Tegel®

Annual Report
2018

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This Annual Report is dated 27 July 2018 and is signed on behalf of the Board of Tegel Group Holdings Limited by David Jackson, Chairman and Phil Hand, CEO.

David Jackson
Chairman

Phil Hand
CEO

CEO & CHAIRMAN'S REPORT

Resilient Performance and Investment for the Future

We are pleased to report to our shareholders that Tegel achieved its highest ever volumes and revenues in FY2018. This continues a consistent trend for the business and was achieved despite a number of challenges we experienced in the operations part of the business.

With poultry volumes at almost 100,000 tonnes, revenue of $615 million and over 50% domestic market share, the company is in good shape, and we are continuing our strategy of investing for the future.

In order to meet future demand, particularly for free range products, we invested significantly in the agriculture side of our business during the year. We increased our free range farm capacity by 169% representing an additional 80,000 square metres of farm capacity. We have done this through converting a number of our existing farms, adding farms in the Waikato region as well as constructing new farms in New Plymouth and in Canterbury. We also passed a significant milestone in building the last of our standard grower sheds. In future, all new Tegel grower farms will be free range capable.

With free range product demand driving growth in domestic sales we continue to innovate on products and providing convenient meal solutions. This aligns with our purpose of helping families eat well every day. New Zealanders are also looking for increasingly convenient meal solutions and this is being reflected in growth across all domestic channels. We continued to hold our domestic market share and when we consider 'share of plate' meat consumption - that is, poultry, beef, pork and sheep - in New Zealand, Tegel is producing approximately 25% of all the meat consumed domestically. The heart of our business is in New Zealand, and this strong domestic base enables us to take 100% Pure New Zealand Premium Chicken to select international markets.

We have been working hard to strengthen our position in Tegel's established export markets. In Australia, our strategy to diversify across channel and customer mix and reduce customer concentration is starting to deliver results. During the year we grew volumes in Retail and Foodservice channels. We added customers across all channels including Quick Service Restaurants (QSR) and we introduced 41 new products into Australia alone. We also recently completed a brand refresh for our products going into the United Arab Emirates where the assurance offered by Tegel's consistently high quality products drives shoppers to choose Tegel over other options.

On the operations side of the business, we faced a number of disruptions and difficulties through the year. We are very proud of our teams as they worked to resolve these matters which included ex-Cyclone Gita impacting our New Plymouth plant and working with the industry to establish a catching practice that reduced risk to catching staff.

David Jackson
CHAIRMAN

Phil Hand
CHIEF EXECUTIVE OFFICER

Together with our farmers we produce poultry in a sustainable way with a minimal impact on our environment relative to other proteins. We also enjoy a world class feed conversion ratio due to the combined efforts of our feed team and our farmers as well as a favourable growing environment.

Tegel will continue to compete well both domestically and on the export front. We will drive category growth and innovate on new products while responding to the demands of our customers.

On behalf of the Board we would like to acknowledge the contribution of our people throughout the year. We have an incredible diversity of skills and experience right across our business, from farmers to engineers, production staff and our sales and marketing teams. All are doing their best to contribute to the on-going success of the business, and we thank them for it.

As you will be aware, on 28 May 2018, a full Takeover Offer for Tegel was made by Bounty Holdings New Zealand Limited, a wholly owned subsidiary of Bounty Fresh Food. The Offer period runs until 25 August 2018, unless extended under the Takeovers Code. The Offer remains subject to a number of conditions including Bounty receiving approval from the Overseas Investment Office. Tegel released a Target Company Statement on 11 June 2018 where the Independent Directors Committee provided their recommendation to Shareholders. Shareholders should refer to that document for details on the considerations and recommendations.

David Jackson
Chairman

Phil Hand
Chief Executive Officer

> Together with our farmers we produce poultry in a sustainable way with a minimal impact on our environment relative to other proteins.

ABOUT THIS REPORT

Each year we have the opportunity to tell you about Tegel; our journey towards a globally recognised sustainable poultry business, the challenges we have faced, the work we have done and the progress we have made. We aim to provide a sense of the character, values and purpose of our business and disclose information that matters.

The content of this report is therefore guided by a materiality assessment of all our interactions with our planet, people, the birds we raise and the products we create. Each year we review that assessment from an internal perspective and that of our external stakeholders. The following is an account and update of these matters over the year 30 April 2017 to 29 April 2018.

ABOUT TEGEL

PURPOSE:

HELPING FAMILIES EAT WELL EVERY DAY

FAMILY FAVOURITE
Tegel Homestyle
Roast in the Bag

Strategy

Creating long term shareholder value through maintaining our leading domestic position and continuing to grow and develop our export markets

DOMESTIC

FOCUS ON:

Volume growth, market growth, category growth, new product development and brand

Increase sales of value added products to satisfy evolving consumer preferences

EXPORT

Expand existing markets through new channels, products and customers

Enter new markets

Build brand "100% Pure NZ Premium Chicken"

Grow market for high value convenient meal solutions, including free range

CONTINUED INCREASED CONSUMPTION[1]

Growth at
~4%
per annum since 1997

NZ's
most consumed protein

Share of per capita meat consumption in NZ

1970		2017
6%	▶	52%

Poultry consumption KG per capita – 2017

NZ	AU	USA
37.9	44.5	48.8

ONGOING STRONG DEMANDS

AFFORDABILITY

Poultry meat is the primary driver for total meat production growth in response to expanding global demand for this more affordable animal protein compared to red meats

HEALTH & NUTRITION

Lower fat, high protein alternative to other meat types, contributing to a healthy eating lifestyle

VERSATILITY

Can be used across a wide range of ethnic cuisines and is consumed by an array of demographic groups

CONVENIENCE

Can be consumed hot or cold and is better suited to fast-food and on-the-go channels than other meats

ENVIRONMENTAL & ETHICAL

One of the most environmentally friendly meat proteins to produce

REPUTATION

Favourable perception of New Zealand food products as being clean, healthy and high quality

CONSUMERS

Are showing a preference for free range meat and antibiotic-free meat products

PREFERRED

Choice by New Zealanders for the dinner table

1 Source: OECD FAO Data

Tegel's vertically integrated business model aims to ensure efficiency and control at all stages of production, as well as the delivery of high quality product to customers

FEED PROCUREMENT / FEEDMILLING → FEED SALES → DOMESTIC THIRD PARTIES

BREEDERS

38

Breeder farms, with additional breeding requirements outsourced to 4 farms

HATCHERIES

3

One hatchery for each of our 3 regions

FARMERS

101

Farms located in close proximity to processing facilities

PROCESSING

3

Major plants in Auckland, New Plymouth and Christchurch

DISTRIBUTION

4

3 centres on site at processing facilities, supported by third party operations across NZ and Australia

SALES CHANNELS

RETAIL GROCERY

Supplies a full range of products to New Zealand's two major supermarket operators, and other independent specialty retail and butchery outlets

QSR

Supplies a range of fresh and frozen core and value added products to the QSR channel

FOODSERVICE/INDUSTRIAL

Supplies a full range of products to hotels, restaurants, caterers and distributors, as well as core products to processors for further processing and to manufacturers as meal components for value added ready meals

EXPORT

Supplies a range of quality poultry products across selected channels in Australia, the Pacific Islands, the United Arab Emirates, Hong Kong and the Philippines

WHERE WE ARE

STRATEGIC LOCATIONS

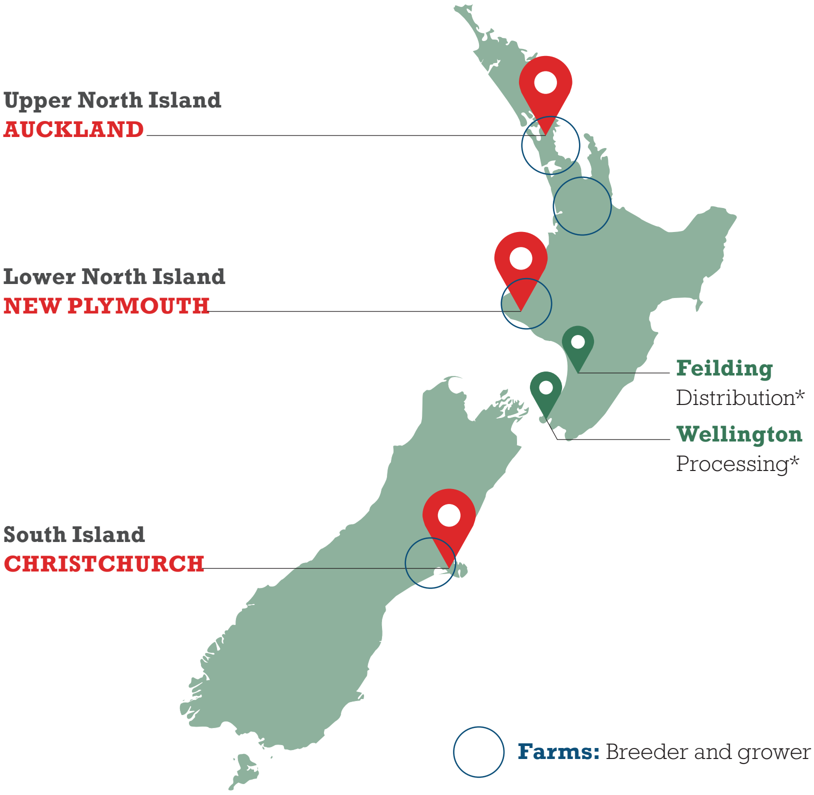
3

Facilities
Hatchery, feedmill, breeder farms, grower farms, processing and distribution

Processing

58m

Birds per year



* Outside of its three main geographic regions, Tegel operates a small leased distribution facility in Feilding to further service the lower North Island, and operates a processing facility in Wellington which produces various poultry, turkey, beef and other smallgoods products

HIGH QUALITY, NATURALLY HEALTHY BIRDS

New Zealand has a unique status as being free of the three major avian diseases[1]

Vaccinations are not required, birds are grown with no added hormones and are not genetically modified. The use of growth hormones in poultry is not permitted in New Zealand

Strict biosecurity with protected borders prohibiting imports

100% NEW ZEALAND RAISED

All Tegel's chickens and turkeys are locally farmed in New Zealand

All birds are raised cage free in large open sheds, or on free range farms with protective sheds and open ranges

CAGE FREE NZ FARMED

100% FOCUS ON STANDARDS, SAFETY & REGULATIONS

Animal health, welfare and nutrition are a primary focus of Tegel's agricultural operations

All Tegel farms are independently audited by AsureQuality to ensure they meet or exceed the requirements of the NZ Animal Code of Welfare

Tegel's uncompromising animal welfare practices and quality focus enhances the premium product positioning in international markets

1 Major avian diseases are Avian influenza (bird flu), Newcastle's Disease and Infectious Bursal Disease

KEY HIGHLIGHTS

RESILIENT FINANCIAL PERFORMANCE, SIGNIFICANT AGRICULTURE INVESTMENT

RECORD POULTRY VOLUMES (TONNES)

99,908

FY17: 99,806

RECORD REVENUE

$615.4M

FY17: $614.0M

UNDERLYING EBITDA[1]

$70.2M

FY17: $75.6M

NET PROFIT AFTER TAX

$26.1M

FY17: $34.2M

TOTAL DIVIDENDS DECLARED

7.55¢ PER SHARE

FY17: 7.55c per share

FREE RANGE FARM FOOTPRINT

169%

expanded capacity

1 Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is a non-GAAP profit measure. Tegel uses Underlying EBITDA as a measure of operating performance. Underlying EBITDA excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. A reconciliation of Underlying EBITDA to net profit after income tax is provided in note 2.1 of the financial statements.

WHAT IS FREE RANGE?

Free range chickens have access to a grassed area in daylight hours.

For the first few weeks of life, our free range chickens are raised in a large shed, in conditions similar to what a nesting hen would provide; the right amount of warmth, humidity, feed and water. It is at this stage that the chickens are most susceptible to disease and environmental conditions so it's especially important they are protected and cared for.

As the chickens grow, the pop hole doors are opened during daylight hours to provide them access to a grassed area where they are free to roam and forage.

Our free range chickens are fed a combination of grains, minerals and vitamins to ensure they receive a nutritionally balanced diet. This balanced diet ensures that they remain healthy, and do not experience deficiencies of protein, vitamins, or minerals.

Our farmers take great pride in providing their chickens with a high standard of welfare and quality of life. All our farms are independently audited by AsureQuality.

"We always look for free range now and think it's great it's so easy to find, both when shopping and eating out with the family. Our kids are great at spotting it, from the local burger place or the supermarket – especially when the sample lady is there cooking it!

Edwin, Wellington NZ

FOCUS AREAS

People

PASSIONATE PEOPLE, POWERFUL TEAMS.

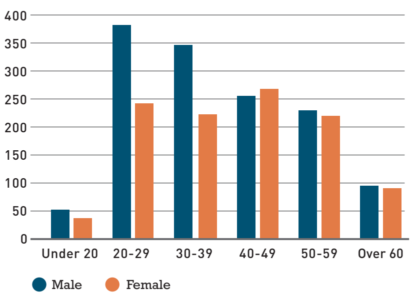
At Tegel we are individually accountable and collectively responsible. We nurture talent, develop people and our leaders trust, respect and inspire. Tegel is committed to being an inclusive workplace that embraces and values diversity. We ensure we have a safe and healthy working environment and we engage and monitor employee satisfaction to ensure that Tegel is a place where people want to work. We are active partners in the communities in which we operate, with ongoing engagement with our neighbours, regulators, local supply chain and wider community groups. We solicit feedback and encourage collaboration.

