

Dairy Farms NZ Limited  
Half Year Report  
For the six months ended  
30 November 2017



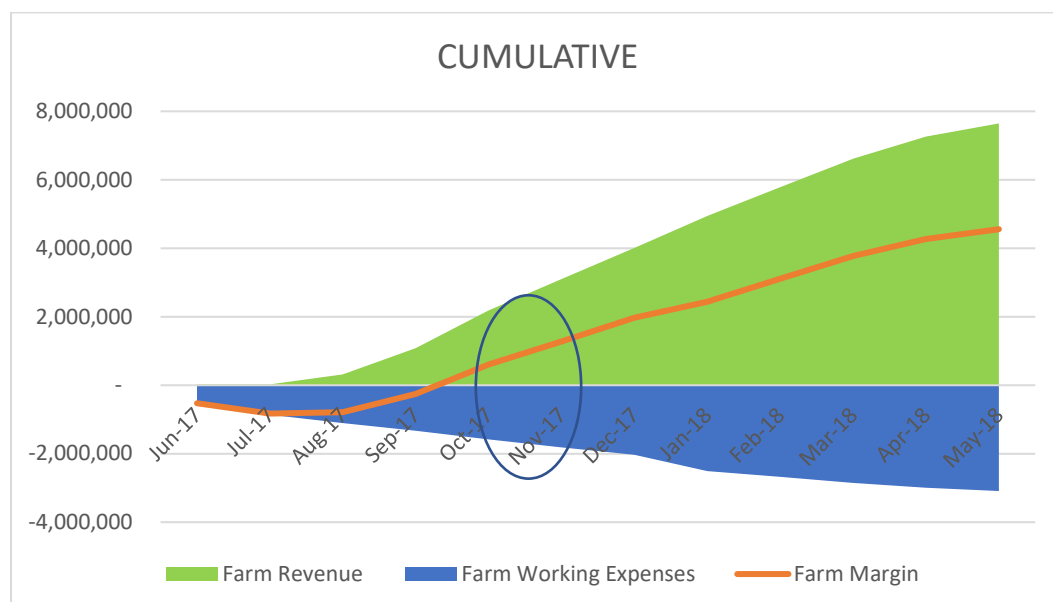
## **CEO REPORT – For the Six Months Ended 30 November 2017**

### **Introduction**

The consolidated Dairy Farms NZ Limited (DFNZ) has performed to expectations over the first six months of the 2017/18 financial year.

Spring calving dairy farm businesses incur a higher percentage of costs and a lower percentage of production in the first six months of a farming year (ending 31 May). This reverses in the second six months of the financial year. The following table and graph illustrates this by comparing production, farm working expenses and farm margin.

	<b>Six Months Ending 30 Nov % of Full Year</b>	<b>Six Months Ending 31 May % of Full Year</b>	<b>Full Year Ending 31 May % of Full Year</b>
<b>Production (kgMS)</b>	42%	58%	100%
<b>Farm Working Expenses</b>	72%	28%	100%
<b>Farm Margin</b>	19%	81%	100%



Major costs incurred in the first six months are winter grazing of cows off farm. These represent approximately 30% of DFNZ's total farm working expenses and are generally all incurred in the first three months of the new farming year.

### **Business Performance for Six Months Ending 30<sup>th</sup> November 2017**

Based on the Fonterra forecast payout of \$6.40 and the Synlait forecast payout of \$6.50 per kg milksolids as at 30 November 2017 (see Note 4) Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$969,000 compared to \$747,000 for the comparable six months ending 30 November 2016.

Net profit/loss after tax (NPAT) was a loss of \$260,000 compared to a loss of \$284,000 for the comparable six months ending 30 November 2016.

Based on current forecast the full year result NPAT is expected to be in the range of \$900,000 to \$1,000,000. This is of course subject to:

- final payouts from Fonterra and Synlait. Note a \$0.10 movement in payout affects DFNZ's revenue by approximately \$120,000;
- reasonable weather conditions to support milk production to the end of the season;
- ongoing cost control with no unforeseen surprises.

**Performance Relative to Six Months Ending 30<sup>th</sup> November 2016**

The following table compares by region (segment) actual performance against the prior year.

	Canterbury (2 farms – 1,950 cows peak milked)			Southland (5 farms – 3,845 cows peak milked)			Total (7 farms – 5,795 cows peak milked)		
	30/11/17 '000	30/11/16 '000	Variance '000	30/11/17 '000	30/11/16 '000	Variance '000	30/11/17 '000	30/11/16 '000	Variance '000
<b>Production (kgMS)</b>	368	364	+4	626	564	+62	994	928	+66
<b>Farm Working Expenses</b>	\$662	\$431	+\$231	\$1,154	\$1,124	+\$30	\$1,816	\$1,555	+\$261
<b>Farm Margin</b>	\$519	\$656	-\$137	\$764	\$507	+\$257	\$1,283	\$1,162	+\$121

The major variation in farm working expense in Canterbury is fertiliser (\$54,000), winter grazing (\$89,000), supplementary feed (\$40,000), and repairs and maintenance (\$17,000). The challenging weather conditions in winter/early spring in Canterbury required an increase in inputs including extended winter grazing, supplements and earlier use of nitrogen fertiliser.

