,109
Profit / (loss) for the year		-	-	-	(10,321)	(10,321)	-	(10,321)
Other comprehensive income for the year		50,813	369	-	-	51,182	-	51,182
Total comprehensive income		50,813	369	-	(10,321)	40,861	-	40,861
Share issues		-	-	-	-	-	2,033	2,033
Share redemptions		-	-	-	-	-	(4,474)	(4,474)
Balance at 31 July 2016		**13,852**	**369**	**10,000**	**113,292**	**137,513**	**106,016**	**243,529**
Profit / (loss) for the year		-	-	-	1,506	1,506	-	1,506
Other comprehensive income for the year		7,140	(368)	-	-	6,772	-	6,772
Total comprehensive income		7,140	(368)	-	1,506	8,278	-	8,278
Share issues		-	-	-	-	-	276	276
Share redemptions		-	-	-	-	-	(421)	(421)
Balance at 31 July 2017		**20,992**	**1**	**10,000**	**114,798**	**145,791**	**105,871**	**251,660**

	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Contingency reserve $'000	Retained earnings $'000	Attributable to shareholders of the parent company $'000	Co-operative shares classified as a liability $'000	Total including shares $'000
Company							
Balance at 1 August 2015	**(37,477)**	**-**	**10,000**	**110,032**	**82,555**	**108,457**	**191,012**
Profit / (loss) for the year	-	-	-	(11,070)	(11,070)	-	(11,070)
Other comprehensive income for the year	50,793	-	-	-	50,793	-	50,793
Total comprehensive income	50,793	-	-	(11,070)	39,723	-	39,723
Share issues	-	-	-	-	-	2,033	2,033
Share redemptions	-	-	-	-	-	(4,474)	(4,474)
Balance at 31 July 2016	**13,316**	**-**	**10,000**	**98,962**	**122,278**	**106,016**	**228,294**
Profit / (loss) for the year	-	-	-	2,470	2,470	-	2,470
Other comprehensive income for the year	7,368	-	-	-	7,368	-	7,368
Total comprehensive income	7,368	-	-	2,470	9,838	-	9,838
Share issues	-	-	-	-	-	276	276
Share redemptions	-	-	-	-	-	(421)	(421)
Balance at 31 July 2017	**20,684**	**-**	**10,000**	**101,432**	**132,116**	**105,871**	**237,987**

The notes on pages 50 to 76 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 July 2017

	Note	Group		Company	
		12 months to 31 July 2017	12 months to 31 July 2016	**12 months to 31 July 2017**	12 months to 31 July 2016
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Cash receipts from customers		**642,743**	589,867	**591,134**	539,293
Interest received		**530**	384	**367**	387
Cash paid to suppliers and employees		**(592,199)**	(560,645)	**(546,657)**	(509,835)
Taxation received / (paid)		**2,362**	(418)	**1,450**	1,083
Interest paid		**(10,489)**	(9,326)	**(10,336)**	(8,601)
Net cash from / (used in) operating activities	20	**42,947**	19,862	**35,958**	22,327
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**567**	186	**393**	181
Intercompany loans		**-**	-	**233**	(3,000)
Advances to / from third parties		**155**	(399)	**-**	-
Acquisition of intangibles		**(4,401)**	(446)	**(4,349)**	(358)
Acquisition of property, plant and equipment		**(14,846)**	(49,599)	**(13,938)**	(50,168)
Net cash from / (used in) investing activities		**(18,525)**	(50,258)	**(17,661)**	(53,345)
Cash flows from financing activities					
Proceeds and payments relating to share capital		**(346)**	3,982	**(346)**	3,982
Proceeds from borrowings		**76,290**	91,290	**76,290**	91,290
Repayment of borrowings		**(94,000)**	(68,400)	**(94,000)**	(68,400)
Net cash from / (used in) financing activities		**(18,056)**	26,872	**(18,056)**	26,872
Net increase / (decrease) in cash and cash equivalents		**6,366**	(3,524)	**240**	(4,146)
Cash and cash equivalents at 1st August		**13,059**	16,583	**7,347**	11,493
Cash and cash equivalents at 31st July	7	**19,425**	13,059	**7,587**	7,347

The notes on pages 50 to 76 are an integral part of these financial statements.

1 Reporting entity

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 Reporting 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 2017 comprise the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities (together referred to as the "Group").

Westland Co-operative Dairy Company Limited is primarily involved in the supply of dairy and nutritional products.

The financial statements were approved by the Board of Directors on the 26 September 2017.

2 Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice ("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. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements are prepared on the basis of historical cost, with the exception of certain financial instruments measured at fair value. The Group financial statements have been prepared consistently to all periods and all components are stated exclusive of GST, with the exception of receivables and payables that include GST invoiced.

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars.

(a) 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 areas of significant estimates and judgements are as follows:

- Intangibles (Note 13)
- Inventories (Note 9)

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the 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.

On consolidation, the 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 other comprehensive income and accumulated in the foreign currency translation reserve, and reclassified to the income statement on disposal of the foreign operation.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power over the investee, exposure, or rights, to variable returns from its involvement in the investee, and the ability to use its power over the investee to affect the amount of the investors returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. 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 investees). 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.

(d) Segment reporting

The Group operates in one industry, being the manufacture and sale 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.

(e) Adoption of new financial standards and interpretations - Standards and interpretations in issue not yet effective

In the current year, the Group has adopted all mandatory new and amended standards. The application of these new and amended standards has had no material impact on the amounts recognised or disclosed in the financial statements.

Listed below are standards issued but not yet effective that may impact the financial statements in future periods:

NZ IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018), will be effective in the Group's 2019 financial year. This standard provides a single model to be applied to all contracts with customers. The application of this model may impact on the measurement and timing of when revenue is recognised in the Group's financial statements. The Group has not yet determined the potential impact of this standard.

NZ IFRS 9 Financial Instruments (effective 1 January 2018), will be effective in the Group's 2019 financial year. This standard requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows, and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. The standard also broadens the eligibility for hedge accounting as it introduces an objectives-based test that focuses on the economic relationship between hedged items and hedging instruments. The Group has not yet determined the potential impact of this standard.

NZ IFRS 16 Leases (effective 1 January 2019), will be effective in the Group's 2020 financial year. It will fundamentally change the way leases are accounted for by lessees. Currently, leases are accounted for as either on-balance-sheet finance leases or off-balance-sheet operating leases (by lessees). Under the new accounting standard, this will be replaced by a single, on balance sheet model for all leases, which is similar to the current finance lease approach. The Group has not yet determined the potential impact of the standard.

3 Revenue and Other income

(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 income statement.

	Group		Company	
	12 months to 31 July 2017	12 months to 31 July 2016	12 months to 31 July 2017	12 months to 31 July 2016
	$'000	$'000	$'000	$'000
Dairy revenue	607,400	598,588	565,820	549,792
Freight and distribution recoveries	11,212	12,262	11,160	12,212
Net foreign exchange hedging gain / (loss)	11,038	(22,736)	10,955	(20,892)
Total revenue	**629,650**	**588,114**	**587,935**	**541,112**

(b) Other income

Other income is comprised of dairy ingredient sales, gain on sale of fixed assets, rental income, insurance proceeds and the settlement of a construction contract claim.