Employees

Our employees continue to have sound engagement scores and we are focusing on improving our results. The engagement score for Tegel staff for the year was 66%.

The gender balance of our 2,400 strong workforce is 56% male and 44% female. This compares to 55% male and 45% female in the prior year.

Almost half our workforce is aged over 40 and of that group, the gender balance is 50% male and 50% female.



EMPLOYEE ENGAGEMENT SCORE 2018

66%

GENDER BALANCE
2,400 STRONG WORKFORCE

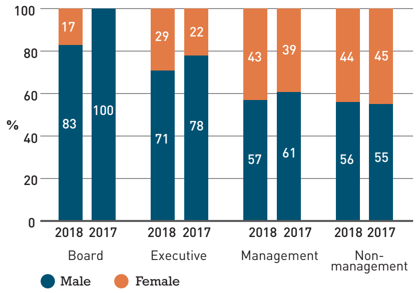
56%

44%

Importantly, the commitment by the Board to having an inclusive workplace is generating improvements. For example, the gender balance by level has improved year on year at a Board level, Executive level and at a Management level. During the year, Bridget Coates was appointed to the Board. With the Executive Team realignment 29% of the Executive Team are now female. At the Management level where employees have staff reporting to them, the gender balance was reweighted from 39% female in 2017 to 43% female in 2018. At a non-management level, the gender balance remained stable year on year.

MANAGEMENT NOW

43%



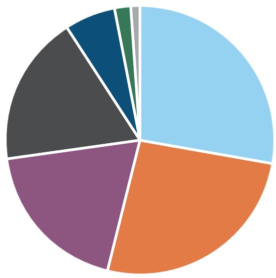
We also measure the remuneration gap between gender by level of employees. For the 2018 year, the remuneration gap[1] between genders of our workforce in total was 0%. This reflects efforts being made to ensure remuneration is consistent regardless of gender. The largest remuneration gap between male and female is at the Executive level with a gap of 13.0%. There is a smaller gap of 4.6% at the Management level and no gap at the Non-management level, where 92% of our workforce is employed.

2018 – REMUNERATION GAP BETWEEN GENDERS OF OUR WORKFORCE IN TOTAL

0%

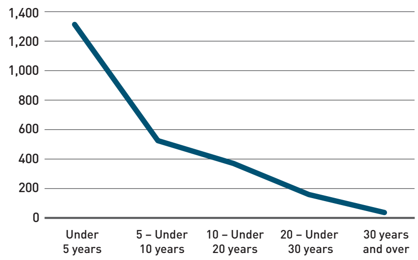
1. Measured based on the median hourly rate

This year for the first time, we report the ethnicity data of our workforce. So far, some 16% of the workforce data has been collected and is represented as follows:



NZ European, Pakeha	28%
Pacific Islander	26%
Maori	19%
Asian (incl India & Pakistan)	18%
Other	6%
Middle Eastern, Latin American, African	2%
European	1%

Meanwhile our length of service indicates that 45% of our workforce has been employed longer than 5 years.



Tegel is committed to being an inclusive workplace that embraces and values diversity.

CASE STUDY:

Employee Development

Robyn Marshall

Site Manager, Christchurch Processing Plant

Never say no to an opportunity. This attitude has worked well for Robyn Marshall, who has continually developed her career and was recently promoted to Site Manager at Tegel's Christchurch processing facility.

Starting her career at Tegel as a Lab Technician interested in high hygiene manufacturing environments, Robyn has always been on the lookout for her next challenge. From Lab Technician to Lab Manager, Robyn has consistently driven a strong food safety focus across the Christchurch site's operations. Taking the next step to Value Added Technical Manager, Robyn got involved in new product development, and led a number of food safety improvements.

Working on a variety of challenging projects and having supportive managers and mentors from within Tegel has allowed Robyn to grow and develop, and has energised her to take on the next challenge. Known for being outcome focused, throughout her 13 years and five roles at Tegel, Robyn's mentors have provided encouragement and advice, helping her to achieve her goals. As Tegel's first female Site Manager, Robyn is looking forward to bringing her growth mind-set to supporting and developing leaders and multi-skilled teams across the site.

> ...throughout her 13 years and five roles at Tegel, Robyn's mentors have provided encouragement and advice, helping her to achieve her goals.

CASE STUDY:

Employee Development

Sanmang Phok (Sam)

Livestock Cadet, Drury Hatchery

Eleven years after joining Tegel, Sanmang Phok (Sam) feels like his journey is just beginning. His philosophy of learning something new every day has driven his career and personal development. It's also given him an understanding of Tegel's business from egg production right through to the dispatch of finished products to customers.

Starting his poultry career as a contract chicken catcher on Tegel farms, Sam went on to become a senior supervisor, looking after and coordinating two teams of catchers. Wanting more of a challenge, he moved to Tegel's Henderson site to work in the further processing area. Within four months he was a team coordinator, playing a pivotal role between processing and the site distribution centre. Recognising his potential, Sam's team leader asked him to manage the team on the cooked product production line. Here Sam quickly got know the people in his team, what motivated them, and what he could do to support them.

An internal advertisement for a broiler advisor piqued his interest, and soon he was taking on his next challenge – a Tegel livestock cadetship. Eighteen months on, Sam has almost completed level three of the National Certificate in Poultry Husbandry encompassing Egg Production, Poultry Hatchery, and Poultry Meat Production.

Sam enjoys the technical challenges the hatchery environment presents. Quality Tegel products start with optimum egg incubation. This requires technical precision, as well as a strong focus on animal welfare.

Sam appreciates his Tegel managers and mentors who have seen his potential and shared their wisdom and experience. Often they have been a sounding board not just for technical problem solving, but navigating the challenge and rewards of managing and motivating people, and getting the best from your team.

Safe and Healthy Workplace

At Tegel we continue to work across the business to develop a strong safety culture, where we keep each other healthy and safe.

Our three year safety plan aligns with our SIMPLIFY! business processes and has four key goals:

- Transition to an 'independent' safety culture with a focus on leader-led initiatives and employee engagement
- Reduce recordable injuries by 30%
- Achieve visibility of risk throughout the business
- Achieve a consistent approach to risk management

Key Safety Achievements

FY2018 was the second year of implementation of the safety plan. Key achievements included:

- Leader-led safety action plans in place for all departments
- Positive Performance Indicators included in individual objectives for all levels of management
- Internal audits completed at key sites as the basis for establishing FY2019 safety improvement plans
- 83 Health and Safety Representatives gained the NZQA registered unit standard 29315. This means they are able to explain and demonstrate the overall role and functions of a Health and Safety Representative in a New Zealand workplace
- Lock-Out Tag Out procedures further developed and implemented at all processing sites

- Permit to Work systems aligned across processing sites and processes put in place to improve visible management of permits
- Ammonia refrigeration plant at each processing site reviewed by an external contractor. Recommendations risk assessed and a national approach developed
- Programme of work to ensure asbestos containing materials are managed in accordance with new Health and Safety (Asbestos) Regulations
- As part of a national focus on machinery safety, we have aligned our approach to identify and minimise risk around the chilled water cooling process on processing sites

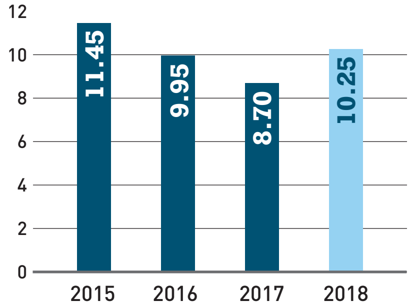
Ongoing initiatives such as monthly training, team briefs, department checks, safety committee meetings and department safety meetings remain a key focus as part of our safety management system.

We continue to track our monthly Environment Health and Safety (EHS) score as our leading performance indicator. This is managed at a department level and includes training, workplace observations and driving completion of actions to improve safety.

Tragically during the year there was a fatality at one of Tegel's contract grower farms in Canterbury. This was devastating for everyone in the business, particularly those directly involved. As a result we have been working with our industry group PIANZ and WorkSafe New Zealand to further improve the catching procedures on all New Zealand poultry farms. WorkSafe New Zealand is still investigating the incident and Tegel is cooperating fully with that investigation.

HEALTH & SAFETY
2018

LTIFR
(lost time injury frequency rate) per million hours



Community Engagement

Tegel Community Spirit Helping Families Eat Well Everyday

Tegel continues to be a proud supporter of many community groups and projects that are important to New Zealanders nationwide, with a focus on 'Helping Families Eat Well Every Day'. These include Ronald McDonald House, the Salvation Army, City Mission, and Just Cook, as well as a range of school and community projects.

Auckland City Mission

Tegel employees continued to show their community spirit during the year. Every year at Christmas the Auckland City Mission supports thousands of people in need with emergency food parcels and Christmas gifts for children, relying heavily on donations from the community.

This year Tegel employees in Newmarket, Auckland banded together to collect donations to support this cause with overwhelming support and generosity. Together the team collected multiple boxes full of gifts, groceries, toiletries and food vouchers. Tegel added a number of bags full of essential items and first aid kits, and topped it all off with some Christmas turkeys.

Red Cross Fund Raiser

Tropical ex-Cyclone Gita was one of the most intense cyclones to impact the South Pacific in recorded history. Torrential rain and damaging winds caused widespread disruption. Immediately afterwards Red Cross operations distributed relief supplies to help affected communities. As well as managing the impact of ex-Cyclone Gita on our own operations, Tegel was keen to help the Red Cross efforts, and employees quickly raised $2,700. Tegel matched the amount and a total of $5,400 was donated to Red Cross to help with their emergency relief efforts.

CHRISTMAS SPIRIT
Tegel Fresh Turkey

FOCUS AREAS

Environment

WE DO THE RIGHT THING FOR OUR ENVIRONMENT.

To achieve business success we depend on our planet's resources. Our value chain spans feedmills, hatcheries, farms, processing plants, distribution centres and offices, all of which require resources including water, energy and packaging, and we produce a variety of waste. We are committed to pursuing best practice in our use of raw materials and resources. We aim to minimise waste and divert it from unsustainable disposal. New facilities incorporate sustainable building design and engineering.

During the year we applied our lean business tool SIMPLIFY! to our environmental management and sustainable business frameworks resulting in a three year strategy to commence in the coming year. There are four pillars to the strategy:

- A revitalisation of Environmental Management Systems and within that the material issues of energy, water and waste;
- Education across our business to maximise our potential;
- Integration in key decision making processes and platforms; and
- The evolution of our disclosure of non-financial information.

Plastics and Packaging

While we are focused on managing waste as it arises on our sites, we are also conscious of end of life product waste. To this end, we use food safe trays made from recycled PET (RPET) with a virgin food contact layer. These RPET trays can be recycled via curbside recycling collection. Tegel RPET trays come from recycled plastic that has already been used for packaging, such as plastic bottles or our trays. This plastic is sorted, cleaned and transformed back into a material that can be used for food packaging. Where possible we also transport product internally and to our customers in reusable crates. This will be an area of further focus over the next year.

FOOD SAFE TRAYS

RECYCLED PET (RPET) CAN BE RECYCLED VIA KERBSIDE COLLECTION

Waste Management

In FY2017 we made changes to waste management practices in our Henderson processing plant. The site set itself a target of recycling 25% of its total waste. Whilst this was exceeded at times, the average across the year was 21% with a total of over 272 tonnes of waste diverted from landfill during the FY2018 year. We continue to embed the right practices to consistently achieve the target.

Our New Plymouth processing site also started its journey towards greater waste separation and recycling. An audit of the site was completed by our contractors Envirowaste Services Limited. Waste equipment and receptacles were designed together with signage and a site plan of locations with new waste management systems is being rolled out.

Our New Plymouth team have realised significant improvements in the disposal of a challenging waste stream. During the year they identified a solution to convert DAF sludge to compost. With the help and expertise of Wallace Group LP, who run a large scale composting facility, the sludge has become a key ingredient in a valuable soil conditioning product resulting in approximately 115 tonnes per month of material diverted away from landfill.

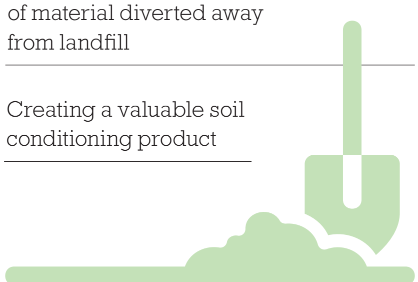
NEW PLYMOUTH

115T

CONVERTING SLUDGE TO COMPOST

Approximately 115 tonnes per month of material diverted away from landfill

Creating a valuable soil conditioning product



Water Management

Water is a precious resource and we rely on it throughout our business. We are committed to using it responsibly and it remains a crucial performance measure for each site. Initiatives across the business have focused on behaviour and maintenance which helped provide an overall reduction in water use at Henderson processing. In the Further Processing department the conversion to medium pressure hose nozzles reduced hot water use for cleaning by approximately 50%. In New Plymouth, water from cooling towers is captured for reuse in cleaning. We will continue to seek ways to improve our water efficiency across our business.

HENDERSON PROCESSING

50%

REDUCTION The conversion to medium pressure hose nozzles reduced hot water use for cleaning by approximately 50%

Energy Management

Our energy efficiency work continues. During the year we undertook an Energy Efficiency and Conservation Authority (EECA) supported Process Heat In-depth Energy Audit at our Christchurch processing site. As a result, we will be installing a new boiler on site providing an estimated 5,383,000 kwh of fuel energy reduction each year. A further 1.5million kwh of potential savings were identified in projects relating to insulation, hot water use and storage and boiler maintenance. These will be included for consideration in our site Energy Action Plan.