Repairs and maintenance was largely driven by improvements to the high traffic lanes close to the Lowcliffe cowshed.

## Climatic Conditions

### Canterbury

Canterbury has experienced a very wet winter and early spring. The following photo was taken on 21<sup>st</sup> July 2017 on the corner of Trig Pole and Drain Roads, Lowcliffe showing some surface flooding. There was no significant lasting damage from the flooding as it drained away quickly, but it did present management challenges with protecting pasture and soil structure.



### Southland

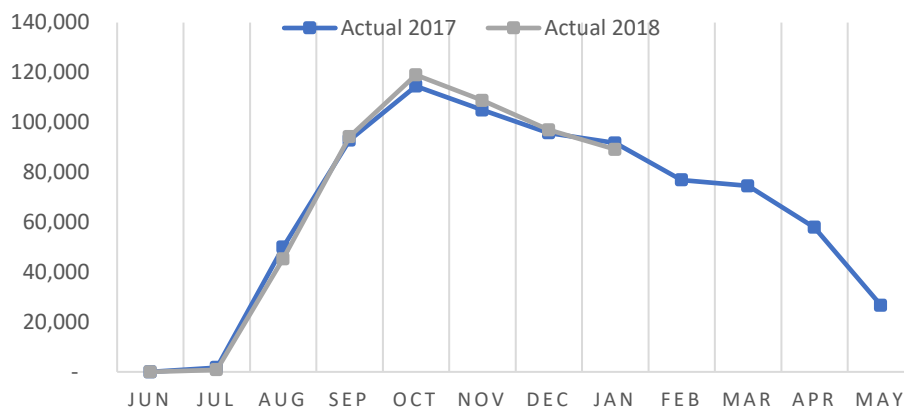
Southland enjoyed a drier winter and spring allowing the season to gain momentum early.

## Subsequent Activity – Post 30 November 2017

### Canterbury

The wet start to the season has been followed by a dry summer. Irrigation has generally kept up in the Lowcliffe area. However hot temperatures have impacted on dryland grass growth and per cow performance. Effective 31 January 2018 the combined Canterbury farms are 3,000 kg milksolids (0.5%) ahead of the same period last year.

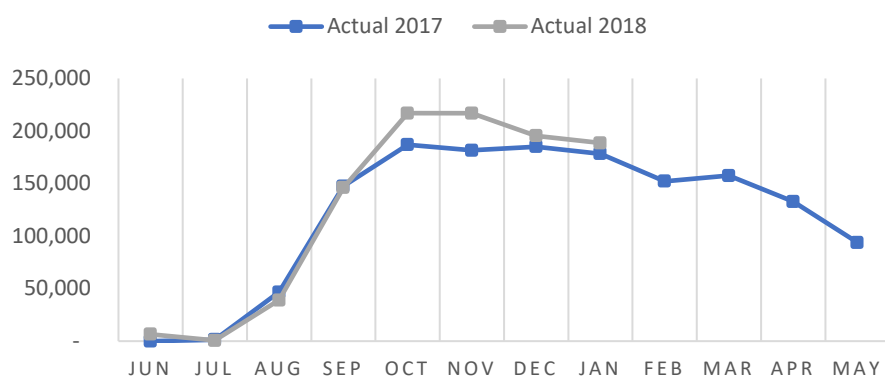
**CANTERBURY PRODUCTION (KG MILKSOLIDS)  
F17 ACTUAL VS F18 ACTUAL**



### Southland

The kind dry spring has extended into a hot dry summer. Otapiri appears to have received more rain events than much of wider Southland. Never the less high daily temperatures have suppressed grass growth and animal production from mid-November onwards. Effective 31 January 2018 the combined Southland farms are 83,000 kg milksolids (9%) ahead of the same period last year. This compares very favourably against Fonterra's supply base for the lower South Island which is 2.9% down compared to the same period last year.

**SOUTHLAND PRODUCTION (KG MILKSOLIDS)  
F17 ACTUAL VS F18 ACTUAL**



### Milk Commodity Prices

Online Global Dairy Trade auction prices been relatively stable through the first half of this financial year, with a slight dip through October and November 2017. Since 30<sup>th</sup> November 2017 prices have shown a good recovery across a full range of products to be trading at similar levels to where we started the financial year.

**Craig McBeth**  
CEO

# DAIRY FARMS NZ LIMITED

## Key financial disclosures

For the six months ended 30 November 2017

## Directors' Responsibility Statement

For the six months ended 30 November 2017

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 30 November 2017 and the financial performance and cash flows for the six months ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all of the relevant financial reporting and accounting standards have been followed.

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

The Directors are pleased to present the financial statements for Dairy Farms NZ Limited and its controlled entities (together the "Group") set out on pages 6 to 15 for the six months ended 30 November 2017.

The financial statements contained on pages 6 to 15 have been authorised for issue on 9 February 2018.

