



Supplier Newsletter – Winter 2016

100% MADE OF NEW ZEALAND

Dear Farmer Partners,



Rob Hewett



Dean Hamilton

While we are now in a relatively quiet period of the season on the processing front, things have continued to be busy – we are continuing to progress the Shanghai Maling investment, our sales team is selling through inventory and advancing conversations on new season demand and pricing, we are launching consumer-ready beef products into German retail, we are developing Pareora to process venison and upgrade their coolstores, and also spending time responding to the shareholder requisitioned special meeting and the media questions that have come with that.

The partnership with Shanghai Maling is progressing. The announcement of the agreement (subject to respective formal Board approvals) to extend the dates for OIO and completion is a clear sign of the commitment of both parties to completing this transaction.

A date of 30 September 2016 has been agreed between ourselves and Shanghai Maling to meet the only remaining condition – OIO approval – for their \$261m investment. Whilst disappointing having to extend, the OIO need to do their job, and both Shanghai Maling and Silver Fern Farms have continued to provide the requested information and respond to third party submissions – even those that were lodged over 7 months after the OIO process commenced. We remain confident that the OIO will approve the transaction.

We continue to believe our partnership represents a great opportunity to create significant positive change for shareholders and suppliers, rather than be mired in more of the same that has produced poor returns on average for dry-stock farmers and processors for a long period of time.

In terms of processing, we are now through the main part of the season. After 9 months to the end of June, national volumes are down on last season across all species. Total beef processed nationally was down 4% on the same period last year, sheep down 3% and venison down 17% – the latter as venison farmers slow the rate of hind culling in order to stabilise and we expect ultimately grow their herds.

We summarise current end market conditions later in this newsletter, and update you on the launch of our beef retail products into Germany.

Needless to say, the Brexit decision and impact this has had on the Pound and Euro currencies has had a meaningful negative impact on NZ returns, in particular for lamb. The longer term impact is much less clear given the minimum two year period to negotiate revised trade access and terms into Europe and the UK. We are keeping a very close eye on this as things unfold.

In May, shareholders were involved in the 'To the Core' Governance and Leadership Development course in Dunedin where they discussed governance with our Board and other experienced Directors. The course was very well received by those who attended. We intend to run further "To the Core" workshops for those shareholders interested in developing their governance skills in the future. Keep an eye on our website for details.

Our first shareholder market tour saw a group of 27 visit Shanghai, Inner-Mongolia and Beijing to get a fuller understanding of this exciting and complex market. A full run-down of the tour and these other developments at Silver Fern Farms can be read inside this newsletter.

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As previously announced, work on our new venison processing facilities at our Pareora processing site (replacing the Islington site where our lease expired) is progressing to plan – the old cattle yards have been demolished to make way for the new development. We have also started to upgrade some of the coolstore capacity at the site. Pareora venison will be up and running in time for the new season.

We announced in April the expectation that our full year result will be significantly down on last year. Since that time, operating conditions (for ourselves and the industry) have continued to be challenging – with lower national volumes and lower margins (exacerbated recently by the NZ dollar strength). We now expect our full year net operating profit before tax to be approximately breakeven,

which is disappointing. Pleasingly, the elements we have direct control over – for example, operating costs and inventory levels – continue to be well controlled and reflective of a continuation of the disciplined operating focus within the business.

The date for the shareholder requisitioned special meeting is now set for 12 August. Materials for the meeting will be mailed to shareholders from the 22nd of July. The Board is obligated to call this Special Meeting under the Companies Act, but is unanimous in stating that this Special Meeting is of no benefit to the Co-operative or its shareholders, cannot be binding on us, cannot undo the previous overwhelming 82% approval and the binding contracts we have, and is not an effective use of the Co-operative's management

and financial resources. The Board considers that the allegations made by Messrs Shrimpton and Gallagher are legally and factually wrong. The Board is firmly and unanimously of the view that the Shanghai Maling partnership was and remains in the best interests of Silver Fern Farms and its shareholders.