4 Expenses

The following items have been included in earnings / (loss) before net finance costs and income tax:

		Group		Company	
	Note	12 months to 31 July 2017	12 months to 31 July 2016	12 months to 31 July 2017	12 months to 31 July 2016
		$'000	$'000	$'000	$'000
The following items of expenditure are included in other cost of sales					
Operating leases	19	1,521	1,549	1,521	1,537
Other cost of sales		152,318	186,138	131,558	175,990
Total other cost of sales		**153,839**	**187,687**	**133,079**	**177,527**
The following items of expenditure are included in administration and other expenses					
Donations		32	26	32	26
Paid on behalf of suppliers		560	619	560	619
Operating leases	19	1,028	1,199	92	67
Employer kiwisaver & superannuation contributions		2,657	2,857	2,458	2,447
Administration expenses		7,844	8,222	6,030	5,130
Communications		559	499	425	365
Compliance costs		1,526	2,095	1,526	2,095
Security		338	423	333	410
IT Systems		2,099	1,750	1,774	1,411
Travel and accommodation		1,816	2,270	1,322	1,728
Insurance and rates		5,338	5,934	5,208	5,671
Employee related expenses		3,384	3,566	2,813	2,436
Wages and salaries		56,024	55,352	45,717	44,988
Total administration expenses		83,205	84,812	68,290	67,393
Deloitte Limited services included in administration and other expenses					
audit of financial statements	(a)	160	149	135	108
taxation compliance services		84	184	55	129
taxation advisory services	(b)	157	187	128	137
other services	(c)	59	234	38	226
Total Deloitte Limited services		460	754	356	600
Total administration and other expenses		**83,665**	**85,566**	**68,645**	**67,993**

(a) Audit of financial statements includes the statutory audit of Westland Milk Products (Shanghai) Company Limited.
(b) Taxation advisory services relate to the establishment of China operations including employment and transfer pricing considerations as well as assistance with GST.
(c) Other services include assistance with treasury review, cyber security and traceability.

Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement 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 estimated reliably.

5 Finance income and expenses

Finance income comprises interest income on funds invested that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings that are recognised in the income statement.

Borrowing costs that relate to qualifying assets are capitalised into property, plant and equipment as required by NZ IAS 23: Borrowing Costs. All other borrowing costs are recognised in the income statement using the effective interest method.

	Group		Company	
	12 months to 31 July 2017	12 months to 31 July 2016	12 months to 31 July 2017	12 months to 31 July 2016
	$'000	$'000	$'000	$'000
Interest income on bank deposits	308	384	367	387
Total finance income	**308**	**384**	**367**	**387**
Interest expense	(10,267)	(11,762)	(10,336)	(11,037)
Less capitalised borrowing costs	-	2,436	-	2,436
Total finance expenses	**(10,267)**	**(9,326)**	**(10,336)**	**(8,601)**
Net finance expenses	**(9,959)**	**(8,942)**	**(9,969)**	**(8,214)**

6 Income tax benefit

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is 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 or receivable in respect of previous years.

The tax rate used is the corporate tax rate of 28% (2016: 28%) payable by New Zealand corporate entities on taxable profits under tax law.

	Group		Company	
	12 months to 31 July 2017	12 months to 31 July 2016	12 months to 31 July 2017	12 months to 31 July 2016
	$'000	$'000	$'000	$'000
Current tax expense / (benefit)				
Current year	379	909	-	756
Prior period adjustments to current tax	(81)	(2,279)	(6)	(2,649)
Deferred tax expense / (benefit)				
Current year	(1,092)	(5,800)	288	(5,187)
Prior year adjustments to deferred tax	(683)	(116)	(365)	7
Income tax expense / (benefit)	**(1,477)**	**(7,285)**	**(83)**	**(7,073)**

6 Income tax expenses in the income statement (continued)

	Group		Company	
	12 months to 31 July 2017	12 months to 31 July 2016	12 months to 31 July 2017	12 months to 31 July 2016
	$'000	$'000	$'000	$'000
Reconciliation of effective tax rate				
Profit / (loss) before income tax	29	(17,606)	2,387	(18,143)
Income tax using the corporate tax rate 28% (2016: 28%)	8	(4,930)	668	(5,080)
Add / (deduct) tax effect of				
- Non-taxable income	(605)	-	(605)	-
- Non-deductible expenses	250	29	225	21
- Prior year over / (under) provision	(890)	(2,395)	(371)	(2,643)
- Effect of tax rates in foreign jurisdictions	(73)	11	-	-
- Loss offset	(167)	-	-	629
Income tax expense / (benefit)	**(1,477)**	**(7,285)**	**(83)**	**(7,073)**
The taxation expense / (benefit) is represented by				
Current tax	298	(1,370)	(6)	(1,893)
Deferred tax from temporary differences	(1,775)	(5,915)	(77)	(5,180)
	(1,477)	**(7,285)**	**(83)**	**(7,073)**

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.

	Group	
	As at 31 July 2017	As at 31 July 2016
	$'000	$'000
Imputation credits at 31 July	13,744	15,582

7 Cash and cash equivalents

Cash and cash equivalents are amounts held with financial institutions at balance date:

	Group		Company	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
Bank balances	19,425	13,059	7,587	7,347
Cash and cash equivalents in the statement of cash flows	**19,425**	**13,059**	**7,587**	**7,347**

The effective interest rate on call deposits in 2017 was 1.00% (2016: 1.50%). The deposits had an average maturity of 30 days (2016: 30 days).

Notes to the Financial Statements (continued)
for the year ended 31 July 2017

8 Trade and other receivables

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.

	Group		Company	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
Gross trade receivables	74,160	72,035	81,963	70,016
Provision for doubtful debts	(101)	(92)	(95)	-
Loans to subsidiaries	-	-	24,007	22,140
Supplier shares	-	2,078	-	2,078
Other receivables	2,695	10,187	1,504	9,654
Total trade and other receivables excluding prepayments & GST	**76,754**	**84,208**	**107,379**	**103,888**
GST	3,268	3,810	2,924	2,188
Prepayments	1,211	471	1,019	262
Total trade and other receivables	**81,233**	**88,489**	**111,322**	**106,338**

Loans to subsidiaries are repayable on demand and incur no interest.

Customer credit risk

Customer credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations.

The Group operates a policy of only entering into contracts for sale with customers whose credit limits are in accordance with the Group's delegated authorities approved by the Board. For export customers located outside of New Zealand, credit risk mitigation tools such as letters of credit and credit insurance are utilised in conjunction with credit limits.

The recoverable amount of the Group or Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The trade receivables that are past due are shown as follows

	Group		Group	
	Gross receivable	Impairment	Gross receivable	Impairment
	As at 31 July 2017	As at 31 July 2017	As at 31 July 2016	As at 31 July 2016
	$'000	$'000	$'000	$'000
Greater than 30 days	5,293	(101)	6,811	(92)
	5,293	**(101)**	**6,811**	**(92)**

Doubtful debts for the Group and Company were $101,000 and $95,000 respectively (2016: $92,000 for the Group and $Nil for the Company).