For and on behalf of the Board



David Belcher  
Chairman



Director and Chair of Audit and  
Risk Committee

**Dairy Farms NZ Limited**  
**Interim Statement of Profit or Loss**

For the six months ended 30 November 2017

	Note	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Operating revenue		3,098	6,987	2,717
Farm working expenses		(1,815)	(2,897)	(1,555)
<b>Farm margin</b>		<b>1,283</b>	<b>4,090</b>	<b>1,162</b>
Other income		277	322	122
Corporate farm management and administration		(590)	(1,077)	(537)
<b>Operating profit</b>		<b>970</b>	<b>3,335</b>	<b>747</b>
Non-operating items		(1)	(190)	-
<b>Earnings Before Interest, Tax, Depreciation and Amortisation</b>		<b>969</b>	<b>3,145</b>	<b>747</b>
Depreciation and amortisation expense	5	(420)	(827)	(393)
<b>Earnings Before Interest and Tax</b>		<b>549</b>	<b>2,318</b>	<b>354</b>
Net interest costs	1	(814)	(1,245)	(653)
Leases	1	(96)	(192)	(96)
Net interest and finance costs		(910)	(1,437)	(749)
<b>Net profit/(loss) before tax</b>		<b>(361)</b>	<b>881</b>	<b>(395)</b>
Income tax expense		101	(277)	111
<b>Net profit/(loss) after tax</b>		<b>(260)</b>	<b>604</b>	<b>(284)</b>
<b>Earnings per share</b>				
Basic earnings per share (New Zealand Dollars)	2	(0.006)	0.014	(0.007)
Diluted earnings per share (New Zealand Dollars)		(0.006)	0.014	(0.007)

The accompanying notes form an integral part of these financial statements.

## Dairy Farms NZ Limited

### Interim Statement of Other Comprehensive Income

For the six months ended 30 November 2017

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
<b>Net profit/(loss) after tax</b>	<b>(260)</b>	<b>604</b>	<b>(284)</b>
<b>Other comprehensive income/(loss) for the period</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Gain/(loss) on revaluation of land and improvements	-	1,036	-
Gain/(loss) on revaluation of buildings	-	219	-
Deferred tax on revaluations	-	(275)	-
Gain/(loss) on revaluation of equity instruments (Fonterra shares)	480	231	-
	480	1,211	-
<b>Other comprehensive income/(loss) for the period, net of income tax</b>	<b>480</b>	<b>1,211</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>220</b>	<b>1,815</b>	<b>(284)</b>

The accompanying notes form an integral part of these financial statements.



# Dairy Farms NZ Limited

## Segment Report

For the period ended/as at 30 November 2017

### (a) Operating Segments

The Group has two primary operating divisions: Canterbury and Southland. Aside from varying geographical locations, these segments have different soil types, irrigation requirements and regional council environmental compliance obligations. Farms in these clusters are at varying stages of re-development. Key management reporting is at a segment level as well as individual farm level.

Other non-segmented amounts relate to Corporate activities including finance, treasury, Board and executive costs, and includes consolidation adjustments. An administration fee is charged annually to each farm for a portion of corporate costs, and eliminated on consolidation.

### (b) Operating Segment Information

	Canterbury			Southland			Total operating segments			Other			Total		
	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Total segment revenue	1,181	2,462	1,087	1,917	4,525	1,630	3,098	6,987	2,717	-	-	-	3,098	6,987	2,717
Farm working expenses	(662)	(786)	(431)	(1,153)	(2,111)	(1,124)	(1,815)	(2,897)	(1,555)	-	-	-	(1,815)	(2,897)	(1,555)
<b>Farm margin</b>	519	1,676	656	764	2,414	506	1,283	4,090	1,162	-	-	-	1,283	4,090	1,162
Other income	87	186	77	190	136	45	277	322	122	-	-	-	277	322	122
Administration	(23)	(327)	(16)	(3)	(852)	(62)	(26)	(1,179)	(78)	(564)	102	(459)	(590)	(1,077)	(537)
<b>Operating profit</b>	583	1,535	717	951	1,698	489	1,534	3,233	1,206	(564)	102	(459)	970	3,335	747
Non-operating items	-	(115)	-	(1)	(75)	-	(1)	(190)	-	-	-	-	(1)	(190)	-
<b>Earnings Before Interest, Tax, Depreciation and Amortisation</b>	583	1,420	717	950	1,623	489	1,533	3,043	1,206	(564)	102	(459)	969	3,145	747
Depreciation and amortisation expense	(200)	(378)	(184)	(211)	(437)	(203)	(411)	(815)	(387)	(9)	(12)	(6)	(420)	(827)	(393)
<b>Earnings Before Interest and Tax</b>	383	1,042	533	739	1,186	286	1,122	2,228	819	(573)	90	(465)	549	2,318	354
Net lease, interest and finance costs*	(98)	(209)	(105)	-	(1,265)	(670)	(98)	(1,474)	(775)	(812)	37	26	(910)	(1,437)	(749)
<b>Net profit/(loss) before tax</b>	285	833	428	739	(79)	(384)	1,024	754	44	(1,385)	127	(439)	(361)	881	(395)
Income tax expense	(80)	(62)	(120)	(207)	(7)	108	(287)	(69)	(12)	388	(208)	123	101	(277)	111
<b>Net profit/(loss) after tax</b>	205	771	308	532	(86)	(276)	737	685	32	(997)	(81)	(316)	(260)	604	(284)

\* Term loans were consolidated into the "other" segment part-way through 2017. Remaining costs in Canterbury represent Boulton lease costs.