We will be holding meetings around the country ahead of the requisitioned meeting to allow shareholders to ask questions. Information on dates, times and locations will be published shortly

As always if you wish to comment on anything relating to your co-operative please contact us on **0800 362 362** or email **rob@silverfernfarms.co.nz** or **dean@silverfernfarms.co.nz**.

Yours sincerely

Rob Hewett & Dean Hamilton

Market update



China and Middle East Markets are recovering for lower value forequarter and flap items. We now sense both these markets have found they are short of supply coming into the new season. North America is stable. They are predominantly a French Rack market where we see stable pricing and returns. The UK lamb leg market has seen intense competition between UK supermarket retailers. It has caused uncertainty around pricing and genuine consumer demand ahead of the new season. European markets remain subdued, with demand in equilibrium with supply at this point in the season. For Sheepmeats, currency is having a real dampener on NZ dollar returns out of the UK and the EU. The Kiwi has strengthened against the Pound, the Euro and to a lesser extent the US. UK pricing is so far unchanged post-Brexit, however NZ dollar value has been eroded by the kiwi being up over 12% against the pound.

This is the low point of the season for mutton and demand out of the UK and EU for frozen product is weak.



As expected Australian beef supply into the market has fallen over following their record kill. They are now rebuilding their herd - aided by good wet and mild weather conditions in the Eastern States. The Australian cattle price is now the highest in the world a result of the scarce supply and Australian processors are closing capacity to match supply. This has taken some imported supply pressure out of the US market though Brazilian supply is expected to fill some of this supply gap in coming months. Overall NZ lean meat and trim have shown gradual positive movements. Steak cut demand has been steady, with the NZ domestic market absorbing excess June production. Our domestic market has grown off the back of strong tourism numbers fuelling demand for restaurant cuts in particular.

Our outlook for beef prices next season is still positive, with in-market pricing forecast to be consistent with this past season. Currency is the key factor eroding returns. Similar to lamb, farmers are receiving broadly similar prices to this time last year, however in-market returns are actually down over \$150/head in NZ dollars.



Negotiations with customers for August – September chilled orders are well advanced with positive signs for pricing and demand. Prices are well ahead of last season though the strength of the currency is a counterweight to returns. We have managed to lift prices, though we are being cautious that the product is not overpriced to a point which would result in customers taking venison off restaurant menus and supermarket shelves.

For Silver Fern Farms the livestock supply shortage has been amplified by the new demand generated by the fast growth of our retail programme into Germany. As we prioritise our chilled programmes and retail customers we will likely be in a situation throughout the season where we will have to short customer orders for frozen product.

China Shareholders' Tour

A group of 27 farmer shareholders, including Plate to Pasture Award winner Neil Aicken, Chairman Rob Hewett and Director Fiona Hancox spent 9 days last month in Shanghai, Hohhot and Beijing to gain a better understanding of Chinese consumers, food retailers, red meat processors and farming systems.

Each day in the market involved multiple visits to see aspects of the red meat supply chain in China.

At the consumer end, the group visited a range of supermarkets, wet-markets and street stalls in Shanghai and Hohhot. At each visit the group discussed aspects of red meat marketing: from its country of origin, pricing, cuts, packaging, to the appearance of the meat and how the products stacked up compared to pork and other proteins on display.

Testing the food was high on the radar. Restaurants ranged from hotels catering to international tourists, to traditional Chinese banquet style dinners, and Northern Chinese style hot pot restaurants. While beef and lamb were staples on menus, a famous Peking duck luncheon was a welcome exception to the rule.

Shanghai is a city of 28 million people and as you would expect it is full of contrasts between the modern high-tech world and an old low-tech one. High-end brands and

sophisticated point of sale marketing and visual billboards stretching 20 stories high in some cases, contrasted with low-tech photocopied posters pasted onto lamp posts and walls on city streets.

An insight into the rapidly growing online market for products was provided by NZ Trade and Enterprise Business Development Manager Echo Tan at NZ Central – a key business hub for New Zealand businesses in Shanghai. There are high levels of mobile connectivity and social media use – with a large group of consumers spending up to 4 hours each day online on social media.