The carrying value of trade receivables and other receivables at balance date can be summarised by geographical region as follows:

	Group		Company	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
New Zealand and Australia	10,225	13,941	48,521	42,551
Asia	38,898	37,484	36,065	34,525
Middle East and Africa	4,354	7,887	4,354	7,887
Americas	9,969	7,309	9,969	7,303
Europe, Russia and Commonwealth of Independent States (CIS)	13,308	17,587	8,470	11,622
	76,754	**84,208**	**107,379**	**103,888**

9 Inventories

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. The net realisable value 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. The cost of dairy products manufactured from milk suppliers is determined by including the payment to milk producers. The payment to milk suppliers is estimated based on the estimated returns that the products are expected to generate.

The determination of the cost of inventory is a significant area of estimation. The key areas of estimation are:

- Determination of the cost of milk supplied by estimation of the final milk payout
- Determination of the net realisable value of stock

	Group		Company	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
Dairy products	78,456	64,936	64,975	54,801
Materials	26,344	30,400	24,649	24,602
Retail[1]	3,762	8,748	-	-
Total inventories	**108,562**	**104,084**	**89,624**	**79,403**
Gross amount of dairy products stated at net realisable value	79,033	65,533	65,552	55,398

In 2017, raw materials, consumables and changes in finished goods and work in process recognised as cost of sales amounted to $492,530,000 for the Group and $471,770,000 for the Company (2016: $451,870,000 for the Group and $441,710,000 for the Company).

[1] The retail inventory for the Group as at 31 July 2016 has been restated. For details relating to the restatement please refer to note 27.

10 Trade and other payables

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.

	Group		Company	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
Trade payables	25,667	31,341	24,408	25,424
Other payables	11,325	21,993	6,112	14,031
Total trade and other payables excluding employee entitlements	36,992	53,334	30,520	39,455
Employee entitlements	3,340	3,801	3,292	3,327
Total trade and other payables	**40,332**	**57,135**	**33,812**	**42,782**

11 Owing to suppliers

Amounts owing to suppliers are amounts Westland owes to farmer shareholders for the collection of milk, which includes any end of season adjustments, offset by the amounts owing from farmer shareholders for services provided to them by Westland.

These amounts are initially recognised at fair value, 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.

The total amount owing to suppliers at 31 July 2017 is $26,224,000 (2016: $330,000).

12 Property, plant and equipment

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 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 income statement as incurred.

Depreciation

Depreciation is recognised in the income statement 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
- motor 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 it is then transferred to property, plant and equipment or intangibles and is depreciated or amortised from that date.

Group	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Capital work in progress $'000	Total $'000
Cost					
Balance at 1 August 2015	94,970	288,831	9,316	109,314	502,431
Additions	500	1,408	20	61,713	63,641
Transfers in	46,705	106,111	1,776	-	154,592
Transfers out of capital work in progress	-	-	-	(154,592)	(154,592)
Transfers to intangible assets (additions per note 13)	-	-	-	(474)	(474)
Disposals	(1,711)	(531)	(780)	-	(3,022)
Balance at 31 July 2016	140,464	395,819	10,332	15,961	562,576
Balance at 1 August 2016	140,464	395,819	10,332	15,961	562,576
Additions	-	410	-	14,496	14,906
Transfers in	649	10,533	2,619	-	13,802
Transfers out of capital work in progress	-	-	-	(13,802)	(13,802)
Transfers to intangible assets (additions per note 13)	-	-	-	(4,349)	(4,349)
Disposals	(2,432)	(868)	(278)	-	(3,578)
Reclassification	(4,062)	3,423	106	-	(533)
Balance at 31 July 2017	134,619	409,317	12,779	12,305	569,021
Accumulated depreciation					
Balance at 1 August 2015	29,307	161,555	5,803	-	196,665
Depreciation for the year	4,174	23,042	1,242	-	28,458
Disposals	2	391	(780)	-	(387)
Balance at 31 July 2016	33,483	184,988	6,265	-	224,736
Balance at 1 August 2016	33,483	184,988	6,265	-	224,736
Depreciation for the year	3,888	25,897	1,667	(232)	31,219
Disposals	(107)	(454)	(278)	-	(839)
Reclassification	(1,762)	1,005	(70)	294	(533)
Balance at 31 July 2017	35,502	211,435	7,584	62	254,583
Carrying amounts					
At 31 July 2016	**106,981**	**210,831**	**4,067**	**15,961**	**337,840**
At 31 July 2017	**99,117**	**197,882**	**5,195**	**12,243**	**314,437**

12 Property, plant and equipment (continued)

Company	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Capital work in progress $'000	Total $'000
Cost					
Balance at 1 August 2015	89,876	280,965	9,263	109,314	489,418
Additions	-	-	-	61,713	61,713
Transfers in	46,705	106,111	1,776	-	154,592
Transfers out of capital work in progress	-	-	-	(154,592)	(154,592)
Transfers to intangible assets (additions per note 13)	-	-	-	(474)	(474)
Disposals	-	(231)	(770)	-	(1,001)
Balance at 31 July 2016	136,581	386,845	10,269	15,961	549,656
Balance at 1 August 2016	136,581	386,845	10,269	15,961	549,656
Additions	-	-	-	14,496	14,496
Transfers in	649	10,533	2,619	-	13,802
Transfers out of capital work in progress	-	-	-	(13,802)	(13,802)
Transfers to intangible assets (additions per note 13)	-	-	-	(4,349)	(4,349)
Disposals	(2,612)	(837)	(278)	-	(3,727)
Reclassification	-	121	-	-	121
Balance at 31 July 2017	134,618	396,662	12,610	12,305	556,195
Accumulated depreciation					
Balance at 1 August 2015	27,833	157,078	5,776	-	190,687
Depreciation for the year	3,888	22,103	1,240	-	27,231
Disposals	-	(113)	(770)	-	(883)
Balance at 31 July 2016	31,721	179,068	6,246	-	217,035
Balance at 1 August 2016	31,721	179,068	6,246	-	217,035
Depreciation for the year	3,888	25,145	1,581	(232)	30,383
Disposals	(108)	(455)	(278)	-	(841)
Reclassification	-	(102)	(70)	293	121
Balance at 31 July 2017	35,501	203,656	7,480	61	246,698
Carrying amounts					
At 31 July 2016	**104,860**	**207,777**	**4,023**	**15,961**	**332,621**
At 31 July 2017	**99,117**	**193,006**	**5,131**	**12,244**	**309,497**

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

Borrowing costs capitalised
During the period borrowing costs of $Nil have been capitalised (2016: $2,436,000 at an average rate of 3.67%).

Notes to the Financial Statements (continued)
for the year ended 31 July 2017

13 Intangibles

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 or Company, 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, being 3 to 10 years on a straight line basis.

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 income statement when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is only capitalised if it 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 income statement when incurred. Development expenditure is amortised over a useful economic life of between 3 and 5 years on a straight line basis.