The accompanying notes form an integral part of these financial statements.

# Dairy Farms NZ Limited

## Statement of Cash Flows

For the six months ended 30 November 2017

Note	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Receipts from customers	3,195	5,584	1,471
Dividends received	276	56	46
Income tax received	54	-	-
Interest received	27	86	46
	<u>3,552</u>	<u>5,726</u>	<u>1,563</u>
Cash was applied to:			
Payments to suppliers and employees	(2,326)	(4,137)	(2,168)
Interest paid	(726)	(1,302)	(586)
Income tax paid	-	(23)	(13)
	<u>(3,052)</u>	<u>(5,462)</u>	<u>(2,767)</u>
<b>Net cash flow from operating activities</b>	<b>500</b>	<b>264</b>	<b>(1,204)</b>
<b>Cash flows from investing activities</b>			
Cash was applied to:			
Purchases of property, plant and equipment including software	(435)	(29,528)	(28,550)
Purchase of investments	(2,009)	(4,279)	(3,068)
	<u>(2,444)</u>	<u>(33,807)</u>	<u>(31,618)</u>
<b>Net cash flow from investing activities</b>	<b>(2,444)</b>	<b>(33,807)</b>	<b>(31,618)</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Increase in external borrowings	-	31,265	31,265
Issue of ordinary shares	34	3,500	2,750
Issue of subordinated ordinary shares	-	94	-
	<u>34</u>	<u>34,859</u>	<u>34,015</u>
Cash was applied to:			
Net dividends paid to shareholders after dividend reinvestment scheme	(441)	-	-
Repayment of external borrowings	(52)	-	-
Brokerage and cash issue costs, promoter's and underwriting fees	-	(201)	(55)
	<u>(493)</u>	<u>(201)</u>	<u>(55)</u>
<b>Net cash flow from financing activities</b>	<b>(459)</b>	<b>34,658</b>	<b>33,960</b>
Net increase/(decrease) in cash held	(2,403)	1,115	1,138
Opening cash	3,865	2,750	2,750
<b>Cash and cash equivalents</b>	<b>3</b> 1,462	3,865	3,888

## Reconciliation of Profit After Tax With Net Cash Flow from Operating Activities

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
<b>Net profit after tax</b>	(260)	604	(284)
Add/(deduct) non-cash/non operating items:			
Depreciation, amortisation and impairment	420	827	393
Non-operating items	1	190	-
Change in deferred taxation	-	503	-
Other non-cash/non-operating items eg. fixed asset accruals	627	(963)	(377)
	<u>788</u>	<u>1,161</u>	<u>(268)</u>
Add/(deduct) movement in working capital items:			
Change in working capital due to sale/purchase of businesses, PP&E	(262)	27,016	26,989
Change in inventories	(19)	(36)	(47)
Change in accounts receivable and prepayments	(41)	(1,080)	(1,024)
Change in trade creditors, provisions and accruals	82	(26,825)	(26,730)
Change in income tax payable/receivable	(48)	28	(13)
Change in other current assets/liabilities	-	-	-
	<u>(288)</u>	<u>(897)</u>	<u>(825)</u>
<b>Net cash flow from operating activities</b>	<b>500</b>	<b>264</b>	<b>(1,093)</b>

The accompanying notes form an integral part of these financial statements.

# Dairy Farms NZ Limited

## Statement of Financial Position

As at 30 November 2017

	Note	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	3	1,462	3,865	3,888
Trade and other receivables	4	1,811	1,865	1,728
Income tax receivable		74	27	179
Inventories		94	75	86
<b>Total current assets</b>		<b>3,441</b>	<b>5,832</b>	<b>5,881</b>
<b>Non-current</b>				
Property, plant and equipment	5	75,744	76,007	74,371
Intangible assets		15	-	-
Investments	6	9,305	6,816	5,185
Deferred tax asset		-	-	260
Other non-current assets		9	9	9
<b>Total non-current assets</b>		<b>85,073</b>	<b>82,832</b>	<b>79,825</b>
<b>Total assets</b>		<b>88,514</b>	<b>88,664</b>	<b>85,706</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Debt due within one year	3	78	131	-
Accounts payable and accruals		749	667	760
<b>Total current liabilities</b>		<b>827</b>	<b>798</b>	<b>760</b>
<b>Non-current</b>				
Long-term debt	3	42,455	42,455	42,586
Deferred tax liability		423	423	180
<b>Total non-current liabilities</b>		<b>42,878</b>	<b>42,878</b>	<b>42,766</b>
<b>Total liabilities</b>		<b>43,705</b>	<b>43,676</b>	<b>43,526</b>
<b>EQUITY</b>				
Share capital		42,946	42,912	42,214
Reserves		4,712	4,221	2,997
Retained earnings		(2,849)	(2,145)	(3,031)
<b>Total equity</b>		<b>44,809</b>	<b>44,988</b>	<b>42,180</b>
<b>Total liabilities and equity</b>		<b>88,514</b>	<b>88,664</b>	<b>85,706</b>

These financial statements have been authorised for issue on 9 February 2018.