Sustainable free range farming

A sustainable, free range farming future

To meet increasing demand for free range products Tegel has designed a new large-scale, environmentally sustainable, free range farm.

The proposed farm is a key element of Tegel's strategy to advance sustainable poultry farming in New Zealand through the use of new technology. The largest and first of its kind in New Zealand, the concept farm will consist of 32 free range sheds and will utilise state-of-the-art technology.

The purpose built, modern free range poultry sheds have been designed to minimise the farm's environmental footprint and set a new standard for animal welfare.

The site will be largely energy independent and will produce minimal waste. Solar panels will supply the majority of the farm's electrical energy needs and a bespoke, poultry litter burner will generate hot water from the combustion of used litter to heat the sheds. This avoids the use of fossil fuels for heating, makes energy from waste a central feature of the farm and results in a drier, healthier environment for the birds. The sheds will incorporate modern energy efficient equipment including automated, variable speed fans and LED lighting.

By diverting litter from land application we reduce both greenhouse gas emissions and nutrient discharge.

The site incorporates a rain harvesting system to capture and treat rain water, reducing reliance on ground water supply.

Extensive planting of bunds with native trees and shrubs around the perimeter of the farm will enhance visual amenity. Waste water from the farm will be irrigated to the bunds, and once established, they will provide additional habitats for wildlife.

The planted bunds will be complemented with extensive planting schemes on the ranges (birds' outdoor areas) and throughout the whole farm.

Potential air discharges from the farm, particularly odour, will be greatly reduced through the incorporation of a dry heat source and vertical ceiling ventilation. The estimated net benefit to the local economy is $2.3 million per year.

ANNUAL ESTIMATED NET BENEFIT TO THE LOCAL ECONOMY

$2.3M

CASE STUDY:

LIVING THE KIWI DREAM

Trudy is a free range farmer for Tegel in Canterbury, along with her husband and two children - all of whom are very much involved in life on the farm. They have been farming for 16 years, and are still on the family's original farm. Trudy and her husband transformed the farm to free range four years ago, and see free range farming as the way of the future.

For Trudy and her family, it's all about making sure the birds are happy, healthy and well cared for. The birds arrive on the farm as day old chicks and stay in the shed for the first three weeks until they're fully feathered and can be in an open environment outside.

Trudy enjoys watching the birds as they venture outside for the first time.

"They see grass and sun, and are a little cautious at the beginning but then they scratch around and fluff their feathers."

All the chickens on the farm are raised in open sheds with air conditioning units so Trudy can control their environment consistently whether its winter or summer – she reckons they have a better environment than her house!

Tegel advisors are frequent visitors to the farm. Trudy enjoys working closely with them and they all recognise it's a real team effort.

Like all Tegel farms, Trudy's farm is independently audited annually to ensure it consistently maintains high standards.

Trudy considers herself lucky to be a farmer.

> "It's a big commitment, a serious one and it's 24/7. But it's also a great lifestyle – good food, fresh air and sunshine – it's the kiwi dream really!

WATCH ONLINE
www.tegel.co.nz/free-range/

Environmental Leadership

Taranaki Farm Recognised

In November 2017 Tegel farmers Sue Okey and Graeme Parkinson from Double R Farm in Taranaki were honoured to receive an Environmental Award from Taranaki Regional Council for 'Environmental Leadership in Business'.

Sue and Graeme have focused on improving the energy efficiency and environmental management of their five hectare Lepperton poultry farm.

In 2016 they installed a 53 kilowatt solar power generation system to significantly reduce energy demand from the power grid for their eight shed operation. The system's production and power consumption can be monitored remotely from any web connected device.

A rain water collection, storage and filtration system provides water for washing down the sheds. High pressure water blasters are used for cleaning to reduce water consumption and the volume of effluent. The road frontage of their farm is also being landscaped with native trees, which will screen the sheds and contribute to biodiversity.

Animal Welfare and Biosecurity

All of our farms are independently audited to ensure that they meet or exceed the requirements of the New Zealand Animal Code of Welfare.

Annual audits along with spot audits guarantee to consumers that all Tegel products have been humanely farmed from 'farm to plate'.

This means that any of our farms can be independently checked at any time by a third party auditor, and it also means that we can ensure that all our farms meet or exceed these audited standards. By using this process, it means that when our customers buy our products they can be assured that the utmost care has been taken to ensure we have raised happy and healthy chickens.

Five Freedoms principles of animal welfare

Working alongside the Ministry of Primary Industries, we have extensive assurance and monitoring programmes to ensure we adhere to the highest levels of animal welfare and food safety.

1. **Freedom from Hunger and Thirst:** Ready access to fresh water and a diet to maintain health and vigour.
2. **Freedom from Discomfort:** Provision of nice environment including shelter and a comfortable resting area.
3. **Freedom from Pain, Injury or Disease:** Through prevention, speedy diagnosis and treatment.
4. **Freedom to Express Natural Behaviour:** By providing space, proper facilities and the company of other animals.
5. **Freedom from Fear and Distress:** Ensuring conditions and treatment avoid mental suffering.

FOCUS AREAS

Food

WE LOVE FOOD.

Tegel is a successful food company and we are New Zealand's favourite chicken company. Our purpose at Tegel is to help families eat well every day. People enjoy our quality poultry products in many parts of the world. Our chickens have no added hormones, are cage-free and our animal welfare practices are internationally recognised.

Product Safety

Safe Food for Consumers Everywhere

The Global Food Safety Initiative (GFSI) brings together key elements of the food industry to work together to drive continuous improvement in food safety management systems around the world.

With a vision of safe food for consumers everywhere, GFSI was established in the UK in 2000 to find collaborative solutions to challenges such as to reducing food safety risks, and audit duplication and costs, while building trust throughout the supply chain.

GFSI has a number of internationally recognised food safety certification programmes, assessed against their rigorous benchmarking requirements.

In the previous 12 months, Tegel achieved GFSI certification for our cooked products production lines at both our Henderson and Christchurch facilities.

Tegel received A ratings for our food safety and quality systems in these areas, recognising the high standards we are achieving. We recognise the value of this to our customers and consumers, and look forward to rolling out GFSI into other areas of our processing operations in 2018.

New Product Development

Health, nutrition, convenience, versatility and affordability. These are key considerations for consumers and are driving on-going growth in global poultry consumption. Closer to home, poultry remains the most consumed form of meat protein in New Zealand[1].

At Tegel we are looking ahead in order to understand changing consumer preferences. Meeting these evolving needs and preferences through the development and launch of innovative new products is a key element of our strategy.

QUICK CUISINE!
Tegel Free Range Meal Maker Cracked Pepper Shredded Chicken

98

NEW PRODUCTS In FY2018

In FY2018 Tegel developed and launched 98 new products across both domestic and international markets.

SALES GROWTH In FY2018

Fresh value added	Frozen value added
▲19%	▲16%

Dairy deli	Rotisserie wholebirds and portions
▲8%	▲8%

Tegel Brand Going from Strength to Strength

Tegel is regarded as a trusted and iconic brand. We are proud that it is our consumer's most preferred chicken brand across all areas of the supermarket.

Consumer research tells us how the Tegel brand is understood by consumers. Since the brand redesign in FY2017, we have significantly improved the understanding of cage free and free range farming, as well as high standards of animal welfare[1].

Tegel is also recognised by consumers as offering a wide range of products that are convenient for today's lifestyles, made from chickens raised in New Zealand.

Innovation is recognised as a strength, with the Tegel brand introducing appealing new products, offering something different to other brands, setting the trends and growing more popular. Our ongoing investment in product and packaging development continues to resonate with shoppers.

KEY HIGHLIGHTS[1]

>90%

BRAND AWARENESS

The Tegel brand has over 90% brand awareness - the highest of all poultry brands in New Zealand.

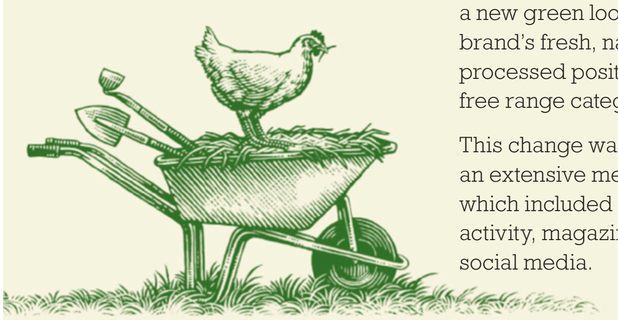
- Tegel is the most preferred brand across all areas of the supermarket
- Over 60% of shoppers say Tegel is their brand of choice among a high consideration of poultry brands to buy. This is significantly higher than our closest competitor
- Tegel has significantly improved its association with free range options, cage free options and high standards of animal welfare

60%

OF SHOPPERS say Tegel is their brand of choice for poultry

1. Tegel brand Tracker Research December 2017

A New Look for Rangitikei



During the year we completed significant work to redevelop and refresh our premium free range brand, Rangitikei. Previously Rangitikei birds have been corn fed, however the vast majority of consumers researched told us they didn't value this attribute, and for some it was a clear disadvantage. They also gave us clear direction on what being free range meant. All Rangitikei products now have a new green look, emphasising the brand's fresh, natural, minimally processed positioning within the free range category.

This change was supported by an extensive media campaign which included billboards, digital activity, magazine advertising and social media.

Free Range Brand Investment Delivering Results

Animal Welfare is top of mind for many New Zealand consumers, and every year more of us are choosing free range poultry, both at our local supermarket and also when dining out or visiting quick service restaurants.

Almost 30% of New Zealand consumers consider Tegel Free Range as their brand of choice. This is significantly higher than our closest competitor.

Investment in Tegel's Free Range brand is delivering results for us, with 21% sales growth in FY2018. Tegel already has at least one free range product available in every category in which we operate and we will continue our new product development of more free range options.

In late 2017 Tegel ran a successful three month free range advertising campaign. This included TV, on-line, print and outdoor media. The campaign increased consumer awareness of Tegel's free range offering, and helped position Tegel as a leader in the development and supply of free range poultry products in New Zealand.

21%

SALES GROWTH In FY2018

FOCUS AREAS

Business

WE STRIVE TO CONTINUALLY IMPROVE.

We have big ideas, take action and execute successfully. Our business relies on responsible procurement, regulatory compliance and effective governance. We partner with our customers to help drive growth for both parties. We flourish on the skills, dedication and flair of our teams operating as leaders in the poultry industry.

Business Continuity and Reinvestment

CASE STUDY:

Strength in having strategic locations: How Tegel responded to ex-Cyclone Gita

Our New Plymouth production facility is one of the largest of its kind in New Zealand, processing approximately 20% of the country's poultry. It operates 10 shifts per week, running 24 hours from Monday to Friday, and employs approximately 960 people.

In February, during ex-Cyclone Gita, a tree fell on a large exposed main water pipe cutting water supply to parts of the New Plymouth district including Tegel's New Plymouth processing plant and feedmill. This resulted in parts of our plant being suspended for a number of days.

As the situation unfolded Tegel's crisis response team continually adjusted plans to address the ongoing disruption. Practical solutions were employed to ensure customer orders were delivered. For example, part of the supply for a major QSR customer was switched to Christchurch and Henderson which involved setting up new products at that plant. Our employees across the business worked tirelessly throughout the disruption to get the New Plymouth plant back up and running as quickly as possible.

Tegel has the benefit of having three independent processing facilities in Christchurch, Henderson and New Plymouth which have capacity to increase production as required. This mitigated the impact of disrupted supply to our customers.

Growing the Business with New Farms

Our Canterbury region continues to expand its capacity with the completion of an eight shed new broiler farm being fully operational from December 2017. This signals the last of our standard grower sheds to be constructed.

A new eight shed free range farm was constructed in New Plymouth during the year. The farm incorporated some unique designs, such as a winter garden on the side of the shed. This is an additional area of covered ground that enables birds to roam outside even in inclement weather.

AN ADDITIONAL

80,000

SQUARE METRES of free range farm capacity

In total, we increased our free range farm capacity by 169% during the year. The increase came from the construction of new sheds on new farms, a number of new farms coming under the Tegel umbrella as well as the conversion of existing farms to free range. This represents an additional 80,000 square metres of free range farm capacity, which puts Tegel in a strong position to continue to actively drive free range product growth, and meet increasing consumer demand for free range poultry products.

Capital Expenditure for Improvement

We expanded our New Plymouth hatchery, the largest of its kind in New Zealand hatching broiler chicks for our growers and selected external customers. Overall hatchability at the site and chick quality have improved with new incubators and with an improvement in airflow.

During the year, an opportunity arose enabling us to acquire the land and buildings positioned adjoining our feedmill in New Plymouth. This is value enhancing in the long term as it will allow us to expand capacity at that site in line with our growth aspirations.

SIMPLIFY!

Our SIMPLIFY! goal is to embrace continuous improvement, align it with our core values and link it across our entire organisation to achieve overall operational excellence. It is building a sustainable culture of continuous improvement to meet our customers' needs while supporting our commitment to health and safety, the environment, people engagement, cost effectiveness, animal welfare and quality products.

During the year the programme continued to develop within our hatcheries, feedmills, processing sites, engineering teams and distribution centres and was extended into Tegel owned broiler farms, telesales and marketing.

Key initiatives included the implementation of an employee recognition programme, redesign of the new product development process and inter-site benchmarking.

Employees Have their Say on SIMPLIFY!

The use of SIMPLIFY! early observation cards continue to increase. Available in hard copy and on-line, any employee at Tegel's processing plants, feedmills, hatcheries and distribution centres can fill out the cards and have their say in improving their environment and moving the business forward.