Brands and patents
Brands 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 brands. They are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Group	Software $'000	Goodwill $'000	Product development costs $'000	Brand and Patents $'000	Total $'000
Cost					
Balance at 1 August 2015	7,453	5,815	623	6,063	19,954
Additions	97	-	-	-	97
Transfers from fixed assets (per note 12)	424	-	50	-	474
Disposals	-	-	-	-	-
Balance at 31 July 2016	7,974	5,815	673	6,063	20,525
Balance at 1 August 2016	7,974	5,815	673	6,063	20,525
Additions	-	-	-	52	52
Transfers from fixed assets (per note 12)	2,346	-	2,003	-	4,349
Disposals	-	-	-	-	-
Balance at 31 July 2017	10,320	5,815	2,676	6,115	24,926
Accumulated amortisation and impairment losses					
Balance at 1 August 2015	5,616	-	563	64	6,243
Amortisation for the year	1,653	-	64	-	1,717
Disposals	9	-	-	-	9
Balance at 31 July 2016	7,278	-	627	64	7,969
Balance at 1 August 2016	7,278	-	627	64	7,969
Amortisation for the year	1,172	-	618	-	1,790
Disposals	-	-	-	-	-
Balance at 31 July 2017	8,449	-	1,245	64	9,759
Carrying amounts					
At 31 July 2016	**696**	**5,815**	**46**	**5,999**	**12,556**
At 31 July 2017	**1,870**	**5,815**	**1,431**	**6,051**	**15,168**

13 Intangibles (continued)

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

	Goodwill		Brands and patents with indefinite useful lives	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000
EasiYo business unit	5,815	5,815	6,051	5,999

During the year ending 31 July 2017, the Group determined that there was 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% (2016: 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 most 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 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.

	Software	Product development costs	Total
	$'000	$'000	$'000
Company			
Cost			
Balance at 1 August 2015	7,421	622	8,043
Transfers from fixed assets (per note 12)	424	50	474
Disposals	-	-	-
Balance at 31 July 2016	7,845	672	8,517
Balance at 1 August 2016	7,845	672	8,517
Transfers from fixed assets (per note 12)	2,346	2,003	4,349
Disposals	-	-	-
Balance at 31 July 2017	10,191	2,675	12,866
Accumulated amortisation and impairment losses			
Balance at 1 August 2015	5,584	562	6,146
Amortisation for the year	1,628	64	1,692
Disposals	-	-	-
Balance at 31 July 2016	7,212	626	7,838
Balance at 1 August 2016	7,212	626	7,838
Amortisation for the year	1,171	619	1,790
Disposals	-	-	-
Balance at 31 July 2017	8,383	1,245	9,628
Carrying amounts			
At 31 July 2016	**633**	**46**	**679**
At 31 July 2017	**1,808**	**1,430**	**3,239**

Notes to the Financial Statements (continued)
for the year ended 31 July 2017

14 Deferred tax assets and liabilities

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 and Company do not have any unrecognised deferred tax assets.

(a) Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000	$'000	$'000
Group						
Intangible assets	-	-	(2,239)	(1,457)	(2,239)	(1,457)
Property, plant and equipment	-	-	(11,416)	(10,164)	(11,416)	(10,164)
Derivatives	-	-	(8,185)	(5,196)	(8,185)	(5,196)
Provisions	1,708	910	-	-	1,708	910
Tax losses	7,385	4,374	-	-	7,385	4,374
Net deferred tax assets / (liabilities)	9,093	5,284	(21,840)	(16,817)	(12,747)	(11,533)

	Assets		Liabilities		Net	
	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016	As at 31 July 2017	As at 31 July 2016
	$'000	$'000	$'000	$'000	$'000	$'000
Company						
Intangible assets	-	106	(676)	-	(676)	106
Property, plant and equipment	-	-	(11,416)	(10,164)	(11,416)	(10,164)
Derivatives	-	-	(8,195)	(5,178)	(8,195)	(5,178)
Provisions	1535	835	-	-	1,535	835
Tax losses	5,075	3,664	-	-	5,075	3,664
Net deferred tax assets / (liabilities)	6,610	4,605	(20,287)	(15,342)	(13,677)	(10,737)

14 Deferred tax assets and liabilities (continued)

	Balance as at 31 July 2015	Recognised in the income statement	Recognised in other comprehensive income	Balance as at 31 July 2016
	$'000	$'000	$'000	$'000
Group				
Intangible assets	(1,636)	179	-	(1,457)
Property, plant and equipment[1]	(11,896)	1,732	-	(10,164)
Derivatives	20,306	-	(25,503)	(5,196)
Provisions	1,283	(373)	-	910
Tax losses	-	4,374	-	4,374
	8,057	5,914	(25,503)	(11,533)

	Balance as at 31 July 2016	Recognised in the income statement	Recognised in other comprehensive income	Balance as at 31 July 2017
	$'000	$'000	$'000	$'000
Intangible assets	(1,457)	(782)	-	(2,239)
Property, plant and equipment	(10,164)	(1,252)	-	(11,416)
Derivatives	(5,196)	-	(2,989)	(8,185)
Provisions	910	798	-	1,708
Tax losses	4,374	3,011	-	7,385
	(11,533)	1,775	(2,989)	(12,747)

	Balance as at 1 July 2015	Recognised in the income statement	Recognised in other comprehensive income	Balance as at 31 July 2016
	$'000	$'000	$'000	$'000
Company				
Intangible assets	(73)	179	-	106
Property, plant and equipment[1]	(11,896)	1,732	-	(10,164)
Derivatives	19,893	-	(25,069)	(5,178)
Provisions	1,229	(394)	-	835
Tax losses	-	3,664	-	3,664
	9,153	5,179	(25,069)	(10,737)

	Balance as at 31 July 2016	Recognised in the income statement	Recognised in other comprehensive income	Balance as at 31 July 2017
	$'000	$'000	$'000	$'000
Intangible assets	106	(782)	-	(676)
Property, plant and equipment	(10,164)	(1,252)	-	(11,416)
Derivatives	(5,178)	-	(3,017)	(8,195)
Provisions	835	700	-	1,535
Tax losses	3,664	1,411	-	5,075
	(10,737)	77	(3,017)	(13,677)

[1] The deferred tax liability relating to property, plant and equipment as at 31 July 2016 has been restated. For details relating to the restatement please refer to note 27.

15 Capital and reserves

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 shareholders 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 price paid for milk supplied.

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 share capital, including 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.

Reconciliation of movement in capital and reserves

	Hedging reserve	Foreign currency translation reserve	Contingency reserve	Retained earnings	Total
Group	$'000	$'000	$'000	$'000	$'000
Attributable to equity holders of the Group					
Balance at 1 August 2015	(36,961)	-	10,000	126,292	99,331
Restatement of prior year retained earnings	-	-	-	(2,679)	(2,679)
Restated balance at 1 August 2015	(36,961)	-	10,000	123,613	96,652
Total comprehensive income	50,813	369	-	(10,321)	40,861
Balance at 31 July 2016	13,852	369	10,000	113,292	137,513
Balance at 1 August 2016	13,852	369	10,000	113,292	137,513
Total comprehensive income	7,140	(368)	-	1,506	8,278
Balance at 31 July 2017	20,992	1	10,000	114,797	145,789

	Hedging reserve	Foreign currency translation reserve	Contingency reserve	Retained earnings	Total
Company	$'000	$'000	$'000	$'000	$'000
Attributable to equity holders of the Company					
Balance at 1 August 2015	(37,477)	-	10,000	110,032	82,555
Total comprehensive income	50,793	-	-	(11,070)	39,723
Balance at 31 July 2016	13,316	-	10,000	98,962	122,278
Balance at 1 August 2016	13,316	-	10,000	98,962	122,278
Total comprehensive income	7,368	-	-	2,470	9,838
Balance at 31 July 2017	20,684	-	10,000	101,432	132,118

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 income statement 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.