David Belcher  
Chairman



John Brabazon  
Director and Audit Committee Chairman

The accompanying notes form an integral part of these financial statements.

## Dairy Farms NZ Limited

### Statement of Changes in Equity

For the six months ended 30 November 2017

	Ordinary fully paid shares	Sub-ordinated ordinary fully paid shares	Share option reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance at 1 June 2016	38,471	1,048	53	2,967	(35)	(2,747)	39,757
<b>Total comprehensive income for the period</b>							
Profit or loss	-	-	-	-	-	(284)	(284)
<b>Other comprehensive income</b>							
Land and improvements revaluation gains and losses	-	-	-	-	-	-	-
Building revaluation gains and losses, net of tax	-	-	-	-	-	-	-
Changes in fair value of equity instruments, net of tax	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	-	(284)	(284)
<b>Transactions with shareholders, recorded directly in equity</b>							
<b>Contributions by and distributions to shareholders</b>							
Proceeds from shares issued	2,750	-	-	-	-	-	2,750
Promoter's fees	-	-	-	-	-	-	-
Brokerage fees	(55)	-	-	-	-	-	(55)
Underwrite fees	-	-	-	-	-	-	-
Cash issue costs	-	-	-	-	-	-	-
Share option reserve movement	-	-	12	-	-	-	12
Dividends to shareholders	-	-	-	-	-	-	-
<b>Total contributions by and distributions to shareholders</b>	2,695	-	12	-	-	-	2,707
<b>Balance at 30 November 2016</b>	<b>41,166</b>	<b>1,048</b>	<b>65</b>	<b>2,967</b>	<b>(35)</b>	<b>(3,031)</b>	<b>42,180</b>
Opening balance	41,166	1,048	65	2,967	(35)	(3,031)	42,180
<b>Total comprehensive income for the period</b>							
Profit or loss	-	-	-	-	2	886	888
<b>Other comprehensive income</b>							
Land and improvements revaluation gains and losses	-	-	-	1,036	-	-	1,036
Building revaluation gains and losses, net of tax	-	-	-	(55)	-	-	(55)
Changes in fair value of equity instruments, net of tax	-	-	-	-	229	-	229
Total other comprehensive income	-	-	-	981	229	-	1,210
<b>Total comprehensive income for the period</b>	-	-	-	981	231	886	2,098
<b>Transactions with shareholders, recorded directly in equity</b>							
<b>Contributions by and distributions to shareholders</b>							
Proceeds from shares issued	750	95	-	-	-	-	845
Promoter's fees	(132)	-	-	-	-	-	(132)
Brokerage fees	(15)	-	-	-	-	-	(15)
Share option reserve movement	-	-	12	-	-	-	12
Dividends to shareholders	-	-	-	-	-	-	-
<b>Total contributions by and distributions to shareholders</b>	603	95	12	-	-	-	710
<b>Balance at 31 May 2017</b>	<b>41,769</b>	<b>1,143</b>	<b>77</b>	<b>3,948</b>	<b>196</b>	<b>(2,145)</b>	<b>44,988</b>
Opening balance	41,769	1,143	77	3,948	196	(2,145)	44,988
<b>Total comprehensive income for the period</b>							
Profit or loss	-	-	-	-	-	(260)	(260)
<b>Other comprehensive income</b>							
Land and improvements revaluation gains and losses	-	-	-	-	-	-	-
Building revaluation gains and losses, net of tax	-	-	-	-	-	-	-
Changes in fair value of equity instruments, net of tax	-	-	-	-	480	-	480
Total other comprehensive income	-	-	-	-	480	-	480
<b>Total comprehensive income for the period</b>	-	-	-	-	480	(260)	220
<b>Transactions with shareholders, recorded directly in equity</b>							
<b>Contributions by and distributions to shareholders</b>							
Proceeds from shares issued	34	-	-	-	-	-	34
Promoter's fees	-	-	-	-	-	-	-
Brokerage fees	-	-	-	-	-	-	-
Share option reserve movement	-	-	11	-	-	-	11
Dividends to shareholders	-	-	-	-	-	(444)	(444)
<b>Total contributions by and distributions to shareholders</b>	34	-	11	-	-	(444)	(399)
<b>Balance at 30 November 2017</b>	<b>41,803</b>	<b>1,143</b>	<b>88</b>	<b>3,948</b>	<b>676</b>	<b>(2,849)</b>	<b>44,809</b>

## **Dairy Farms NZ Limited**

### **Additional financial disclosures including notes to the financial statements**

For the six months ended 30 November 2017

## Dairy Farms NZ Limited

### Additional financial disclosures including notes to the financial statements

For the six months ended 30 November 2017

#### 1 Interest - Finance Income and Expense

Finance income contains the following items:

Other interest income

##### Finance income

Interest funding contains the following items:

Interest on bank loans and overdrafts

Bank facility fees

##### Interest funding expense

##### Net interest

Leases contains the following items:

Canterbury farm lease

##### Leases expense

##### Net interest and finance costs

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Other interest income	27	85	46
<b>Finance income</b>	<b>27</b>	<b>85</b>	<b>46</b>
Interest on bank loans and overdrafts	(699)	(1,168)	(646)
Bank facility fees	(142)	(162)	(53)
<b>Interest funding expense</b>	<b>(841)</b>	<b>(1,330)</b>	<b>(699)</b>
<b>Net interest</b>	<b>(814)</b>	<b>(1,245)</b>	<b>(653)</b>
Canterbury farm lease	(96)	(192)	(96)
<b>Leases expense</b>	<b>(96)</b>	<b>(192)</b>	<b>(96)</b>
<b>Net interest and finance costs</b>	<b>(910)</b>	<b>(1,437)</b>	<b>(749)</b>

#### 2 Earnings Per Share and Net Tangible Assets

##### Basic earnings per share

The calculation of basic earnings per share at 30 November 2017 was based on the profit/(loss) attributable to ordinary shareholders of \$(260,000), (31 May 2017: \$604,000, 30 November 2016: \$(284,000)) by the weighted average number of shares, 44,424,777 (31 May 2017: 42,652,712, 30 November 2016: 40,977,905) on issue. There are dilutive shares in the form of sub-ordinated shares.

The share options are not considered to be dilutive shares. The options are anti-dilutive as any conversion to ordinary shares would increase the profit due to a reduction in bank debt and interest charges.

If this were taken into account, the earnings per share would be \$(0.003) (31 May 2017 \$0.016, 30 November 2016 \$(0.004)).

##### Number of shares

Weighted average number of shares - ordinary

Weighted average number of shares - diluted

Number of ordinary shares

Number of sub-ordinated shares

Number of options

Number of farmer-director options

Total shares

	Unaudited Nov 2017 000	Audited May 2017 000	Unaudited Nov 2016 000
Weighted average number of shares - ordinary	44,425	42,653	40,978
Weighted average number of shares - diluted	45,920	44,054	42,353
Number of ordinary shares	44,458	44,423	43,673
Number of sub-ordinated shares	1,495	1,495	1,375
Number of options	5,950	5,950	5,950
Number of farmer-director options	409	409	409
<b>Total shares</b>	<b>52,312</b>	<b>52,278</b>	<b>51,407</b>

##### Net Tangible Assets

Total assets

Total liabilities

less intangible assets

less deferred tax

Total net tangible assets

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Total assets	88,514	88,664	85,706
Total liabilities	(43,705)	(43,676)	(43,526)
less intangible assets	(15)	-	-
less deferred tax	423	423	(80)
<b>Total net tangible assets</b>	<b>45,217</b>	<b>45,411</b>	<b>42,100</b>

##### Net tangible assets per share - basic

##### Earnings per share - basic and diluted

	Unaudited Nov 2017 \$	Audited May 2017 \$	Unaudited Nov 2016 \$
Net tangible assets per share - basic	1.017	1.022	0.964
Earnings per share - basic and diluted	(0.006)	0.014	(0.007)

#### 3 Cash and Financing Facilities

Current bank trading accounts

Funds available for OIO capital spend

Cash and cash equivalents

Fonterra Co-op support short term loan

Fonterra Co-op support long term loan

Term financing facilities

Net Cash and Financing Facilities

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Current bank trading accounts	277	1,896	1,821
Funds available for OIO capital spend	1,185	1,969	2,067
Cash and cash equivalents	1,462	3,865	3,888
Fonterra Co-op support short term loan	(78)	(131)	-
Fonterra Co-op support long term loan	-	-	(131)
Term financing facilities	(42,455)	(42,455)	(42,455)
<b>Net Cash and Financing Facilities</b>	<b>(41,071)</b>	<b>(38,721)</b>	<b>(38,698)</b>

##### ASB loan

The Company has a facility agreement with ASB Bank Limited which provides bank facilities of up to \$46 million. The agreement contains various terms that are standard for facilities of this nature, including reporting obligations. The Company has granted a general security deed and mortgage over all its wholly-owned New Zealand assets. Interest is being charged at the Committed Cash Advance Facility rate prescribed by ASB Bank Limited and is reset every 90 days.

The Company's bank facilities include:

- A term debt facility of \$43 million.
- Overdraft facilities of \$3 million.

These facilities mature on 31 December 2019.

##### Fonterra Co-op support loan

During 2015 Fonterra Co-operative Group Limited provided a support loan on shared up milksolids produced between 1 June and 30 November 2015. This loan is not repayable unless the Fonterra Total Advance Payment Rate is more than \$6.00 per kg/MS. From 1 June 2017 interest has been charged at 2.45% on the loan. Repayment is via deduction from milk revenue receipts, with one repayment made in September 2017. Based on current forecast rates the loan will be fully repaid within 12 months, hence DFNZ classified this loan as current from May 2017.