FY18 TOTAL OF

14,901

cards received and closed out across processing sites alone vs 9,262 in FY2017

SIMPLIFY! Planning

Through our SIMPLIFY! benchmarking work stream we identified Tegel's South Island planning department as the best practice area for limiting 'giveaway' in our wholebirds department. Giveaway is when we pack chicken above the set weight of product, essentially 'giving away' product. Tegel teams in the upper North Island and lower North Island collaborated with their Christchurch colleagues to learn how to best match bird size to our customers' product requirements. This involved working with our live bird supply chain to ensure that birds of the right weight were at the plant in order to meet expected demand every day. This teamwork has led to improved safety of our people as it is now easier to pack the 'right sized bird into the bag'. The significant reduction in 'giveaway' has resulted in annualised savings of $480,000. The planning teams continue to SIMPLIFY! our business and are working to improve 'giveaway' in other departments by applying the learnings from this project.

SIMPLIFY! Value Added

In Tegel's New Plymouth processing plant, our value added team used video analysis and engaged in-house process experts to figure out a safer, more efficient way of producing Tegel's highest volume value added product line. The team came up with the idea to create an attachment to the packing table to effectively hold the product packaging bag open. Known as a packing jig, the team's design was successful, and allowed our people to pack with two hands rather than one. This significantly reduced ergonomic risk and improved efficiency by 30%. The idea was then shared with the South Island SIMPLIFY! team. They worked with the value added team and by using one of the earlier jig prototypes and viewing the video of the lower North Island team, the South Island process experts were able to adapt and implement the improvement in their own workplace.

Disclosure

What is Feed Conversion Ratio (FCR)?

Tegel is internationally renowned for having one of the lowest FCR's in the world.

FCR is a key metric for meat chickens and is the amount of feed in kilograms required to produce one kilogram of live weight.

Tegel achieves its world class FCR scores through the combination of:

- NZ's unique disease-free status
- The belief that "healthy birds with excellent welfare" perform better and are an essential foundation to strong financial and economic performance
- Growers that care about our birds and ensure that the birds receive an excellent on-farm environment
- Continuous monitoring and improvement of health and welfare
- 30 years of delivering best practice research into bird performance
- 30 years of delivering world class optimisation of our nutrition and our global raw material (including soybean meal, wheat, corn and sorghum) supply chain
- Excellent feed manufacturing systems and practices

Regulatory Compliance

Number of environmental incidents

Environmental incidents are recorded as part of our weekly performance monitoring. All incidents and near misses are captured, investigated and actions to prevent a reoccurrence put in place. However those with a potential to impact upon offsite receptors are also logged as recordable and communicated externally as required. In FY2018 we had a total of seven recordable incidents. Three of these were related to accidental spillages by waste contractors on roads and have therefore resulted in tighter contractual obligations; one was an odour complaint; there were two hazardous substance spills and one ammonia spill.

FINANCIAL REVIEW

Summary Financials

NZD million	FY2018 52 weeks audited	FY2017 52 weeks unaudited[2]	Variance %	FY2017 53 weeks audited	Variance %
Revenue	**615.4**	603.2	2.0%	614.0	0.2%
Cost of goods sold (COGS)	**(478.1)**	(462.3)	(3.4%)	(468.9)	(2.0%)
Gross profit	**137.3**	140.9	(2.6%)	145.1	(5.4%)
Gross profit %	**22.3%**	23.4%		23.6%	
Underlying EBITDA[1]	**70.2**	72.0	(2.5%)	75.6	(7.1%)
Net profit after income tax	**26.1**	31.7	(17.7%)	34.2	(23.7%)
Final Dividend (cps)	**4.10**	–	–	4.10	–
Total Dividend (cps)	**7.55**	–	–	7.55	–

1 Underlying EBITDA refers to earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is a non-GAAP profit measure. Tegel uses Underlying EBITDA as a measure of operating performance. Underlying EBITDA excludes the effects of certain IFRS fair value adjustments and items that are of a non-recurring nature. A reconciliation of Underlying EBITDA to net profit after income tax is provided in note 2.1 of the financial statements.

2 Comparatives for the 52 week period ending 23 April 2017 are shown to provide an equivalent timeframe. These numbers are unaudited. The audited comparative period shown is the reported statutory result for the 53 week period ending 30 April 2017.

The 2018 results are based on the 52 week period ending 29 April 2018 (FY2018). The comparative period shown is the reported statutory result for the 53 week period ending 30 April 2017 (FY2017). Comparatives for the 52 week period ending 23 April 2017 are also shown and referred to throughout this report.

Tegel has delivered another record year of poultry volumes and revenue. FY2018 net profit after tax (NPAT) of $26.1 million and underlying EBITDA of $70.2 million were within the updated earnings guidance provided to the market on 8 March 2018. NPAT was 23.7% below the statutory 53 week comparative period and 17.7% below the 52 week comparative period. The result was affected by non-repeating costs mainly from industry compliance, ex-Cyclone Gita and organisational restructuring totalling approximately $9.9 million before tax. This was also within the range flagged in March 2018. Underlying EBITDA of $70.2 million was down 7.1% on a 53 week basis and was down 2.5% on a 52 week basis reflecting the decline in contribution from exports.

Financial Overview

Poultry Volume Tonnes	FY2018 52 weeks audited	FY2017 52 weeks unaudited[2]	Variance %	FY2017 53 weeks audited	Variance %
Domestic Poultry	**84,008**	81,293	3.3%	82,777	1.5%
Export Poultry	**15,900**	16,743	(5.0%)	17,029	(6.6%)
Total Poultry Volume	**99,908**	98,036	1.9%	99,806	0.1%

Revenue NZD million	FY2018 52 weeks audited	FY2017 52 weeks unaudited[2]	Variance %	FY2017 53 weeks audited	Variance %
Domestic Poultry	**467.1**	449.5	3.9%	457.8	2.0%
Export Poultry	**89.6**	101.4	(11.6%)	103.0	(13.0%)
Other Revenue[3]	**58.7**	52.3	12.2%	53.2	10.3%
Total Revenue	**615.4**	603.2	2.0%	614.0	0.2%

3 Other revenue includes sales of eggs, day-old chicks, petfood, feed and offal.

Total revenue for FY2018 was $615.4 million, $12.2 million or 2.0% ahead of the 52 week comparative period for FY2017 and $1.4 million ahead of the 53 week comparative period. Record poultry volumes of close to 100,000 tonnes were 1.9% higher than the 52 week comparative period in FY2017 and broadly in line with the 53 week comparative period.

Domestic revenue growth continues to be driven by strong, growing demand for poultry as a meat protein in New Zealand. Underlying poultry consumption continued to increase, driven by population growth and share of plate gains. Domestic revenue grew 3.9% or $17.6 million, to $467.1 million on a 52 week comparative basis and grew 2.0% on a 53 week basis. Growth in domestic sales was also achieved as a result of continued new product innovation and convenient meal solutions, particularly in Tegel's Free Range products. The Company continued to invest in the Tegel brand throughout the year and a new look for the Rangitikei brand was rolled out across all packaging. Revenue increased at a higher percentage than volume growth mainly as a result of a better mix of free range and value added products. Pricing during the year remained competitive, however, the net sales value per kilo improved year on year.

In the export segment, Tegel continues to strengthen its position in its established markets. In Australia, the strategy to diversify across channel and customer mix and reduce customer concentration is starting to deliver results. The transition is progressing well, though slower than anticipated and thereby impacting revenue and margins. Tegel grew volumes in Retail and Foodservice channels in Australia, adding customers across all channels including QSR. 41 new products were introduced into Australia during FY2018. This partly offset the loss of volumes from a QSR customer taking production in house. As a result, export revenue declined $11.8 million or 11.6% on a 52 week basis and $13.4 million on a 53 week basis to $89.6 million. The Pacific continued its strong performance with volumes and revenue well ahead of FY2017. During the year a brand refresh was completed for products going into the United Arab Emirates. The assurance offered by Tegel's consistently high quality products drives shoppers to choose Tegel over other options.

Gross profit for the financial year was $137.3 million compared to $145.1 million for the 53 weeks in FY2017. The gross profit margin decreased from 23.6% to 22.3% in FY2018 primarily as a result of non-repeating costs relating to industry compliance and ex-Cyclone Gita. Non-repeating costs of $8.4 million were included in Cost of Goods Sold (COGS). Excluding the effect of these, the resulting gross profit margin of 23.7% was in line with FY2017.

Distribution expenses increased 12.6% in FY2018 as a result of higher volumes, increased investment in the distribution network to allow for export growth and $1.4 million in non-repeating costs relating to disruption to South Island trucking routes following the Kaikoura earthquake.

The Company recognised a gain on sale of $2.0 million relating to the sale and leaseback of a farm, being a non-core asset. The gross proceeds of $2.3 million were utilised for the acquisition of a strategic parcel of land adjacent to the New Plymouth feedmill for a total of $3.6 million.

EASY DINNER

Tegel Boneless Roast – Moroccan

FINANCIAL REVIEW

Summary Balance Sheet

NZD million	29 April 2018 audited	30 April 2017 audited Restated[4]	Variance $m	Variance %
Current Assets	**224.7**	196.0	28.7	14.6%
Non-Current assets	**526.5**	507.0	19.5	3.8%
Total Assets	**751.2**	703.0	48.2	6.9%
Current Liabilities	**97.7**	71.7	26.0	36.3%
Non-Current Liabilities	**170.6**	149.2	21.4	14.3%
Total Liabilities	**268.3**	220.9	47.4	21.5%
Net Assets	**482.9**	482.1	0.8	0.2%
Issued Capital	**427.1**	427.1	–	–
Retained Earnings and Reserves	**55.8**	55.0	0.8	1.5%
Total Equity	**482.9**	482.1	0.8	0.2%

4 The FY2017 balance sheet has been restated as set out in note 1.2 of the financial statements.

Working capital increased during FY2018. The timing of Tegel's balance date can impact significantly on the level of working capital. In FY2017 the balance date fell on the last calendar day of the month. As a result, accounts receivable and accounts payable were both higher than FY2017.

The higher inventory levels at the year end reflected higher margin products and a wider range of products in finished goods. Meanwhile as the level of automation has increased the amount of spare parts and consumables have increased and are of a higher value.

The Group's balance sheet is in a position to facilitate further growth opportunities for the business with significant headroom on debt and interest cover.

The capital expenditure programme of investing in agriculture and processing assets to support sales growth, efficiency gains and savings continued throughout the year. This included the acquisition of land adjacent to the New Plymouth feedmill and the completion of the New Plymouth hatchery expansion.

Cash Flows

In FY2018, Tegel had a net decrease of $4.0 million in cash mainly due to further investment in the business. Operating cash inflows were $41.5 million for the year, a decline of $4.1 million from the prior period mainly due to timing differences in customer receipts and supplier payments. On investments, Tegel acquired land adjacent to the New Plymouth feedmill, continued to invest in automation and upgrades to internal systems and readied the five new free range farms to Tegel standards.

As communicated at the Interim Results, a new banking facility was negotiated, with all bank borrowings repaid and a new three year facility being advanced. Finally, the Company paid $26.9 million in dividends in FY2018.

Qualified Audit Opinion

A qualified audit opinion has been issued with respect to the FY2018 Financial Statements. Tegel's Directors have arrived at a different opinion from the auditors relating to the valuation of goodwill for the year.

The accounting standard allows for different valuation methods to be used when assessing a company's value. Based on internal modelling, the Directors have formed the view that the Discounted Cash Flows model consistently used by Tegel arrives at a better estimate of the value of the business and indicates headroom still exists and so goodwill should not be impaired. On the other hand, the auditors have arrived at a valuation which is based mainly on Bounty Holdings New Zealand Limited's effective offer of $1.271 ($1.23 plus $0.041 dividend). This is only one indicator of value and the Directors believe other considerations should be made.

Also supporting the Directors view that goodwill should not be impaired is that the Independent Adviser's Report, commissioned to assess the takeover offer for Tegel, includes a wide range of valuation modelling, the upper values of which are consistent with the Company's view of goodwill. The qualified audit opinion has no impact on the takeover offer for Tegel. This is a unique set of circumstances with judgement involved in arriving at an outcome on both sides.

Looking Ahead

Tegel will continue to focus on the domestic market, driving category growth and innovation on new products while responding to the demands of its customers. The changing trends of New Zealanders looking for increasingly convenient meal solutions are being reflected in growth across all domestic channels. Meanwhile the Company expects overall consumption growth to continue at the rate it has consistently done. Domestic pricing remains competitive. The business will continue to monitor pricing and to identify opportunities to increase margin through product mix while maintaining market share.

In exports, Tegel will strengthen its position in current markets such as in Australia where the business will target channel synergies across Australia and New Zealand with continued customer diversification.

Feed is one of the key cost components in the business. Globally, the likes of wheat and soybean meal have lifted from multi-year lows. In addition, fuel costs are rising, impacting the business on many levels. Partially offsetting these headwinds is the ability to hedge on currencies and commodities. Meanwhile, labour is also a key cost component of the business with an employee base that is largely waged. The increase in the minimum wage in New Zealand will also have an impact on the business.

Operationally Tegel continues to control its costs and drive efficiencies within the business through the ongoing roll out of SIMPLIFY! It is also important to Tegel to continue to ensure its animal welfare objectives are met.