The group were hosted by Shanghai Maling and gained an insight into their business. A visit to a SH First Food chain store (part of the Bright Group) showed the potential pathway to market for retail product. A tour of Maling's beef subsidiary company Lianhau was a chance to see how this beef consumer goods start-up was progressing as it targeted mid-tier consumers mainly through Maling and Bright Food-owned supermarkets with its beef retail options. It has grown rapidly in 5 years and is dipping its toe into online retail with 2% of sales going through online channels including Alibaba and T-Mall.

They also met with Primary Collaboration NZ to hear about how Silver Fern Farms

is partnering with other New Zealand exporters, NZTE and Ministry of Foreign Affairs staff in Beijing to learn more about the market.

Farming systems in the key sheepmeat region of Inner Mongolia highlighted the challenges of protecting native grasslands from the encroaching sandstorms of the Gobi desert and the harsh climate's impacts on animal production. Wide scale protective tree-planting was ever-present, the financial impact of destocking had been off-set by the growth of the domestic farm-stay market, and a low-tech and low-cost approach to farming was evident; though that approach was being challenged. A visit to the Lark Sheep breeding company showed off the development of sheep genetics with Australian Dorper breeds being crossed with local 'fat tailed' breeds to produce stock which could cope with the climate while improving meat yield. EID was extensively used along with a brand new Prattley weighing and auto-drafting system.

Visits to a feedlot cattle operation outside Beijing, and to sheep breeding and processing plant in Inner Mongolia were equally as interesting to see how farmers and processors were working to lift production to meet the needs of consumers in this highly complex market.

Images, from top left to bottom right: 1: Peter McNabb and William Oliver talk cuts with a butcher in Hohhot. **2:** Richard Scholefield and Neil Aicken inspecting the Mongolian-Dorper progeny at the Lark Sheep-breeding company in Inner Mongolia. **3:** The tour group in Tiananmen Square. **4:** The tour group outside Lianhau Beef Plant. **5:** Shareholders Rob and Heather McCreary present Shanghai Maling's Wei Peng Shen with a gift from New Zealand.



Our responsibilities *on your farm*

Our Livestock Representatives don't want to put your business at risk by doing anything that may not be safe on your property.

Under the revised legislation if there is an injury or accident on your place of work involving one of our people we're both liable to be prosecuted.

We have a programme called Ora at Silver Fern Farms which aims to create a zero harm place of work for our people. We're focused on people doing the right things at the time and working together so that 'mates keep mates safe'. To protect you (and us) from accidents, and from going through the investigation that follows, we want to let you

know our team are aware of their responsibilities. When they come onto your farm they will follow your Health & Safety procedures.

They're more than happy to go through your farm H&S inductions, sign-in processes, and will bring the right protective gear you need them to be in to carry out their tasks while on your farm.

We are also mitigating some areas of risk – for example our team have all had driver training for their own vehicles, have quad bike helmets which they will wear if they need to use one of your quads, and will not ride as a pillion passenger.

Further *information*

If you are looking for information on farm health & safety and follow the links to the websites below. They have information on the Health & Safety legislation and useful plans and procedures you can customise and templates to create a Safety Management System for your farm.

beeflambnz.com/farm/farm-safety/

saferfarms.org.nz/

business.govt.nz/worksafe



The Ora programme aims to create a *zero harm place of work* for our people

Silver Fern Farms livestock representative Mike Reid with farmer John Chittock working together on Jeff Farm in Kaiwera, Southland.

YOUNG FARMER OF THE YEAR

Silver Fern Farms congratulates *Young Farmer of the Year* contestants



Logan Wallace, winner of the Agri-Sports Challenge receiving his award from Rob Hewett.

Congratulations to Athol New the 48th 'FMG Young Farmer of the Year' and all contestants in the competition. Athol is a 30 year old Rakaia based dairy farm manager.

The Silver Fern Farms Agri-Sports Challenge was won by Logan Wallace from the Clinton/South Otago Young Farmers Club. He received the Silver Fern Farms Plate to Pasture executive package (worth \$10,000) presented by chairman, Rob Hewett.