## Dairy Farms NZ Limited

### Additional financial disclosures including notes to the financial statements continued

For the six months ended 30 November 2017

#### 4 Trade and Other Receivables

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Accounts receivable	737	497	859
Accrued milk income	944	1,264	753
Prepayments	114	72	94
Other receivables	16	32	22
	<b>1,811</b>	<b>1,865</b>	<b>1,728</b>

Accrued income includes amounts estimated as being receivable for milk supplied to Fonterra Co-operative Group Limited ("Fonterra") and Synlait Milk Limited ("Synlait") during the period but which are not able to be invoiced until after 30 November 2017. These accruals are based on 50% (reflecting the share-milking agreements) of an estimated total pay-out of \$6.40/kg milk solids from Fonterra, whereas receipts during the period averaged \$4.30/kg milk solids. From Synlait the estimated total pay-out is \$6.50/kg milk solids whereas receipts during the period averaged \$4.50/kg milk solids.

There is no provision for bad debts at 30 November 2017 (31 May 2017: Nil, 30 November 2016: Nil) and no receivables have been written off during the year.

#### 5 Property, Plant and Equipment

##### Acquisitions and disposals

During the period to 30 November 2017, the Group acquired assets with a cost of \$177,835 (31 May 2017: \$3,374,000, 30 November 2016, \$1,899,630). No assets were acquired through business combinations in any of these periods. Assets with a net book value of \$1,000 were disposed during the period to 30 November 2017 (31 May 2017: \$588,000, 30 November 2016 Nil), resulting in a loss on disposal of \$1,000 (31 May 2017 loss \$34,000, 30 November 2016: loss Nil).

#### 6 Investments

##### Equity instruments at fair value:

Fonterra Co-operative Group Limited

##### Supplier shares:

Ballance Agri-Nutrients Limited

Farmlands Co-operative Society Limited

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Fonterra Co-operative Group Limited	9,241	6,789	5,160
Ballance Agri-Nutrients Limited	63	26	25
Farmlands Co-operative Society Limited	1	1	-
	<b>9,305</b>	<b>6,816</b>	<b>5,185</b>

##### Fonterra shares

The Fonterra shares are classified as financial assets at fair value through Other Comprehensive Income. The fair value of the Fonterra shares at 30 November 2017 as quoted on the New Zealand Exchange was \$6.36 per share (31 May 2017: \$6.00, 30 November 2016: \$5.93). Additional shares were purchased during the period, plus a dividend reinvestment allotment, at an average cost of \$6.13 per share. The total increase in value between opening value, acquisition cost and fair value at 30 November 2017 of \$480,000 has been recognised in other comprehensive income.

##### Supplier shares

Investment in co-operative suppliers are required in order to access preferential purchasing rights, and are held at historical cost.

#### 7 Operating Leases

##### Non-cancellable operating lease rentals are payable as follows:

Within one year

Between one and five years

Beyond five years

Note	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
12	21	96	192
	11	-	96
	10	-	-
	<b>42</b>	<b>96</b>	<b>288</b>

The Group leases property adjoining its Canterbury properties and farms this land in conjunction with the owned land. The lease expires on 13 December 2017. Rent is subject to an annual consumer price index adjustment. An extension to the farm leased area and term has been negotiated and is awaiting OIO approval. Should this be approved, lease commitments will increase by the full value of this lease, being a further \$160,000 within one year, and an additional \$1,280,000 total for years one and five.

#### 8 Seasonality of Operations

The Group is subject to seasonal and cyclical fluctuations. Milk production peaks from September to March following seasonal grass growth. Cash income relating to this milk includes a deferred element which is accrued for. Farm input costs are generally weighted towards the winter and spring seasons, relating to cow winter grazing costs and spring supplements. Following purchase of farms there is typically a 12-24 month cycle of capital development expenditure to bring farms up to full productivity. The Group recognises that these seasonal and cyclical activities are the nature of the industry and plans and manages its business accordingly.

#### 9 Commitments

##### There are commitments with respect to:

Capital expenditure not provided for

OIO investment obligations

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Capital expenditure not provided for	200	8	201
OIO investment obligations	1,143	1,300	3,390
	<b>1,343</b>	<b>1,308</b>	<b>3,591</b>

##### Overseas Investment Office (OIO)

The Group has approval from the OIO to own land in Otapiri subject to a requirement to invest \$4.3m in various agreed improvements. At 30 November 2017 \$1.1m investment remains to be completed. Funds to enable this work have been placed into separate term deposits until required per note 3.

#### 10 Contingent Liabilities

##### There are contingent liabilities with respect to:

Fonterra share purchases

	Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
Fonterra share purchases	3,339	10,187	14,944
	<b>3,339</b>	<b>10,187</b>	<b>14,944</b>

##### Fonterra share purchases

The Group has an obligation to purchase Fonterra shares over a three year period beginning 1 December 2015 provided production forecasts are met. Based on production forecasts it expects to purchase a further 556,439 shares by 1 December 2018. Since 30 November 2017 no shares have been purchased prior to these accounts being authorised.

## Dairy Farms NZ Limited

### Additional financial disclosures including notes to the financial statements continued

For the six months ended 30 November 2017

#### 11 Related Parties

##### Parent and ultimate controlling party

The parent and ultimate controlling party of the Group is Dairy Farms NZ Limited.