To secure input costs, the Company hedges its exposure to certain commodities and foreign exchange risks denominated in US dollars. The Company also uses foreign exchange contracts to hedge revenue from export sales denominated in Australian dollars. All foreign exchange forward contracts and commodity contracts are executed in accordance with the Board-approved FX Hedging and Commodity Risk Treasury Policies. As at 29 April 2018, 58% of US dollar raw material purchase requirements and 70% of forecast Australian dollar receipts were hedged for FY2019.

Dividend

Tegel's Board approved a fully imputed final dividend of 4.10 cents per share, taking the total dividends for the year to 7.55 cents per share. The final dividend was paid on 13 July 2018.

The final dividend of 4.10 cents per share for the financial year ended 29 April 2018 and the total dividends of 7.55 cents per share for that year are in excess of the Group's current dividend policy. The final dividend for FY2018 was paid giving consideration to the current level of available imputation credits and the terms of the takeover offer by Bounty Holdings New Zealand Limited, being the maximum permitted dividend and included in the effective offer price of the Independent Adviser's Report. The dividend policy for the Group has not changed and the payout ratio of the FY2018 total dividends is not an indication of future dividends.

HAPPY KIDS!
Tegel Free Range Panko & Quinoa Crumbed Chicken Tenders

BOARD OF DIRECTORS

David Jackson
CHAIRMAN

David was appointed to Tegel's Board in March 2016 and was appointed Chairman in May 2017. He is a member of the Audit and Risk Committee and the Governance and Remuneration Committee.

David brings a strong financial and corporate governance skill set to the Tegel Board. During his more than 30 year professional career with EY, David gained experience in Asia, the UK, U.S.A. and South America. Working with major national and international companies for over 30 years, David has developed his extensive experience in corporate governance, capital structures, reporting requirements, audit and risk management.

In addition to Tegel, David is an independent director of Mitre 10 (New Zealand) Limited.

David's previous directorships include Fonterra Co-operative Group Limited, Nuplex Industries Limited, The New Zealand Refining Company Limited, Pumpkin Patch Limited and Mediaworks Limited. David is a former New Zealand Chairman and Senior Audit Partner of EY. David holds an MCom (Hons), is a Fellow of the Chartered Accountants Australia and New Zealand and a Fellow of the Institute of Directors.

Phil Hand
MANAGING DIRECTOR

Phil was appointed CEO of Tegel in February 2014 and appointed a director of Tegel in March 2014.

Phil has spent his career in the food industry. Joining Tegel in December 2007, Phil was initially General Manager of Operations where he was responsible for the processing plants and supply chain to customer. This role also assumed responsibility for Employee Health and Safety, Technical and Compliance for the company.

His extensive experience in operations includes over 28 years in senior management roles.

Prior to joining Tegel, Phil was Managing Director of Goodman Fielder Baking New Zealand, a market leader in bread and related products in New Zealand. Phil was previously Operations and Supply Chain Director for Goodman Fielder Fresh and has held various other management and operational roles across a broad range of food industries.

Phil holds a Diploma in Dairy Technology and a Diploma in Business Administration. He is a member of the Institute of Directors.

Tang Kok Yew
NON-EXECUTIVE DIRECTOR

Mr. Tang was appointed to Tegel's Board in July 2011.

He is the founding Chairman and Managing Partner of Affinity Equity Partners following its spin-off from UBS Capital in 2004. Affinity is a leading regional private equity firm in Asia Pacific. Prior to that, Mr. Tang was the Asia-Pacific Chairman of UBS Capital (the private equity arm of UBS) since 1999. Before he joined UBS Capital, he was the Chief Executive for Investment Banking, East Asia at Union Bank of Switzerland in 1995. Following the merger of Union Bank of Switzerland and Swiss Bank Corporation to form UBS, Mr. Tang became Chief Executive, Hong Kong, of UBS Group and Asia Regional Head of Investment Banking for UBS Investment Bank. Mr. Tang also served in a number of senior roles over 20 years in the Banque Indosuez Group and Chase Manhattan Bank in Hong Kong and Malaysia.

Mr. Tang holds a Bachelor of Economics (Accounting) with First Class Honours.

Brett Sutton
NON-EXECUTIVE DIRECTOR

Brett was appointed to Tegel's Board in December 2010. He is a member of the Audit and Risk Committee and the Governance and Remuneration Committee.

Brett is a Partner at Affinity Equity Partners, which he joined in 2004. Prior to Affinity, he was in the Investment Banking Division of UBS in Australia working across a wide range of industries. Brett began his career with Ernst & Young, where he worked on a range of M&A advisory and business due diligence transactions focused on the banking and financial services industry. During his career he has worked across Singapore, New York, Australia and New Zealand.

In addition to Tegel, Brett is a director of Live Entertainment Holdings Pty Limited and Velocity Frequent Flyer Pty Limited.

Brett is a Qualified Chartered Accountant in Australia and holds a Bachelor of Commerce in Accounting and Finance.

George Adams
INDEPENDENT NON-EXECUTIVE DIRECTOR

George joined the Tegel Board in March 2016. He is the Chairperson of the Governance and Remuneration Committee and is a member of the Audit and Risk Committee.

With over 26 years international experience in the consumer goods and telecommunications industries, George brings to the Board a strong background in occupational health and safety. He has held senior financial, commercial and technology roles in large multi-national businesses located throughout New Zealand, Europe, Eastern Europe and Africa.

George was previously Managing Director of Coca-Cola Amatil New Zealand & Fiji, a role he held for 10 years. During this time George also chaired the New Zealand Food and Grocery Council.

Prior to moving to New Zealand in 2003, George was Financial Controller of British Telecom Northern Ireland and Group Financial Director of Dublin based bottling company Molino Beverages.

George is currently Chairman of Mix Cosmetics, Apollo Foods Limited, Insightful Mobility Limited, Nexus Foams Limited, the Business Leaders Health and Safety Forum and the Occupational Health Advisory Board. He is also a Director of Cavalier Bremworth and Competenz.

George is a Chartered Member of the Institute of Directors, a Fellow of the Institute of Chartered Accountants in Ireland and holds a Diploma in Foundation Studies in Accounting (Hons), a Diploma in Company Direction and a Diploma in Computing in Accounting.

Bridget Coates
INDEPENDENT NON-EXECUTIVE DIRECTOR

Bridget was appointed to the Tegel Board in October 2017. Bridget is Chairperson of the Audit and Risk Committee and a member of the Governance and Remuneration Committee.

She has a strong track record in driving international business growth through innovation, relationships, brands and marketing.

Bridget is an experienced company director holding both governance and executive roles across a wide range of industries and on a number of global reaching companies. She is currently a director of the Reserve Bank of New Zealand, and an advisory board member for the University of Auckland Business School. Bridget is also chairperson and co-founder of White Cloud Dairy Innovation Limited, providing quality New-Zealand-made dairy protein and other functional foods to US consumers.

Bridget's previous directorships include the New Zealand Superannuation Fund Board, SKYCITY Group Holdings Board, Fisher & Paykel Appliances Holdings Limited, Managing Director of US-based private investment firm 212 Equity Management, and Managing Principal of Fahrenheit Ventures, a consultancy specialising in US market entry strategies for consumer products businesses. Prior to this Bridget was the inaugural chair of business incubator, the ICEHOUSE, CEO University of Auckland Development and a member of the Council of the University of Auckland.

In 2014 Bridget was awarded a New Zealand Order of Merit for her services to business. Bridget holds a BCom and MA(Hons) and is a Chartered Financial Analyst charterholder.

SENIOR EXECUTIVE

Tegel is led by a highly experienced senior executive team, with an unrivalled depth of industry knowledge and experience.

Phil Hand
CHIEF EXECUTIVE OFFICER (CEO)

Peter McHugh
CHIEF FINANCIAL OFFICER

Christine Cash
GENERAL MANAGER
STRATEGY & BUSINESS DEVELOPMENT

Evelyn Davis
GENERAL MANAGER
HUMAN RESOURCES

Edward Campion
GENERAL MANAGER
OPERATIONS

Malcolm Clack
GENERAL MANAGER
SALES

John Russell
GENERAL MANAGER
AGRICULTURE AND SUPPLY

Austin Laurenson
GENERAL MANAGER
SUPPLY CHAIN & TECHNICAL SERVICES

Phil Hand

CHIEF EXECUTIVE OFFICER (CEO)

Refer to 'Board of Directors' for Phil's biography. All senior executives report directly to the Chief Executive Officer.

Peter McHugh

CHIEF FINANCIAL OFFICER

Peter was appointed CFO of Tegel in December 2014. As CFO, Peter is responsible for all finance, legal, company secretarial and procurement functions. Peter is an experienced financial and accounting professional, having had over 26 years of experience in commercial and financial professional services, corporate finance and senior management roles.

Peter is a Chartered Accountant and member of the Institute of Directors.

Christine Cash

GENERAL MANAGER – STRATEGY & BUSINESS DEVELOPMENT

Christine joined Tegel in 1995 and brings over 20 years of experience across Tegel to her current role as General Manager Strategy & Business Development. From March 2014 to April 2018 she held the role of General Manager Sales and Marketing and prior to that, she was General Manager Export (2011-2014).

Christine's current role involves delivering growth in emerging international markets, new growth opportunities, and leading the marketing and product development strategies for Tegel.

Christine is currently a member of the ExportNZ Auckland Executive Committee.

Evelyn Davis

GENERAL MANAGER – HUMAN RESOURCES

Evelyn joined Tegel in 2008 in her current role as General Manager Human Resources and is responsible for the ongoing development, implementation and execution of Tegel's national safety and human resources strategy.

Evelyn is an experienced human resources professional with over 20 years of direct human resources experience, primarily in the food sector at McDonald's Restaurants New Zealand. Evelyn is an Independent Trustee of the Coastguard Northern Region.

Edward Campion

GENERAL MANAGER – OPERATIONS

In November 2017 Ed was appointed to his current national role as General Manager Operations having previously worked in a regional operations General Manager role for three years. He joined Tegel in 2002 as a Livestock Planner, before transitioning into management roles including Processing Manager and Site Manager.

Ed is responsible for oversight of national manufacturing, feedmill and livestock operations. In addition he is current Chair of the New Zealand Tegel Growers Association/Tegel Working Group. Ed also represents Tegel on the poultry industry association, PIANZ. Ed is a member of the Board of Cystic Fibrosis New Zealand charity.

Malcolm Clack

GENERAL MANAGER – SALES

Malcolm is General Manager Sales having re-joined Tegel in January 2018 following a four year stint at IPC Asia Pacific, Leader Products and NZ Deli where he gained FMCG experience working in a variety of roles.

From 2007 to 2014, Malcolm was on the Tegel Executive Team initially as General Manager Domestic Sales and then as General Manager Commercial Sales & Marketing. Malcolm has 14 years Tegel Sales experience. Prior to joining Tegel, he spent 11 years with the Johnson & Johnson group of companies in Finance and Marketing roles.

Malcolm's role at Tegel is to lead the sales team domestically and in established export markets.

John Russell

GENERAL MANAGER – AGRICULTURE AND SUPPLY

John joined Tegel in 1995 as Microbiology Laboratory Manager. He brings more than 20 years of experience within Tegel to his role as General Manager Agriculture and Supply. His previous role was Feeds Business Manager, prior to which he held roles in food safety, operations improvement, logistics, EHS, and planning. Since 2006, John has been responsible for all aspects of Tegel's commodity procurement.

John's role is to lead Tegel's overall agricultural performance and the development of the company's agricultural assets. This is achieved through managing the feed raw material supply chain and optimising bird nutrition outcomes. Along with his team, John manages commodity purchasing, hedging, import freight, domestic logistics and storage nationwide. In addition, John is responsible for Tegel's agricultural sales businesses, including external feed and chick sales both domestically and internationally. John is a member of the NZFMA board.

Austin Laurenson

GENERAL MANAGER – SUPPLY CHAIN & TECHNICAL SERVICES

Austin joined Tegel as General Manager Business Improvement in April 2015 and was appointed to his current role as General Manager, Supply Chain & Technical Services in December 2017.

Prior to Tegel, Austin was Vice President Supply Chain at NZ Steel. Before this he worked at Fonterra Co-operative Group Limited as the Group Customer Service Development Manager and later as the Customer Supply Chain Manager for its offshore regional operating companies and global food service. Austin has also held a variety of roles with Sealord, Mars, Coca-Cola Amatil and Auckland Council.

At Tegel, Austin is responsible for providing leadership across supply chain, technical services, information services and business improvement.

FINANCIAL STATEMENTS

Directors' Statement

The Board of Directors are pleased to present the consolidated financial statements for Tegel Group Holdings Limited, and the auditors' report, for the year ended 29 April 2018.

The Directors present financial statements for each financial year which fairly present the financial position of the Group and its financial performance and cash flows for that period.

The Directors consider 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 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 Markets Conduct Act 2013.

The Board of Directors of Tegel Group Holdings Limited authorised these financial statements presented on pages 30 to 59 for issue on 11 June 2018.

For and on behalf of the Board.

David Jackson
Director

Phil Hand
Director

CONTENTS

Independent Auditor's Report

To the shareholders of Tegel Group Holdings Limited

The consolidated financial statements comprise:

- the balance sheet as at 29 April 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the consolidated financial statements of Tegel Group Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 29 April 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for qualified opinion

The Group has a goodwill balance of $264 million at balance date. As set out in Note 4.2 (b) to the consolidated financial statements the Directors completed their year end impairment test and concluded that the goodwill balance is not impaired. The goodwill assessment is based on the Group's internal value in use calculation using specific assumptions over five year cash flows and the cash flows beyond five years extrapolated using a terminal growth rate of 3% consistent with prior years.