Silver Fern Farms is a proud sponsor of the competition as it recognises and celebrates young farming talent.

PLATE TO PASTURE AWARDS

Celebrating *supplier excellence* in our co-op

The Plate to Pasture Awards are broken into the following categories: lamb, prime beef, bull beef, dairy stock and deer suppliers

We find the top 10 farms in each stock category based on the following criteria: Specification and presentation, shareholding, supply timing (with a weighting for being able to supply in times when we need stock for customers' chilled programmes), supply volume, supplying direct through their Silver Fern Farms Livestock Representative, loyalty over multiple seasons, and where applicable Farm Assurance status.

The margins between the regional winners and other farmers in the top 10 in any category are very small, and those who miss the top 10 often do so by the slightest of margins.

Our 5 regional winners will go on to have their farm visited by a judging panel in July. The panel will focus on finding out how our farmers farm with the consumer in mind and ask questions covering farm policy, strategy and governance, people development, environmental management, and importantly – consumer awareness.

The current 2015 Plate to Pasture Award winner is Neil Aicken of Waikawa Farms Trust who displayed exceptional understanding of the market and had taken deliberate steps to manage his farm to meet customer and consumer needs.

The 2016 Plate to Pasture winner will also receive an overseas market experience for two.

PLATE TO PASTURE AWARDS 2016

Congratulations to our Regional Winners:

Upper North Island
Sisam & Son

Western North Island
Pukemarama Farm

Eastern North Island
D & C Syme

Upper South Island
C & AM Allen

Lower South Island
Beaumont Station



GOVERNANCE & LEADERSHIP

Keen group get *'To the Core'*

A group of 17 shareholders from across the country took part in the first 'To the Core' Governance and Leadership Development course in Dunedin last month.

It was a chance for them to learn more about how Silver Fern Farms runs at a governance and operational level, and to learn about governance and leadership skills required in co-operatives and other businesses.

The course was an initiative of the Burnside Hart Co-operative Education Trust and Silver Fern Farms to develop governance and leadership capabilities in agribusiness and to give an insight into the governance and operations of Silver Fern Farms.

Over the two and a half day course the group heard from Silver Fern Farms Chairman, Directors and Chief

Executive and members of the Silver Fern Farms Leadership team and speakers on co-operative businesses, finance and risk.

Experienced governors also spent time with the group discussing various aspects of their experience on boards. This was a highlight for the group who heard from:

Stuart McLaughlan
(Pharmac, Scott Technology, Scenic Circle Hotels)

Stuart Heal
(NZ Cricket, WellSouth)

Andrew Noone
(Dunedin City Councillor); and

Jane Taylor
(Silver Fern Farms, Landcare Research, Heartland NZ, Hirepool, RadioNZ).

They talked through how they developed strategy, managed challenging issues in businesses, developed constructive boards and how they started out in governance.

We continue to progress developing the role of our Co-operative post the Shanghai Maling partnership, and this was workshopped with those on the course. We look forward to discussing this with shareholders at our annual national roadshow later in the year.

Feedback from the group on the course has been excellent with participants giving it strong ratings for providing a challenging and relevant learning experience.

We will keep shareholders up-to-date on more of these future opportunities in your co-op.

Venison plant build underway at Pareora

We are scaling up our investment in our venison business with the \$5m investment in new Venison processing facilities at our Pareora site in Timaru, and the addition of specialist Deer Representatives in both the North and South Islands.

Planning for the redevelopment of the Pareora site is tracking well. We are aiming to have the site processing by the end of this year.

Our lease at Islington came to an end in June and we worked with our team to relocate to Timaru or move to Belfast or Fairton. At the outset we wanted to retain as many of the Islington team as possible as they are skilled and dedicated people who we need at other sites in our business. While some

have seen this as a good time to do something different, or to take early retirement, a good number of them have taken up opportunities with us at other sites in our network which has been a great result.