16 Co-operative shares classified as a liability

Co-operative shares may only be held by a shareholder supplying milk to the Company. The constitution of the 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 Company in each financial year ("the share standard"). At the conclusion of each season the Company will calculate the quantity of milksolids each shareholder has supplied for the season and, if the shareholder holds fewer shares than they are required to under the share standard, the shareholder is required to purchase additional shares to comply with the share standard.

Sale or transfer of the shares is subject to the restrictions in the constitution of the Company on transfers of shares. 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 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 Company to register the transfer.

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

- the shareholder has not been a supplying shareholder during the immediately preceding five years; or
- 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 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 Company's constitution.

The 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 Company, and certain share classes have differing paid-in amounts.

The number of shares by class is as follows:		As at 31 July 2017		As at 31 July 2016	
	Value per share	**$'000**	**No.**	**$'000**	**No.**
"B" class shares	$1.50	26,229	17,486,232	26,297	17,531,387
"C" class shares	$0.70	942	1,345,555	943	1,347,183
"D" class shares	$0.90	652	724,380	652	724,380
"E" class shares	$1.10	358	325,120	358	325,120
"F" class shares	$1.30	1,721	1,323,926	1,721	1,323,926
"G" class shares	$1.50	75,969	50,646,094	76,045	50,696,876
		105,871	71,851,307	106,016	71,948,872

The movement in shares for the Company is as follows:

	31 July 2017 $'000	31 July 2016 $'000
Share capital		
On issue at 1 August	106,016	108,457
Share issues	276	2,033
Share resumptions	(421)	(4,474)
On issue at 31 July	105,871	106,016

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

- Issue $940,023 of shares (2016: $2,078,000), these shares will be issued upon the issue of the Product Disclosure Statement;
- Acquire $4,186,000 of shares (2016: $4,387,000);

Notes to the Financial Statements (continued)
for the year ended 31 July 2017

17 Loans and borrowings

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:

	Group		Company	
Secured bank loans	**As at 31 July 2017 $'000**	**As at 31 July 2016 $'000**	**As at 31 July 2017 $'000**	**As at 31 July 2016 $'000**
Non-current liabilities	232,780	230,490	232,780	230,490
Current liabilities	-	20,000	-	20,000

The Group facilities include:

- 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);
- secured term facilities of $100,000,000 that mature on 17 April 2019 to fund the construction of Dryer 7;
- secured term facilities of $40,050,000 that mature on 06 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;

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 be 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 table below summarises the Group's undrawn lines of credit at balance date:

	31 July 2017			31 July 2016		
	Facility limit available $'000	**Facility utilised $'000**	**Facility available $'000**	**Facility limit available $'000**	**Facility utilised $'000**	**Facility available $'000**
Non-current liabilities	240,050	232,780	7,270	240,050	230,490	9,560
Current liabilities	45,000	-	45,000	62,000	20,000	42,000

17 Loans and borrowings (continued)

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 and Company 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 $Nil as at 31 July 2017 (2016: $20,000,000).

Interest was charged on secured bank loans throughout the year at rates between 2.59% and 3.35% (2016: between 2.90% and 4.27%). The interest expense incurred on the Groups' borrowings is shown in Note 5.

At 31 July 2017, 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 $2,327,800 (2016: $2,583,000). This is before any assessment as to how the movement in interest rates would impact on the final supplier payout.

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Period of maturity	Carrying amount 31 July 2017 $'000	Carrying amount 31 July 2016 $'000
Group					
Secured bank loans	NZD	0.00%	< 12 mths	-	20,000
	NZD	2.83%	> 2 years	232,780	230,490
Company					
Secured bank loans	NZD	0.00%	< 12 mths	-	20,000
	NZD	2.83%	> 2 years	232,780	230,490

Liquidity risk

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

	Balance Sheet $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	5+ years $'000
Group as at 31 July 2017							
Secured bank loans	232,780	250,230	3,307	3,307	5,868	237,748	-
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	66,556	66,556	66,556	-	-	-	-
Derivatives	219	219	24	-	181	15	-
Total financial liabilities	409,611	427,061	69,886	3,307	6,049	347,820	-
Group as at 31 July 2016							
Secured bank loans	250,490	276,752	23,705	3,603	7,206	242,238	-
Co-operative share capital classified as a liability	106,016	106,016	-	-	-	106,016	-
Share resumption liability	4,387	4,387	-	-	-	4,387	-
Trade and other payables	57,465	57,465	57,465	-	-	-	-
Derivatives	1,400	1,400	1,400	-	-	-	-
Total financial liabilities	419,758	446,020	82,570	3,603	7,206	352,641	-

17 Loans and borrowings (continued)

Liquidity risk (continued)

	Balance sheet $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	5+ years $'000
Company as at 31 July 2017							
Secured bank loans	232,780	250,230	3,307	3,307	5,868	237,748	-
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	60,036	60,036	60,036	-	-	-	-
Derivatives	219	219	24	-	181	15	-
Total financial liabilities	403,092	420,542	63,367	3,307	6,049	347,820	-
Company as at 31 July 2016							
Secured bank loans	250,490	276,752	23,705	3,603	7,206	242,238	-
Co-operative share capital classified as a liability	106,016	106,016	-	-	-	106,016	-
Share resumption liability	4,387	4,387	-	-	-	4,387	-
Trade and other payables	43,112	43,112	43,112	-	-	-	-
Derivatives	1,221	1,221	1,221	-	-	-	-
Total financial liabilities	405,226	431,488	68,038	3,603	7,206	352,641	-

Co-operative shares have been included as being repayable within 2-5 years as 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.

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

18 Financial risk management

Overview

Global financial and commodity markets remain volatile. The nature of Westland'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 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); and
- 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.

The table below shows where information on risk management can be found:

Item	Disclosure
Foreign exchange risk	See section a) below
Interest rate risk	Interest rate risk principally arises from the Group's borrowings and funds on deposit. Interest rate risk is addressed in Note 17 Loans and borrowings.
Credit risk	Credit risk principally arises from the Group's receivables from customers and derivative financial instruments. Credit risk on recievables is discussed in Note 8 Trade and other receivables. Credit risk on financial derivative instruments is addressed in section b) below.
Liquidity risk	Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is addressed in Note 17 Loans and borrowings.
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. Capital management is addressed in Note 15 Capital and reserves.
Dairy commodity price risk	See section c) below
Fair values and classifications	See section d) below

18 Financial risk management (continued)

(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 income statement, 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 percent of the net recognised foreign currency trade receivables and foreign currency trade payables, and can range from 0 to 100 percent 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.