A takeover offer has been made by Bounty Holdings New Zealand Limited (Bounty) for all the shares in the Company at $1.23 per share. Claris Investments Pte who hold 45% of the Company's shares has entered into an agreement with Bounty to accept the offer in respect of its entire shareholding subject to certain conditions. Bounty had also acquired 13.49% of the Company's shares on the market in the period between announcing the offer and 29 May 2018. The offer at a price of $1.23 also permits the payment of a dividend of up to 4.1 cents per share prior to the closing of the offer. The valuation of the Company at the net price of $1.27 per share implies a goodwill impairment of approximately $31 million.

An independent adviser report in relation to the full takeover offer has also been prepared by an independent firm and assessed the standalone valuation of the Company at between $1.15 to $1.39 per share. The mid point of this valuation is also $1.27 per share. The valuation of the Company using a price of $1.15 per share implies a goodwill impairment of approximately $74 million and the valuation of the Company using a price of $1.39 per share implies that there is no impairment of goodwill.

Based on our review of all the documentation we have concluded that the goodwill balance should be impaired by approximately $31 million.

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

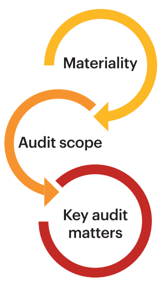
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Our firm carries out other services for the Group in the areas of Tax compliance, Tax consulting, Treasury advisory services, Remuneration benchmarking services and Agreed upon procedures at the Annual General Meeting. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $1.8 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that in addition to the matter described in the *Basis for qualified opinion* section there is one key audit matter:

- Biological Assets (fair value measurement)

Independent auditor's report (continued)

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our qualified opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for qualified opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Biological assets (fair value measurement) Biological assets are measured at fair value in accordance with the relevant accounting standards. Biological assets are transferred to inventory at fair value less estimated costs to sell at date of harvest. As described in note 3.3 to the consolidated financial statements, management estimations and judgements are required in determining the fair value of biological assets as unobservable inputs are used. Key inputs to the model used in determining fair value include: • Price achieved in market for feed, eggs and day old chicks; • Age of birds, feed conversion rates and mortality; • Eggs produced; and • Quantity of birds and eggs on hand. Given the magnitude of biological assets of $35.1 million, as disclosed in note 3.3 in the financial statements, complexity of the calculations and significant management estimation and judgement involved, we have focused our audit on calculation of the fair value.	We have obtained an understanding of the processes and controls adopted by management to determine the fair value of biological assets and inventory valuation at the point of harvest. We have re-performed the calculation of the fair value less cost to sell of the biological assets agreeing key inputs to the calculations and critically assessing the significant assumptions made. This included: • Agreeing price achieved for feed, eggs and day old chicks against historical invoices; • Agreeing age of birds, feed conversion rates and mortality rates against historical data; • Agreeing eggs produced, harvested birds and feed consumed to the agriculture system reports; • Testing agriculture system reports on a sample basis by agreeing the reported information to the individual farm records; and • Confirming a sample of quantity of birds and eggs on hand used in the calculation with the breeder farm. No matters arose from undertaking the above procedures.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

pwc

Responsibilities of the Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino (Leo) Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
11 June 2018

Auckland

Statement of Comprehensive Income

For the year ended 29 April 2018

	Notes	2018 $'000	2017 $'000
Revenue		615,435	613,978
Cost of sales		(478,109)	(468,922)
Gross profit		137,326	145,056
Other income	2.1	1,996	–
Expenses	6.2		
Distribution		(59,890)	(53,173)
Administration		(36,803)	(37,595)
Other		(496)	(392)
Finance income		73	132
Finance costs		(6,333)	(6,150)
Profit before income tax		35,873	47,878
Income tax expense	6.1	(9,768)	(13,633)
Profit for the year attributable to shareholders of the parent	2.1	26,105	34,245
Other comprehensive income:			
Items that will be subsequently reclassified to profit and loss			
Cash flow hedges, net of tax		1,066	3,342
Other comprehensive income for the year, net of tax		1,066	3,342
Total comprehensive income for the year		27,171	37,587
Basic earnings per share (cents)	5.4	7.33	9.78
Diluted earnings per share (cents)	5.4	7.29	9.76

Balance Sheet

As at 29 April 2018

	Notes	2018 $'000	Restated 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		9,352	13,406
Trade and other receivables	3.4	85,618	63,258
Inventories	3.1	92,449	84,864
Derivative financial instruments	7.7	2,269	1,635
Biological assets	3.3	35,054	32,872
Total current assets		224,742	196,035
Non-current assets			
Property, plant and equipment	4.1	179,154	163,663
Receivables		–	329
Intangible assets	4.2	347,298	342,988
Total non-current assets		526,452	506,980
Total assets		751,194	703,015
LIABILITIES			
Current liabilities			
Trade and other payables	3.2	89,330	66,600
Tax payable		8,356	3,113
Derivative financial instruments	7.7	29	1,978
Total current liabilities		97,715	71,691
Non-current liabilities			
Deferred tax liabilities	6.1	25,433	29,213
Borrowings	5.1	145,139	120,000
Total non-current liabilities		170,572	149,213
Total liabilities		268,287	220,904
Net assets		482,907	482,111
EQUITY			
Issued capital	5.2	427,121	427,121
Reserves	5.3	2,000	438
Retained earnings		53,786	54,552
Total equity		482,907	482,111

These statements should be read in conjunction with the notes to these financial statements.

Statement of Changes in Equity

For the year ended 29 April 2018

	Issued capital $'000 (Note 5.2)	Reserves $'000 (Note 5.3)	Retained earnings $'000	Total equity $'000
Balance at 24 April 2016	284,423	(3,149)	32,586	313,860
Profit for the year	–	–	34,245	34,245
Other comprehensive income for the year, net of tax	–	3,342	–	3,342
Total comprehensive income	–	3,342	34,245	37,587
Movement in fair value of share based payments reserve	–	245	–	245
Shares redeemed during the year	(264,158)	–	–	(264,158)
Issue of shares during the year net of issue costs	406,856	–	–	406,856
Dividends paid	–	–	(12,279)	(12,279)
Supplementary dividends paid	–	–	(431)	(431)
Foreign investor tax credit	–	–	431	431
	142,698	245	(12,279)	130,664
Balance at 30 April 2017	427,121	438	54,552	482,111
Profit for the year	**–**	**–**	**26,105**	**26,105**
Other comprehensive income for the year, net of tax	**–**	**1,066**	**–**	**1,066**
Total comprehensive income	**–**	**1,066**	**26,105**	**27,171**
Movement in fair value of share based payments reserve	**–**	**496**	**–**	**496**
Dividends paid	**–**	**–**	**(26,871)**	**(26,871)**
Supplementary dividends paid	**–**	**–**	**(865)**	**(865)**
Foreign investor tax credit	**–**	**–**	**865**	**865**
	–	**496**	**(26,871)**	**(26,375)**
Balance at 29 April 2018	**427,121**	**2,000**	**53,786**	**482,907**

Statement of Cash Flows

For the year ended 29 April 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		594,873	626,245
Net GST received		1,838	2,340
Income tax paid		(8,719)	(11,416)
Payments to suppliers		(410,708)	(423,030)
Payments to employees		(135,821)	(144,417)
Other operating expenses related to listing		–	(4,145)
Net cash inflow from operating activities	3.5	41,463	45,577
Cash flows from investing activities			
Payments for property, plant and equipment		(32,473)	(28,795)
Payments for intangibles		(7,607)	(1,427)
Proceeds from sale of property, plant and equipment and other		2,285	88
Net cash outflow from investing activities		(37,795)	(30,134)
Cash flows from financing activities			
Proceeds from borrowings		185,425	–
Issue of ordinary shares		–	418,577
Redemption of redeemable shares		–	(264,158)
Repayment of principal on borrowings		(159,925)	(133,000)
Payment of interest and financing costs		(6,351)	(4,433)
Payment of costs related to listing		–	(10,746)
Payment of dividends		(26,871)	(12,279)
Net cash outflow from financing activities		(7,722)	(6,039)
Net increase / (decrease) in cash and cash equivalents		(4,054)	9,404
Cash and cash equivalents at the beginning of the financial year		13,406	4,002
Cash and cash equivalents at end of year		9,352	13,406

These statements should be read in conjunction with the notes to these financial statements.

Notes to the financial statements

29 April 2018

1 BASIS OF PREPARATION

1.1 General information

Tegel Group Holdings Limited (the Company) and its subsidiaries (together the Group) is a fully integrated poultry producer, involved in the breeding, hatching, processing, marketing and distribution of poultry products.

These financial statements are the consolidated financial statements and incorporate the assets, liabilities and results of Tegel Group Holdings Limited and its subsidiaries Ross Group Enterprises Limited, Ross Group Developments Limited, SH12 Limited, Tegel Foods Limited, and Tegel International Services Limited. These subsidiary companies are all 100% owned by the Company and incorporated in New Zealand.

1.2 Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Statutory base

Tegel Group Holdings Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993 and listed on the Stock Exchange in New Zealand and Australia, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The financial statements have been rounded to the nearest one thousand New Zealand dollars. The Group divides its financial year into weekly periods. The 2018 full year results are for 52 weeks (2017: 53 weeks).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Changes in accounting policies and adoption of new and amended standards

In 2011, on acquisition of the Tegel business, the Group recognised an indefinite life brand with a fair value of $33.5 million. No deferred tax was recognised in relation to this asset at the time of the acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the determination of the expected manner of recover of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

As a result of this additional guidance, the Group has recognised a deferred tax liability of $9.4 million on brands, with a corresponding increase in the carrying amount of the generated goodwill. There has been no impairment of the goodwill or brands since the acquisition. Comparatives for goodwill and deferred tax liability have been restated and both increased by $9.4 million.

There have been no other changes in accounting policies or new standards adopted that have had a material impact on the financial statements during the year.

1.3 Critical accounting judgements, estimates and assumptions

Accounting Policy

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting estimates and judgements have been made:

(a) Reviewing the carrying value of goodwill, trademarks and customer relationships. Note 4.2 provides information about the impairment testing of goodwill and trademarks.

(b) Biological assets
Judgements have been made in relation to the Group's biological assets as disclosed in Note 3.3.

1.4 Significant events during the year

Refinance

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowing being repaid and a new three year facility being advanced to the Group. For more details see note 5.1 Borrowings.

Takeover notice

On 25 April 2018, a takeover notice, under Rule 41 of the Takeovers Code, was received by the directors of the Group from Bounty Holdings New Zealand Limited (Bounty) to acquire all of the issued shares in the Group at a price per ordinary share of NZ$1.23.

The takeover offer document was distributed by Bounty to all Tegel shareholders on 28 May 2018 and accepted by Claris Investments Pte. Limited (Claris) on 30 May 2018 in respect of their 45% shareholding of the issued ordinary shares. Claris is now subject to the terms of the Lock-up agreement with Bounty.

2 PERFORMANCE

2.1 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior management team.

The Group operates in one industry, being the manufacture and sale of poultry products. Management makes resource allocation decisions based on expected cash flows and results of the Group's operations as a whole and the Group therefore has one segment.

A key performance measure reviewed by management is underlying earnings before interest, tax, depreciation, amortisation, fair value adjustments to biological assets and share based payments, and unrealised gains and losses on foreign exchange (underlying EBITDA). This is adjusted for significant one off items.

Revenues of approximately 44% (2017: 42%) are derived from two customers with greater than 10% of revenue.

	2018 $'000	2017 $'000
Underlying EBITDA	70,166	75,558
Unrealised gains / (losses) on foreign exchange revaluations	152	(418)
Fair value adjustment to biological assets	249	(32)
Share based payments	(496)	(245)
Settlement of historical legal and other claims	(12)	(654)
Listing costs	–	(147)
Gains /(loss) on the disposal of property, plant and equipment	1,996	(146)
Kaikoura earthquake costs and other distribution costs	(1,381)	(535)
Industry compliance costs[1]	(4,141)	–
Costs related to Cyclone Gita and other one off events	(3,277)	–
Restructuring costs	(1,133)	–
EBITDA	62,123	73,381
Depreciation	(16,693)	(16,273)
Amortisation	(3,297)	(3,212)
Net finance costs	(6,260)	(6,018)
Profit before tax	35,873	47,878
Income tax expense	(9,768)	(13,633)
Profit after tax	26,105	34,245

1 Costs have been incurred by the Group while working with all industry companies to establish a catching practice that reduced risk to catching staff. Management have assessed these industry compliance costs to be $4.1 million.

Accounting policy

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of Goods and Services Tax, rebates and discounts.

Revenue from the sale of goods including feed and biological assets is recognised in profit and loss when the significant risks and rewards have been transferred to the buyers. No revenue is recognised if there are significant uncertainties regarding recoverability.

The Group sells to many different countries with all sales originating from New Zealand.

	2018 $'000	2017 $'000
REVENUE		
Domestic	525,859	511,023
Export	89,576	102,955
Total revenue	615,435	613,978

	2018 $'000	2017 $'000
OTHER INCOME		
Gain on disposal of property, plant and equipment	1,996	–
	1,996	–

Notes to the financial statements (continued)

29 April 2018

3 WORKING CAPITAL

3.1 Inventories

Accounting Policy

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and production overheads necessary to bring the inventories into their present location and condition. Biological assets are transferred to inventory at fair value less estimated costs to sell at the date of harvest. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

	2018 $'000	2017 $'000
Raw materials	30,267	29,159
Finished goods	54,801	50,012
Spare parts and consumables	7,381	5,693
	92,449	84,864

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to $473.4 million (2017: $464.8 million).