As New Zealand's largest venison processor we're excited by the opportunity to add modern and efficient processing capacity at Pareora, and additional skilled people to service our loyal shareholders and suppliers and the growing international demand for Silver Fern Farms venison.

Pareora is central to many of our deer farmers in the upper and central South Island. We own the land which gives us long-term certainty and we can take advantage of existing assets and

services already on site, such as our cold chain which we are also investing in. Our launch of the German EDEKA retail venison range also suggests we will need the ability to expand our operations on the Pareora site in the future.

During planning for the Pareora upgrade we assessed our requirements for cold storage space across the region and made the decision to also close our leased Canterbury Coldstore in Belfast. We were able to relinquish the lease as we have made significant progress in inventory management and we do not require as much cold storage as we have in the past.

VALUE CREATION

“Natürlich grasgefüttertes Rind” (Naturally Grass-fed beef)

Our Silver Fern Farms Beef retail range has landed in Germany in time for the German BBQ season. The range of Silver Fern Farms Beef cuts consists of tenderloin, stir-fry and a rib-eye steak. The Rib-eye is new to our beef range and has been created specifically for the German market following

extensive market research with target consumers.

The launch into EDEKA supermarkets for our retail Lamb, Venison and Beef range has been a significant investment in production, sales and marketing to deliver a fully integrated marketing

campaign to drive consumer awareness. To-date we have launched our ranges into three regions in Germany.

We are aiming to be in 2000 stores by year end as we bring on three additional regions in this affluent, meat-loving market.

**Our new Beef range -
Naturally Delicious,
Naturally New Zealand,
Naturally Silver Fern Farms**



Time off Feed for all stock to be manually recorded on ASDs

Tesco, our key retail customer in the UK market, needs all farmer suppliers to record Time off Feed (TOF) information on ASD forms.

Time off feed (TOF) is the time that animals leave the paddock or the last time that they had access to feed before slaughter. Tesco is using this information to determine the total time that animals are off feed due to consumer interest around animal

welfare. We believe this will become increasingly asked for by other UK and EU customers as a standard requirement of supply approval in the near future.

Due to a high number of current ASD booklets already in circulation we are asking all suppliers to manually write the time all livestock leave feed before being transported to us onto the ASD form as shown in the image below. We

will then capture this information at plant and report it back to Tesco and other customer auditors. The next re-print of the ASD book will have a specific area to capture this information.

If you have any queries on this process please contact your livestock rep.

The image shows a portion of an ASD form. A green circle highlights the 'Date Loaded' field, which has 'TOF 9.00am' handwritten in blue ink. Other fields include 'Supplier Number', 'Silver Fern Farms Livestock Rep', 'Delivered by', and two 'Tick Circle Applicable' questions with 'Yes' and 'No' options. The first question is 'Are these animals Farm Assured (60 days) on your property?' and the second is 'If No then: Are these animals 60 days Farm Assured with at least 20 days on your property?'. There are also checkboxes for 'Reserve', 'Angus', 'Hereford', 'EID Tagged', 'AST Tagged', and 'HPid Tagged'.

New Upper South Island Regional Livestock Manager

Shane Dickson



We're pleased to announce Shane Dickson as the leader of our upper South Island Livestock team. As a Livestock Representative for Silver Fern Farms for several years Shane will be well known to many suppliers across Canterbury. He has a great team alongside him and a strong background in rural service businesses and prime stock procurement. He also has a good grasp of the farming systems across a quickly changing Canterbury region.

Here are contact details if you want to get in contact with your Livestock Regional Manager:

Upper North Island - Brett Devane
brett.devane@silverfernfarms.co.nz | 027 494 9984

Western North Island - Don Newland
don.newland@silverfernfarms.co.nz | 027 242 4878

Eastern North Island - Malcolm Gourlie
malcolm.gourlie@silverfernfarms.co.nz | 027 498 0780

Upper South Island - Shane Dickson
shane.dickson@silverfernfarms.co.nz | 027 433 9324

Lower South Island - Andy Perry
andy.perry@silverfernfarms.co.nz | 027 672 7016