The Group uses forward exchange contracts and currency options to hedge foreign exchange exposures arising from sales receipts and other cashflows. Approximately 74 percent (2016: 73 percent) 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:

	Group		Company	
	31 July 2017 $'000	31 July 2016 $'000	31 July 2017 $'000	31 July 2016 $'000
United States dollar	56,429	53,065	56,429	52,999
Australian dollar	5,913	5,103	5,159	3,198
Pounds sterling	3,225	3,875	-	-
Euros	1,504	1,900	-	-
Chinese Yuan	1,543	4,916	14,637	7,994
Other currencies	2	2,045	2	2,045
Foreign currency trade receivables	68,616	70,904	76,227	66,236
Forward exchange contracts and options	68,616	70,904	76,227	66,236
Net unhedged exposure	-	-	-	-

(i) 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:

	Group		Company	
	31 July 2017 $'000	31 July 2016 $'000	31 July 2017 $'000	31 July 2016 $'000
Fair value of the Group's FECs and IRSs				
Asset fair value of FECs and IRSs	26,430	9,332	26,377	8,535
Liability fair value of FECs and IRSs	(219)	(350)	(219)	(170)
Net fair value of FECs and IRSs	26,212	8,982	26,158	8,365

(ii) Foreign exchange sensitivity

Management consider that the only material currency exposure is that of United States 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 $6,575,688 for the period ended 31 July 2017 (2016: $6,397,000). 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.

(b) **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.

18 Financial risk management (continued)

(c) **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 Westland'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.

The table below summarises the impact on dairy commodity prices on the Group and Company'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:

	Group		Company	
	31 July 2017 $'000	31 July 2016 $'000	31 July 2017 $'000	31 July 2016 $'000
Impact of 10% increase in quoted dairy commodity prices	54,764	44,086	54,764	44,086
Impact of 10% decrease in quoted dairy commodity prices	(54,764)	(44,086)	(54,764)	(44,086)

(d) **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 income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

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 hedging 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 income statement. 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 income statement in the same period that the hedged item affects the income statement.

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 income statement, any directly attributable transaction costs. For financial liabilities not recognised at fair value through profit and loss 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.

18 Financial risk management (continued)

(d) Fair values and classifications (continued)

Classification and fair values

	Note	Derivatives instruments in designated hedge accounting relationships $'000	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Group as at 31 July 2017						
Assets						
Derivatives - non-current		5,057	-	-	5,057	5,057
Total non-current financial assets		5,057	-	-	5,057	5,057
Cash and cash equivalents	7	-	19,425	-	19,425	19,425
Trade and other receivables	8	-	76,754	-	76,754	76,754
Derivatives - current		21,373	-	-	21,373	21,373
Total current financial assets		21,373	96,179	-	117,552	117,552
Total financial assets		26,430	96,179	-	122,609	122,609
Liabilities						
Loans and borrowings	17	-	-	232,780	232,780	232,780
Share resumption liability	16	-	-	4,186	4,186	4,186
Derivatives - non-current		195	-	-	195	195
Co-operative share capital classified as a liability	16	-	-	105,871	105,871	105,871
Total non-current financial liabilities		195	-	342,837	343,032	343,032
Loans and borrowings	17	-	-	-	-	-
Trade and other payables	10 & 11	-	-	66,556	66,556	66,556
Derivatives - current		24	-	-	24	24
Total current financial liabilities		24	-	66,556	66,579	66,579
Total financial liabilities		219	-	409,392	409,611	409,611

	Note	Derivatives instruments in designated hedge accounting relationships $'000	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Company as at 31 July 2017						
Assets						
Derivatives - non-current		5,057	-	-	5,057	5,057
Total non-current financial assets		5,057	-	-	5,057	5,057
Cash and cash equivalents	7	-	7,587	-	7,587	7,587
Trade and other receivables	8	-	107,379	-	107,379	107,379
Derivatives - current		21,320	-	-	21,320	21,320
Total current financial assets		21,320	114,966	-	136,286	136,286
Total financial assets		26,377	114,966	-	141,343	141,343
Liabilities						
Loans and borrowings	17	-	-	232,780	232,780	232,780
Share resumption liability	16	-	-	4,186	4,186	4,186
Derivatives - non-current		195	-	-	195	195
Co-operative share capital classified as a liability	16	-	-	105,871	105,871	105,871
Total non-current financial liabilities		195	-	342,837	343,032	343,032
Loans and borrowings	17	-	-	-	-	-
Trade and other payables	10 & 11	-	-	60,036	60,036	60,036
Derivatives - current		24	-	-	24	24
Total current financial liabilities		24	-	60,036	60,060	60,060
Total financial liabilities		219	-	402,873	403,092	403,092

18 Financial Risk Management (continued)

(d) Fair values and classifications (continued)

	Note	Derivatives instruments in designated hedge accounting relationships $'000	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Group as at 31 July 2016						
Assets						
Derivatives - non-current		98	-	-	98	98
Total non-current financial assets		98	-	-	98	98
Cash and cash equivalents	7	-	13,059	-	13,059	13,059
Trade and other receivables	8	-	84,208	-	84,208	84,208
Derivatives - current		9,868	-	-	9,868	9,868
Total current financial assets		9,868	97,267	-	107,135	107,135
Total financial assets		9,966	97,267	-	107,233	107,233
Liabilities						
Loans and borrowings	17	-	-	230,490	230,490	230,490
Share resumption liability	16	-	-	4,387	4,387	4,387
Derivatives - non-current		-	-	-	-	-
Co-operative share capital classified as a liability	16	-	-	106,016	106,016	106,016
Total non-current financial liabilities		-	-	340,893	340,893	340,893
Loans and borrowings	17	-	-	20,000	20,000	20,000
Trade and other payables	10 & 11	-	-	57,465	57,465	57,465
Derivatives - current		1,400	-	-	1,400	1,400
Total current financial liabilities		1,400	-	77,465	78,865	78,865
Total financial liabilities		1,400	-	418,358	419,758	419,758

	Note	Derivatives instruments in designated hedge accounting relationships $'000	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Company as at 31 July 2016						
Assets						
Derivatives - non-current		98	-	-	98	98
Total non-current financial assets		98	-	-	98	98
Cash and cash equivalents	7	-	7,347	-	7,347	7,347
Trade and other receivables	8	-	103,888	-	103,888	103,888
Derivatives - current		9,071	-	-	9,071	9,071
Total current financial assets		9,071	111,235	-	120,306	120,306
Total financial assets		9,169	111,235	-	120,404	120,404
Liabilities						
Loans and borrowings	17	-	-	230,490	230,490	230,490
Share resumption liability	16	-	-	4,387	4,387	4,387
Derivatives - non-current		-	-	-	-	-
Co-operative share capital classified as a liability	16	-	-	106,016	106,016	106,016
Total non-current financial liabilities		-	-	340,893	340,893	340,893
Loans and borrowings	17	-	-	20,000	20,000	20,000
Trade and other payables	10 & 11	-	-	43,112	43,112	43,112
Derivatives - current		1,221	-	-	1,221	1,221
Total current financial liabilities		1,221	-	63,112	64,333	64,333
Total financial liabilities		1,221	-	404,005	405,226	405,226

18 Financial risk management (continued)

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 (note 17).

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.

An analysis of financial instruments that are measured subsequent to initial recognition at fair value has been performed with all financial instruments grouped 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 bid price. These instruments are 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 include in Level 3.

The fair value of forward exchange contracts and options 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.