Raw materials of $5.7 million (2017: $12.3 million) have been pledged as security for trade payables. The remaining inventory is secured under bank borrowings.

3.2 Trade and other payables

Accounting Policy

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

Supplier payables relate to balances with third parties for the supply of commodities. In exchange for a fee these payables have payment terms that are more favourable than the Group's standard payment terms. The third parties hold security over the goods until paid.

Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave to be settled within 12 months of the reporting date are recognised in 'employee benefits' in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The Group's net obligation in respect of long service leave is the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods.

	2018 $'000	2017 $'000
Trade payables	54,452	29,970
Supplier payables	12,830	16,755
Accruals and other payables	6,088	5,475
Employee benefits	15,960	14,400
	89,330	66,600

Due to the nature of the trade and other payables their carrying value is assumed to approximate their fair value.

3.3 Biological assets

Accounting Policy

Biological assets include live broiler chicken and turkey birds, breeding stock and hatching eggs. These are measured at fair value less estimated point of sales costs at reporting dates. Fair value is determined based on market prices or where market prices are not available, fair value is estimated based on market prices of the output produced, by reference to sector benchmarks. Changes to fair value are recognised in cost of sales in profit and loss. Biological assets are transferred to inventory at fair value less estimated costs to sell at the date of harvest.

Assets in this category are classified as current assets if the expected life of the asset is less than 12 months.

3 WORKING CAPITAL (CONTINUED)

3.3 Biological assets (continued)

	2018 $'000	2017 $'000
Opening carrying value at 30 April 2017	32,872	31,517
Gain arising from changes in fair value less estimated point of sale costs	24,013	20,070
Increase due to purchases	262,550	271,590
Decreases attributable to sales	(22,689)	(20,333)
Decreases due to harvest	(261,692)	(269,972)
Closing carrying value at 29 April 2018	35,054	32,872

Biological assets are measured at fair value which is determined by using unobservable inputs and is categorised as level 3 as described in note 7.6.

Determining fair value

Management estimations and judgements are required in determining the fair value of biological assets which is assessed with reference to the net realisable value of assets based on estimated pre-tax cashflows as at reporting date and making use of assumptions existing at that date. The determination of fair value is based on management's assessment using available data which includes the following specific inputs:

- price achieved in active markets for feed, eggs and day old chicks;
- age of birds, feed conversion rates and mortality rates;
- eggs produced;
- quantity of birds and eggs on hand.

Risks

Feed is a significant component of biological assets and the Group is exposed to financial risks arising from changes in feed commodity prices. These risks are managed through an established process whereby the various conditions which influence commodity prices are monitored on an ongoing basis. The Group uses various methods to manage this risk including the procurement of raw materials on fixed price purchase contracts and the use of foreign exchange contracts to hedge foreign currency exposure.

3.4 Trade and other receivables

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the amount the Group expects to collect. The movement in the provision during the period is recognised in 'Administration expenses' in profit and loss.

	2018 $'000	2017 $'000
Trade receivables	83,433	61,287
Provision for doubtful receivables	(1,186)	(976)
Other debtors	2,320	2,101
Prepayments and other	1,051	846
	85,618	63,258

(a) Past due more than 3 months

As at 29 April 2018 trade receivables of $2.2 million (2017: $2.1 million) were past due but not impaired. These relate to a number of independent customers where there is no recent history of default or for which terms have subsequently been renegotiated and it is expected that these amounts will be received.

Trade receivables of $1.2 million (2017: $1.0 million) were individually assessed for impairment and a provision for the full amount has been recognised.

Notes to the financial statements (continued)

29 April 2018

3.4 Trade and other receivables (continued)

(b) Bad and doubtful trade receivables

The Group has recognised an expense / (addback) of $0.2 million (2017: ($0.3 million)) in respect of bad and doubtful trade receivables during the year ended 29 April 2018.

	2018 $'000	2017 $'000
Movement in provision		
Debts written off	(101)	(43)
Increase / (decrease) in provision	311	(252)
Net increase / (decrease) in provision for doubtful receivables	210	(295)

(c) Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

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

Accounting Policy

Cash and cash equivalents are considered to be cash on hand, bank current accounts, cash on deposit and bank overdrafts. Cash flows are shown exclusive of Goods and Services Tax (GST). Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity and financing costs.

	2018 $'000	2017 $'000
Profit for the year	26,105	34,245
Adjusted for		
Depreciation	16,693	16,273
Amortisation	3,297	3,212
Share based payments	496	245
Amortised finance costs	153	–
(Increase) / decrease in fair value of biological assets and inventory	(249)	32
(Gain) / Loss on disposal of property, plant and equipment	(1,996)	146
Movements in working capital due to derivatives	(1,103)	(257)
Movements related to deferred tax	(4,194)	–
Other amounts not involving cash flows	578	107
Impact of changes in working capital items		
(Increase) / decrease in debtors and prepayments	(22,360)	14,805
Increase / (decrease) in creditors and provisions	22,730	(15,377)
Increase in inventories	(7,585)	(2,526)
Decrease in deferred IPO costs	–	12,246
(Decrease) in provisions and other current liabilities	–	(21,754)
Increase in current tax liabilities	5,243	2,077
Increase in biological assets	(2,182)	(1,355)
Less items classified as financing activities:		
Payment of costs related to listing and subsequently netted in equity	–	(975)
Interest paid classified as financing	5,837	4,433
Net cash inflow from operating activities	41,463	45,577

4 LONG TERM ASSETS

4.1 Property, plant and equipment

Accounting Policy

All property, plant and equipment are stated at historical cost less depreciation and impairment where applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items and may include the cost of materials, direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of property, plant and equipment is charged on a straight-line basis so as to write off the cost of the assets over their expected useful life. The following estimated lives have been used:

- Buildings 40 years
- Plant and equipment 3 – 30 years
- Motor vehicles 3 – 6 years

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The residual lives are reviewed at each year end for appropriateness.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss in Other income or Administration expenses respectively.

	Capital work in progress $'000	Freehold land $'000	Buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
At 24 April 2016						
Cost	5,991	9,035	37,049	158,831	611	211,517
Accumulated depreciation	–	–	(3,949)	(55,835)	(382)	(60,166)
Net book amount	5,991	9,035	33,100	102,996	229	151,351
Year ending 30 April 2017						
Opening net book amount	5,991	9,035	33,100	102,996	229	151,351
Additions	28,796	–	–	–	–	28,796
Transfer of work in progress	(27,155)	53	4,332	22,727	43	–
Disposals	–	–	–	(211)	–	(211)
Depreciation charge	–	–	(1,682)	(14,521)	(70)	(16,273)
Closing net book amount	7,632	9,088	35,750	110,991	202	163,663
At 30 April 2017						
Cost	7,632	9,088	41,381	180,829	654	239,584
Accumulated depreciation	–	–	(5,631)	(69,838)	(452)	(75,921)
Net book amount	7,632	9,088	35,750	110,991	202	163,663
Year ending 29 April 2018						
Opening net book amount	**7,632**	**9,088**	**35,750**	**110,991**	**202**	**163,663**
Additions	**32,473**	**–**	**–**	**–**	**–**	**32,473**
Transfer of work in progress	**(19,069)**	**1,070**	**3,764**	**14,235**	**–**	**–**
Disposals	**–**	**–**	**(196)**	**(93)**	**–**	**(289)**
Depreciation charge	**–**	**–**	**(2,183)**	**(14,443)**	**(67)**	**(16,693)**
Closing net book amount	**21,036**	**10,158**	**37,135**	**110,690**	**135**	**179,154**
At 29 April 2018						
Cost	**21,036**	**10,158**	**44,862**	**194,864**	**625**	**271,545**
Accumulated depreciation	**–**	**–**	**(7,727)**	**(84,174)**	**(490)**	**(92,391)**
Net book amount	**21,036**	**10,158**	**37,135**	**110,690**	**135**	**179,154**

Notes to the financial statements (continued)

29 April 2018

4.2 Intangible assets

Accounting Policy

(i) Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit and loss.

Goodwill is not amortised but is tested for impairment annually or immediately if events or changes in circumstances indicate that there might be an impairment and is carried at cost less accumulated impairment losses.

(ii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The Customer relationships have a finite useful life, assessed as 25 years, and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over the expected life of the customer relationship and classified within Administration expenses.

(iii) Brands

Separately acquired trademarks and licences are shown at historical cost and represent the value of brands acquired. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks are not amortised. Instead trademarks are tested for impairment annually, or immediately if events or changes in circumstances indicate that there might be impairment, and are carried at cost less accumulated impairment losses. Trademarks are considered to have an indefinite useful life due to the unique nature of the brand in the New Zealand market.

(iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised over their estimated useful lives (three to five years).

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

(v) Other intangibles

Other intangibles are payments made in the course of business that are capitalised over the term of the agreement to which they relate. This ranges from three to seven years. These costs are amortised over this same term.

4 LONG TERM ASSETS (CONTINUED)

4.2 Intangible assets (continued)

	Goodwill	Customer Relationships $'000	Brands $'000	Computer software $'000	Other intangible assets $'000	Total $'000
At 24 April 2016 (restated)						
Cost	263,958	56,900	33,500	9,017	983	364,358
Accumulated amortisation	–	(11,380)	–	(7,425)	(780)	(19,585)
Net book amount	263,958	45,520	33,500	1,592	203	344,773
Year ending 30 April 2017 (restated)						
Opening net book amount	263,958	45,520	33,500	1,592	203	344,773
Additions	–	–	–	1,127	300	1,427
Amortisation charge	–	(2,276)	–	(512)	(424)	(3,212)
Closing net book amount	263,958	43,244	33,500	2,207	79	342,988
At 30 April 2017 (restated)						
Cost	263,958	56,900	33,500	10,143	1,283	365,784
Accumulated amortisation	–	(13,656)	–	(7,936)	(1,204)	(22,796)
Net book amount	263,958	43,244	33,500	2,207	79	342,988
Year ending 29 April 2018						
Opening net book amount	263,958	43,244	33,500	2,207	79	342,988
Additions	–	–	–	7,231	376	7,607
Amortisation charge	–	(2,276)	–	(693)	(328)	(3,297)
Closing net book amount	263,958	40,968	33,500	8,745	127	347,298
At 29 April 2018						
Cost	263,958	56,900	33,500	17,219	375	371,952
Accumulated amortisation	–	(15,932)	–	(8,474)	(248)	(24,654)
Net book amount	263,958	40,968	33,500	8,745	127	347,298

(a) Software additions

Software additions of $7.2 million include additions to capital work in progress of $6.4 million predominately due to an Enterprise Resource Planning project.

(b) Impairment tests for goodwill and trademarks

Management has undertaken an impairment review and has concluded that the goodwill and brands are not impaired based on the current and future expected trading performance of the Group.

The recoverable amounts of goodwill and brands have been determined based on value-in-use calculations. These calculations use pre-tax illustrative cash flows covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates of 3% (2017: 3%) which are consistent with the long term average growth rate observed by the Group.

The key assumptions used for the value-in-use calculations are as follows:

	2018	2017	2016
5 year EBITDA growth rate	6%	4%	6%
Discount rate	8.8%	8.8%	9.3%
Terminal growth rate	3.0%	3.0%	3.0%

The valuation model used is most sensitive to changes in discount rate and long term growth rates.

Detailed below is the amount by which these assumptions would have to change to result in the recoverable amount being equal to the carrying amount.

Discount rate	Increase of 81 basis points
Terminal growth rate	Decrease of 94 basis points

A change in discount rate to 9.1% would result in a $32.2 million reduction in headroom and a change in terminal growth rate to 2.5% would result in a $43.9 million reduction in headroom. If both assumptions were changed it would not result in the carrying amount exceeding the recoverable amount.

Notes to the financial statements (continued)

29 April 2018

However, a significant change in assumptions such as a discount rate of 9.1% and a terminal growth rate of 2% would result in an impairment of $13.7 million.

Value in respect of current Takeover offer by Bounty Holdings New Zealand Limited (Bounty)

In assessing the recoverable value of goodwill, the Directors have considered the terms of the current takeover offer by Bounty. The effective offer price of $1.271 is below the Group's Net Assets on a per share basis of $1.357. Adjusting goodwill to an effective net asset value per share of $1.271 (consistent with the effective offer price), would result in an impairment of $30.6 million.

No adjustment has been made in these accounts for any potential impairment after giving consideration to:

1. The value-in-use model outlined above showing no impairment being required;
2. The independent adviser report providing a valuation range of $1.15 - $1.39 per share, the range including the Net Asset per share value of $1.357;
3. The Directors have formed an assessment of the current offer and provided a recommendation to accept the offer in the Target Company Statement dated 11 June 2018, noting in particular that Bounty has already achieved a majority shareholder position and any remaining shareholders would hold a minority. However as noted in that recommendation, shareholders with a longer term risk profile should consider holding onto their shares. This gives consideration to the long term value shown by the company's value-in-use model and implied by the top end of the independent valuers report.

4.3 Commitments

Accounting policy

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment which are classified as operating leases as the lessor has retained substantially all the risks and rewards of ownership.

(a) Operating lease commitments

Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

	2018 $'000	2017 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	28,594	23,876
Later than one year but not later than five years	89,223	75,268
Later than five years	185,845	104,884
	303,662	204,028

(b) Other commitments for expenditure

	2018 $'000	2017 $'000
Raw material purchasing commitments are as follows:		
Within one year	55,205	76,716
	55,205	76,716

The Group has contracts with growers which require certain minimum standards to be met. The next renewal date for approximately 44% of these contracts is 30 April 2019 with the renewal date for the remaining contracts between 4 and 25 years. The amount committed to be paid within the next year is $25.0 million (2017: $18.6 million).