##### Transactions with key management personnel

Key management personnel compensation comprised:

Short-term employee benefits

Post-employment benefits

Termination benefits

Unaudited Nov 2017 \$000	Audited May 2017 \$000	Unaudited Nov 2016 \$000
270	300	206
-	-	-
-	-	-
270	300	206

The key management personnel comprise the Chief Executive Officer, Craig McBeth, and the Chief Financial Officer Fiona James (appointed 20 March 2017).

##### Other Transactions with Key Management Personnel

A number of Directors, senior executives or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. Some of these entities transacted with the Group during the reporting period. The terms and conditions of these transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Directors, senior executives and entities over which they have control or significant influence were as follows:

Key Management Personnel / Director / Shareholder	Transaction	Transaction Value	Balance Outstanding	Transaction Value	Balance Outstanding	Transaction Value	Balance Outstanding
		Nov 2017 \$000	Nov 2017 \$000	May 2017 \$000	May 2017 \$000	Nov 2016 \$000	Nov 2016 \$000
David Belcher and John Brabazon	Promoter's fees, Brokerage, Administration fees via Clavell Capital Ltd and Clavell Capital No. 2 Ltd	17	2	255	5	81	20
Richard Townshend	Consulting services provided	1	-	20	-	8	-
E Rattray, R G Townshend, I Tulloch	Share based payment amortised	11	-	23	-	12	-

#### 12 Events Subsequent to Balance Date

There were no material events occurring subsequent to balance date.

#### 13 Reporting Entity

Dairy Farms NZ Limited (the "Company") is a company domiciled in New Zealand, registered under the Companies Act 1993. It intends to become listed on the New Zealand Exchange subject to market conditions. The Company is not an FMC Entity in terms of the Financial Markets Conduct Act 2013.

The interim financial statements of Dairy Farms NZ Limited for the six months ended 30 November 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). Financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013.

The Group is primarily involved in dairy farm investment in the South Island of New Zealand, with farms being operated under the herd owning share-milker model.

#### 14 Basis of Preparation

##### Statement of Compliance

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as applicable to for-profit entities, and in particular NZ IAS 34 *Interim Financial Reporting*. The interim financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The interim financial statements do not include all of the information required for full annual financial statements. The same accounting policies and methods of computation are followed in the interim financial statements as applied in the Group's latest annual audited financial statements.

These statements were approved by the Board of Directors on 9 February 2018.

##### (e) Standards and Interpretations That Have Been Issued or Amended But Are Not Yet Effective

A number of new standards and interpretations are not yet effective for the period ended 30 November 2017 and have not been applied in preparing these consolidated interim financial statements. None of these standards are expected to have a significant impact on these financial statement except for:

- IFRS 16 *Leases* has been issued. This standard eliminates the classification of leases as either operating leases or finance leases. The standard uses a single lessee model which requires a lessee to recognise on the Statement of Financial Position assets and liabilities for all leases with a term of more than 12 months. The standard is effective for annual periods beginning on or after 1 January 2019. The Group is considering adopting IFRS 16 early in the 2018 financial statements. The standard is not expected to have a significant impact on the Group's financial results given it operates only one material lease in Canterbury.
- IFRS 15 *Revenue from Contracts with Customers* has been issued. This standard introduced a new revenue recognition model for contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 early as this is a requirement for early adoption of IFRS 16 *Leases*. The standard is not expected to have a significant impact on the Group's financial results.
- A variety of minor improvements to standards have been made in order to clarify various treatments of specific transactions. These are not expected to have an impact on the Group's financial results.



# **Dairy Farms NZ Limited**

## **Corporate Directory**

**Company number:** 4801399

**NZBN:** 9429040979496

### **DIRECTORS**

**D B Belcher**

*Chairman*

**J A Brabazon**

**E Rattray**

**R G Townshend**

**A Moody**

*(from 24 November 2017)*

*Retired 24 November 2017 - Ian Tulloch*

### **EXECUTIVE**

**C A McBeth**

*Chief Executive Officer*

**F K James**

*Chief Financial Officer*

### **REGISTERED OFFICE**

c/- Clavell Capital Limited

Level 4, 139 Quay Street, Princes Wharf, Auckland, 1010

PO Box 1917, Auckland, 1140

### **SOUTH ISLAND OFFICE**

Dairy Farms NZ Limited

Innovation Park, 185 Kirk Road, Templeton, 7678

PO Box 86-085, Rolleston West, Canterbury, 7658

### **BANKERS**

ASB Bank Limited

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PO Box 35, Auckland, 1140

### **SOLICITORS**

Bell Gully, Auckland

Vero Centre, 48 Shortland Street, Auckland, 1010

PO Box 4199, Auckland 1140, DX CP20509

Russell McVeagh, Auckland

Vero Centre, 48 Shortland Street, Auckland, 1010

PO Box 8, Auckland 1140, DX CX10085

### **AUDITORS**

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### **SHARE REGISTER**

For enquiries about share transactions or changes of address please contact:

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