There were no transfers between levels during the period.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group as at 31 July 2017				
Assets				
Foreign exchange contracts	-	26,162	-	26,162
Interest rate swaps	-	268	-	268
Total assets	-	26,430	-	26,430
Liabilities				
Foreign exchange contracts	-	(24)	-	(24)
Interest rate swaps	-	(195)	-	(195)
Total liabilities	-	(219)	-	(219)
Company as at 31 July 2017				
Assets				
Foreign exchange contracts	-	26,110	-	26,110
Interest rate swaps	-	268	-	268
Total assets	-	26,378	-	26,378
Liabilities				
Foreign exchange contracts	-	(24)	-	(24)
Interest rate swaps	-	(195)	-	(195)
Total liabilities	-	(219)	-	(219)

18 Financial risk management (continued)

Fair value estimation (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Group as at 31 July 2016				
Assets				
Foreign exchange contracts	-	9,966	-	9,966
Interest rate swaps	-	-	-	-
Total assets	-	9,966	-	9,966
Liabilities				
Foreign exchange contracts	-	(1,400)	-	(1,400)
Interest rate swaps	-	-	-	-
Total liabilities	-	(1,400)	-	(1,400)
Company as at 31 July 2016				
Assets				
Foreign exchange contracts	-	9,169	-	9,169
Interest rate swaps	-	-	-	-
Total assets	-	9,169	-	9,169
Liabilities				
Foreign exchange contracts	-	(1,221)	-	(1,221)
Interest rate swaps	-	-	-	-
Total liabilities	-	(1,221)	-	(1,221)

19 Operating leases

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 Group or Company's balance sheet.

Payments made under operating leases are recognised in the income statement 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.

	Group		Company	
	31 July 2017 $'000	31 July 2016 $'000	31 July 2017 $'000	31 July 2016 $'000
Non-cancellable operating leases are payable as follows:				
Less than one year	1,294	2,023	496	729
Between one and five years	2,014	3,880	1,335	1,530
More than five years	408	1,147	-	-
	3,716	7,050	1,831	2,259

20 Reconciliation of the profit for the period with the net cash from operating activities

	Note	Group		Company	
		12 months to 31 July 2017 $'000	**12 months to 31 July 2016 $'000**	**12 months to 31 July 2017 $'000**	**12 months to 31 July 2016 $'000**
Profit / (loss) for the period		**1,506**	**(10,321)**	**2,470**	**(11,070)**
Non-cash items in operating profit					
Depreciation	12	31,219	28,458	30,383	27,231
Amortisation	13	1,790	1,717	1,790	1,692
Loss / (gain) on sale of assets		3,532	(119)	3,286	(129)
Unrealised foreign exchange losses / (gains)		(7,881)	2,431	(7,824)	3,709
Transfer to joint venture		-	-	3,000	-
Movement in deferred tax		(1,775)	(5,914)	(77)	(5,179)
		28,391	**16,252**	**33,027**	**16,254**
Movements in other working capital items					
Trade and other payables		(16,803)	29,500	(8,970)	18,385
Owing to suppliers		25,894	(8,565)	25,895	(8,566)
Current tax assets and liabilities		2,689	(2,019)	1,444	(1,270)
Trade and other receivables		7,255	(2,882)	(4,984)	(10,982)
Inventories		(4,479)	616	(10,221)	18,660
		14,556	**16,650**	**3,164**	**16,227**
Less items classified as investing and financing activities					
Issue of shares		-	(2,036)	-	(2,036)
Purchase of fixed assets		-	(11,118)	-	(11,118)
Loans with subsidiaries		-	-	(233)	3,000
Advances to third parties		-	113	-	-
Cash flow from operations		**42,947**	**19,862**	**35,958**	**22,327**

21 Investment in joint venture

In September 2016, the Group entered into a joint venture agreement with a third party. The Group acquired 40% of the shares in the joint venture, Pure Nutrition Limited. As at 31 July 2017, Pure Nutrition Limited was continuing construction of a 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:

	31 July 2017 $'000	31 July 2016 $'000
Loss from operations	(72)	-
Other comprehensive income	-	-
Share of profit / (loss) in joint venture	**(72)**	**-**

The carrying value of the investment in Pure Nutrition Limited was $2.9m at balance date (2016: $nil).

	31 July 2017 $'000	**31 July 2016 $'000**
Opening balance	-	-
Investment cost	3,000	-
Share of losses	(72)	-
Carrying value of investment	**2,928**	**-**

Notes to the Financial Statements (continued)
for the year ended 31 July 2017

22 Related parties

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 Company with milk, its main raw material, own all the shares in the Company. Those directors that are shareholders also supply milk to the Company on normal terms. The total payment made for milk during the year amounted to $338,691,000 (2016: $264,183,000) for the Group and the Company.

	31 July 2017 $'000	**31 July 2016 $'000**
Key management personnel compensation comprised:		
Short term employee benefits	5,897	5,108
Directors remuneration	808	779

	Transaction value		Balance outstanding	
	12 months to 31 July 2017 $'000	**12 months to 31 July 2016 $'000**	**As at 31 July 2017 $'000**	**As at 31 July 2016 $'000**
Other related party transactions				
Purchase of goods and services – subsidiaries	548	1,575	289	547
Sale of goods and services – subsidiaries	33,056	35,732	15,408	8,668

In addition to the transactions above, the Company has made and received short term advances to and from its subsidiaries, payable on demand. The Company has an advance from Westland Milk Products Investments Limited of $2,606,500 (2016: $2,606,500) included in other trade payables. The Company has made an advance to Easiyo Products Limited of $2,100,000 (2016: $3,000,000) included in trade and other receivables. The Company has a receivable of $3,000,000 due from Westland Milk Products Investments Limited relating to the investment in Pure Nutrition Limited (2016: $nil) included in trade and other receivables.

The Company has made loans (in lieu of share capital) to Westland Milk Products Investments Limited $19,140,000 (2016: $19,140,000).

23 Group entities

Significant subsidiaries

	Principal activity	Country of Incorporation	Interest (%) 31 July 2017	Interest (%) 31 July 2016	Reporting Date
Westland Milk Products Investments Limited	Investment Holding Company	NZ	100%	100%	31 July
Easiyo Products Limited	FMCG Manufacturer	NZ	100%	100%	31 July
Easiyo Products (UK) Limited	FMCG Manufacturer	UK	100%	100%	31 July
Easiyo Products (Australia) Limited	FMCG Distribution	NZ	100%	100%	31 July
Easiyo Limited	FMCG Distribution	US	100%	100%	31 July
Westland Milk Products (Shanghai) Company Limited	FMCG Distribution	CH	100%	100%	31 December

Investments accounted for using the equity method

	Principal activity	Country of Incorporation	Interest (%) 31 July 2017	Interest (%) 31 July 2016	Reporting Date
Pure Nutrition Limited	Dairy Product Manufacturing	NZ	40%	-	31 December

24 Capital commitments
The Group had no material capital commitments as at 31 July 2017 (2016: $nil).

25 Contingencies
There are no significant contingent liabilities at 31 July 2017 (2016: $nil).

26 Subsequent events
The Directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in these financial statements, that has or may significantly affect the operations of the Westland Co-operative Dairy Company Limited Parent or Group operations.

27 Restatement
A restatement has been made to the 31 July 2016 financial information. The adjustments are set out below:

(a) Deferred tax

Restatement was required due to deferred tax being calculated for buildings which qualified for exemption from deferred tax. This resulted in an overstatement of the deferred tax liability and a consequential understatement of the income tax reported.

(b) Inventories

Restatement of opening retained earnings and inventories was required due to profit being included in inventory for intercompany sales that was not correctly eliminated. This only impacted the Group financial statements. This adjustment overstated opening retained earnings as at 1 August 2015 and inventories at 31 July 2016. There was no impact on the income statement for the year ended 31 July 2016.

	Original balance	Adjustment	Group restated balance	Original balance	Adjustment	Company restated balance
Impact on balance sheet as at 31 July 2016	$'000	$'000	$'000	$'000	$'000	$'000
(a) Property, plant and equipment deferred tax liability	(14,353)	4,189	(10,164)	(14,353)	4,189	(10,164)
(b) Inventories	106,763	(2,679)	104,084	-	-	-
(a) and (b) Retained earnings	111,782	1,510	113,292	94,773	4,189	98,962
Impact on income statement for the year ended 31 July 2016						
Income tax expense / (benefit)	(3,096)	(4,189)	(7,285)	(2,884)	(4,189)	(7,073)

32 new products developed

and more than 240,000 samples tested in our laboratory

Directors' Remuneration

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

Company Directors	Remuneration $
PH Morrison (Chairman from 1 March 2017)	86,909
KS Milne (Deputy Chair from 1 March 2017)	44,140
MJ O'Regan (Chairman, retired 1 March 2017)	72,917
RK Lourie (Deputy Chair, until 1 March 2017)	65,860
FT Dooley	60,000
RL Keoghan	60,000
RM Major	119,714
BM O'Connor	20,000
NJ Robb	60,000
KR Smith	64,000
BPD Taylor	128,107
S Koops (30 November to 31 January 2017)	10,000
Subsidiary Directors	
MG Eng (Retired 1 January 2017)	40,000

During the year RM Major and BPD Taylor were engaged in additional roles and received remuneration of $59,714 and $68,107 respectively.

Subsidiary Company Directors

The following companies were subsidiaries of Westland Co-operative Dairy Company Limited as at 31 July 2017:

Easiyo Products (Aust) Limited: BD Dewar, MW Lockington (appointed 7 April 2017), CE Walker (18 November 2016 to 7 April 2017), KL Wallace (retired 18 November 2016)

Easiyo Products Limited: MG Eng (retired 1 January 2017), RK Lourie (retired 1 January 2017), N Robb (retired 1 January 2017), MT Teen (retired 7 April 2017), TL Brendish (appointed 18 November 2016), MW Lockington (appointed 7 April 2017)

Easiyo Products Limited [USA] (a non-trading entity): BD Dewar, KL Wallace (this company is in the process of being wound up. It was determined that, as agreed with respective parties, it was appropriate to leave the existing Director in place until the Company is wound up.)

Easiyo Products (UK) Limited: BD Dewar, KL Wallace (retired 23 October 2016)

Westland Milk Products Investments Limited: MJ O'Regan (retired 28 March 2017), KL Wallace (retired 18 November 2016), TL Brendish (appointed 25 October 2016), MW Lockington (appointed 28 March 2017)

Westland Milk Products (Shanghai) Company Ltd [PRC]: MJ O'Regan (retired 23 February 2017), RM Major, KL Wallace (retired 23 February 2017), CE Walker (appointed 23 February 2017), TL Brendish (appointed 23 February 2017)

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 2016 to 31 July 2017:

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 Pulse Energy New Zealand 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, Director of Easiyo Products Limited (retired 1 January 2017)
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, Member of International Development Commercial Advisory Panel (MFAT International Development Group)

Entries in the Interests Register (continued)

KS Milne	President of Federated Farmers, Member of the OSPRI Stakeholder Council, Member of National Animal Welfare Advisory Council, Trustee of the Hut Creek Trust
PH Morrison	Trustee of Budge's Hill Holdings Limited, Director of Darfield Service Station Limited, Director of Pauri Bank Farm Holdings Limited, Director of Morwood Limited, Director of Hidden Valley Timber Limited, Director of Humphrey's Mining Limited, Director and Shareholder of P & E Limited, Shareholder of Estaronline Limited
NJ Robb	Director and Shareholder of Taramakau Farms Limited, Director of Robb Farms Limited and associated companies. Director of Easiyo Products Limited (retired 1 January 2017)
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), Director of Electronic Navigation Limited, 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 Anderson & O'Leary Limited, Director of Tree Scape Limited
BPD Taylor	Investor in the Challenge Fund (a private equity fund), Director of Brent Taylor & Associates Limited, Director MHW Group Limited, Director of New Zealand Wineries Limited, Director NZW Holding Company 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 2017:

Remuneration Range	Number of Employees
$720,000-730,000	1
$710,000-720,000	1
$390,000-400,000	1
$320,000-330,000	1
$280,000-290,000	2
$270,000-280,000	1
$260,000-270,000	1
$250,000-260,000	1
$240,000-250,000	1
$210,000-220,000	6
$200,000-210,000	1
$190,000-200,000	4
$180,000-190,000	1
$170,000-180,000	2
$160,000-170,000	1
$150,000-160,000	6
$140,000-150,000	13
$130,000-140,000	7
$120,000-130,000	10
$110,000-120,000	16
$100,000-110,000	28
	105

Annual Resolution by Directors

Pursuant to section 10 of the Co-operative Companies Act 1996 (the "Act"), the Directors of the Company unanimously resolved on 30th August 2017 that the Company has, throughout the accounting period to 31 July 2017, been a co-operative dairy company.

The grounds for the Board's opinion are that throughout this period:

(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 the 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 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) Not less than 60 percent of the voting rights are held by transacting shareholders of the Company.

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Chairman
Pete Morrison

Deputy Chairman
Katie Milne

Directors
Keith Smith BCom
Raelyn Lourie
Frank Dooley BCom
Brent Taylor BBS
Rebecca Keoghan BMLSc MNZM
Bob Major MSc
Noel Robb BCM

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

Interim Chief Financial Officer
Jeremy Edmonds BA, BCom, CA

Chief Financial Officer (from 21/8/17)
Dorian Devers BSc (Hons), ACMA

Company Secretary
Mark Lockington NZCE, BCM, CA

Chief Operating Officer
Craig Betty NZCS Chem, Dip Mgt

General Manager Quality
Andrew Simson

General Manager Sales and Marketing
Rick Walker

General Manager People and Safety
Caro Findlay LLB BA

General Manager Operations
Simon Bastion Dip DT, Dip M Mgt, Cert. Mgt Studies

General Manager Supply Chain
Raul Elias-Drago

General Manager China
Gary Yu

EasiYo Chief Executive Officer
Brian Dewar BAgSc (Hons)

Bankers
ASB, HSBC, Westpac

Auditors
Deloitte

Insurance Brokers
Willis Towers Watson

"We are bringing about a change of culture in the company."

Toni Brendish, Chief Executive

Our sales team processed 3430 sales orders to more than 40 countries

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