(c) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2018 $'000	2017 $'000
Property, plant and equipment and intangibles	7,228	8,985
	7,228	8,985

(d) Letter of credit

	2018 $'000	2017 $'000
Letters of credit issued as at reporting date for purchase of capital items due for delivery after balance date	–	2,090

5 BORROWINGS AND EQUITY

5.1 Borrowings

Accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date and there is no intention to repay within 12 months.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

	2018 $'000	2017 $'000
Secured		
Non current		
Bank borrowings at amortised cost	145,139	120,000
Total interest bearing liabilities	145,139	120,000

The banking arrangements include a working capital facility which is included within bank borrowings above.

	2018 $'000	2017 $'000
Bank loan facilities		
Working capital facilities	50,000	40,000
Unused at balance date	24,500	40,000

On 10 October 2017, a new banking facility was negotiated, resulting in all bank borrowings being repaid. A new three year facility was advanced to the Group. The new arrangements are a facility of $120.0 million and a working capital facility of $50.0 million with both expiring in October 2020.

Interest is calculated at the BKBM floating base rate plus a margin.

The borrowings are subject to borrowing covenant arrangements. The Group has complied with all covenants during the year. Bank borrowings are secured over the assets of the Group. The carrying value of borrowings is assumed to approximate the fair value.

The loans of the Group incurred interest at rates from 3.1% to 3.7% (30 April 2017: 3.2% to 4.9%).

5.2 Share capital

	Ordinary shares	
Share Capital	Number on issue '000	Value $'000
At 30 April 2017	355,906	427,121
At 29 April 2018	355,906	427,121

Ordinary shares

As at 29 April 2018, ordinary shares comprised 355,906,183 (2017: 355,906,183) authorised issued and fully paid shares in Tegel Group Holdings Limited. Each share carries one voting right.

Notes to the financial statements (continued)

29 April 2018

5.3 Reserves

	2018 $'000	2017 $'000
Reserves		
Hedge reserve	1,259	193
Share based payments reserve	741	245
	2,000	438

Hedge reserve

The hedging reserve is used to record gains or losses on cash flow hedge instruments, as described in Note 7.7. Hedged gains or losses are recognised in the profit and loss in the period in which the income or expense associated with the underlying transaction occurs.

The total amount of cash flow hedges reclassified from equity and included in profit or (loss) before tax for the period is ($2.4 million) (2017: ($5.7 million)).

Share based payments reserve

The share based payments reserve is used to recognise the fair value of performance rights granted but not yet vested under the long term incentive plan. Amounts are transferred to share capital when the vested performance share rights are exercised by the employee. Refer to note 6.4.

5.4 Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the weighted average number of ordinary shares on issue.

	2018 $'000	2017 $'000
Profit attributable to shareholders	26,105	34,245
Weighted average number of ordinary shares for basic earnings per share	355,906	350,083
Effect of dilutive ordinary shares:		
- Performance rights	1,967	879
Weighted average number of ordinary shares for diluted earnings per share	357,873	350,962
Basic earnings per share (cents)	7.33	9.78
Diluted earnings per share (cents)	7.29	9.76

5.5 Dividends paid

Dividends are recognised as a liability in the Group's financial statements in the period in which they are declared by the Board.

	2018		2017	
	$'000	Cents per share	$'000	Cents per share
Dividends paid during the year				
2017 Interim dividend	–	–	12,279	3.45
2017 Final dividend	14,592	4.10	–	–
2018 Interim dividend	12,279	3.45	–	–
	26,871	7.55	12,279	3.45
Dividends declared after balance date				
2017 Final dividend	–	–	14,592	4.10
2018 Final dividend	14,592	4.1	–	–
	14,592	4.1	14,592	4.10

The 2017 and 2018 interim and final dividends paid and declared, are fully imputed.

6 OTHER

6.1 Taxation

Accounting Policy

The tax expense for the period comprises current and deferred tax. 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 this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

	2018 $'000	2017 $'000
(a) Income tax expense		
Current tax		
Current tax on profits for the year	14,138	14,058
Over provided in prior years	(176)	(567)
Total current tax	13,962	13,491
Deferred tax		
Origination and reversal of temporary differences	(4,481)	(538)
Under provided in prior years	287	680
Total deferred tax (benefit) / expense through profit and loss	(4,194)	142
Income tax expense	9,768	13,633
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	35,873	47,878
Tax calculated at domestic tax rate applicable to profits at 28%	10,044	13,406
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable (gain) / loss on the sale of property, plant and equipment	(394)	40
Non deductible expenses	75	105
Revaluation of fair value of biological assets	(70)	9
Sundry items including under provided in prior years	113	73
Income tax expense	9,768	13,633

Notes to the financial statements (continued)

29 April 2018

(c) Deferred tax liabilities

	2018 $'000	Restated 2017 $'000
The balance comprises temporary differences attributable to:		
Provisions for doubtful debts, inventory and employee benefits	(4,217)	(678)
Property, plant and equipment	8,309	8,327
Cash flow hedge reserve	490	76
Customer relationships	11,471	12,108
Brands	9,380	9,380
Net deferred tax liabilities	25,433	29,213
Movements in deferred tax:		
Opening balance	29,213	27,773
(Credited) / charged to the income statement		
Provisions for doubtful debts, inventory and employee benefits	(3,539)	497
Property, plant and equipment	(18)	281
Customer relationships	(637)	(638)
	(4,194)	140
Charged directly to equity		
Cash flow hedge reserve	414	1,300
Closing balance	25,433	29,213

(d) Imputation credit account

The amount of imputation credits at balance date available for future distribution is set out below:

	2018 $'000	2017 $'000
Closing balance	14,348	10,616

Certain Group subsidiary companies and the parent form a consolidated group for income tax purposes. The Group imputation credit account reported above is for this tax group and is available to shareholders either directly or indirectly through their shareholding in the parent company.

Imputation credits remaining after distribution of the final 2018 dividend are estimated to be c$9.2 million. To the extent not otherwise utilised, these will no longer be available to shareholders, if all conditions of the Bounty takeover offer are met resulting in a change of shareholding exceeding 66%. (Refer note 1.4).

6.2 Expenses

	2018 $'000	2017 $'000
Profit before income tax includes the following specific expenses:		
Operating lease payments	29,461	28,331
Employee benefits		
Wages, salaries and other employment costs	140,177	135,914
Directors' fees	343	382
Contributions to defined contribution superannuation plans	4,140	3,864
Share based payments expense	496	245
	145,156	140,405

6 OTHER (CONTINUED)

6.3 Fees paid to auditors

	2018 $'000	2017 $'000
During the year the following fees were paid or payable for services provided by the auditor of the Group.		
Audit of financial statements		
Statutory audit and review of financial statements	263	253
Other services		
Tax compliance and consulting services	97	167
Treasury advisory services	24	24
Remuneration benchmarking services	23	3
Agreed upon procedures at the Annual General Meeting	7	–
Total other services	151	194
Total remuneration for services	414	447

6.4 Share based payments

The Group established an equity settled share based incentive plan for senior managers and eligible employees (LTI Plan) on 20 April 2016. The plan is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests.

Under the LTI Plan, participants are granted performance rights. Each performance right gives the participant the right to acquire one ordinary share, subject to meeting vesting conditions set by the Board. The Board has absolute discretion to invite employees or contractors of the Group to participate in the LTI Plan and to set the terms and conditions of the performance rights to be granted, consideration for the grant (if any) and the vesting conditions attached to those performance rights.

The fair value of performance rights granted is recognised as an employee expense in the income statement with a corresponding increase in the share based payments reserve. The fair value is measured at grant date and spread over the vesting period. The fair value of the performance rights granted is independently assessed, taking into account the terms and conditions upon which the performance rights were granted. When performance rights are exercised the amount in the share based payments reserve relating to those performance rights is transferred to share capital. When any vested performance rights lapse, upon unexercised performance rights reaching maturity, the amount in the share based payments reserve relating to those performance rights is transferred to share capital, or to retained earnings if the performance rights lapse due to market conditions not being met.

During the year, the Board approved a grant of performance rights. The number of performance rights was determined by dividing the grant value by the fair value of the performance rights. Participants did not pay any consideration for the performance rights and once they vest, participants will not pay any issue price when they elect to acquire ordinary shares in exchange for their vested performance rights.

Vesting of performance rights on issue is conditional on Tegel's total shareholder return over the vesting period being positive, ranking above the 50th percentile of total shareholders returns for companies in the S&P/NZX50 and the participant remaining employed by the Group at the time of vesting at the discretion of the Board. The vesting period ends after the announcement of the Group's financial results for the 2019 financial year.

The number of performance rights that will vest will be calculated on a straight line basis where the Group's total shareholder return ranks between the 50th and 75th percentile, and all of the performance rights will vest where the Group's total shareholder return ranks 75th percentile or above. Once vested, the performance rights remain exercisable for a period of six months.

	Number of performance rights	
	2018 000	2017 000
Opening balance	894	–
Granted during the year	1,321	894
Cancelled during the year	(173)	–
Closing balance	2,042	894
Share price at grant date	$1.26	$1.63

The fair value of the performance rights granted during the year was $1.3 million (2017: $0.8 million) and was determined by taking into account a range of factors including share price at grant date and expected price volatility.

Notes to the financial statements (continued)

29 April 2018

Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the year as part of employee benefit expense were as follows:

	2018 $'000	2017 $'000
Expenses for equity settled share based payment transactions	496	245

6.5 Related party transactions

(a) Parent entities

The ultimate Parent entity within the Group is Tegel Group Holdings Limited (incorporated in New Zealand) of which 45.0% (2017: 45.0%) of the ordinary shares are owned by Claris Investments Pte. Limited as at balance date.

(b) Key management personnel compensation

The key management are the management who have the greatest authority for the strategic direction and operational management of the Group. Directors fees and payments to the senior management team are included below:

	2018 $'000	2017 $'000
Short term employee benefits	3,381	3,346
Payments to directors	343	382
Contributions to defined contribution superannuation plans	95	127
Share based payments expense	496	245
Termination benefits	314	–
	4,629	4,100

(c) Transactions with related parties

(i) Affinity Equity Partners advises Claris Investments Pte. Limited and as such is considered a related party. During the year various expenses totalling $0.02 million (2017: $0.06 million) including travel costs were incurred by Affinity Equity Partners on behalf of Tegel Group Holdings Limited. These have been on charged to the Group.

(ii) Directors of the group control 0.3% (2017: 0.3%)of the voting shares of the company at balance date.

6.6 Contingencies

The Group is involved in discussions with insurers regarding costs incurred as a result of Cyclone Gita. The quantification of this claim is ongoing.

As at 29 April 2018 the Group had no other contingent liabilities or assets.

6.7 Significant events after balance date

On 10 June 2018 the Board approved the payment of a fully imputed 2018 final dividend of $14,592,154 (4.1 cents per share) to be paid on 13 July 2018. In addition, a supplementary dividend totalling approximately $0.2 million (0.72 cents per share) was also approved for eligible non-resident shareholders.

6 OTHER (CONTINUED)

6.8 Other accounting policies

(a) Principles of consolidation

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

(c) Goods and Services Tax (GST)

The income statement and the statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(d) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(e) Sale and leaseback

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs. If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value.

(f) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 29 April 2018 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'.

The Group intends to adopt NZ IFRS 16 on its effective date and is currently assessing its full impact.

NZ IFRS 15: Revenue from contracts with customers

NZ IFRS 15, 'Revenue from contracts with customers' establishes the framework for revenue recognition. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard is based on the principle that revenue is recognised when control of a good or services transfers to a customer. The notion of control replaces the existing notion of risks and rewards.

The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

NZ IFRS 9: Financial instruments

NZ IFRS 9. 'Financial instruments' replaces NZ IAS 39 'Financial Instruments: Recognition and measurement. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and introduced a new impairment model.

The group intends to adopt NZ IFRS 9 on its effective date and is currently assessing its full impact. The standard is not expected to significantly impact the Group.

Notes to the financial statements (continued)

29 April 2018

7 FINANCIAL RISK MANAGEMENT

7.1 Financial instruments by category

Accounting Policy

Offsetting financial instruments

Financial instruments and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

The Group's activities expose it to a variety of material financial risks including currency, interest rate, credit, and liquidity risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and mitigate different types of risk to which it is exposed. Risk management is carried out under policies approved by the Board of Directors and executive management. The financial instruments are classified in the following way:

Financial instruments	Classification	Explanation
Derivatives	Fair value through profit and loss	These instruments are used to hedge currency movements and changes to interest rates.
Cash and cash equivalents Trade and other receivables Trade and other payables Borrowings	Loans and receivables and liabilities held at amortised cost. The carrying amount is considered a reasonable approximation of fair value due to their nature and the impact of discounting not being significant.	These relate to the normal operating needs of the business and the day-to-day operations.

7.2 Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to receivables from customers. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable.

If wholesale customers are independently rated, their ratings are used. Otherwise, if there is no independent rating, credit risk of customers is managed by credit checking procedures and the application of and adherence to credit limits. The Group uses several tools to mitigate upfront risk including the use of independent credit ratings, credit references, past experience, financial reviews and obtaining security assets.

The maximum credit risk on cash and cash equivalents, trade and other receivables and derivative financial instruments is best represented by their carrying amounts.

7.3 Market risk

(i) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued 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 manages its cash flow interest rate risk within the parameters of its banking facility agreements, including the use of Board approved instruments such as interest rate swaps.

(ii) Foreign exchange risk

Foreign exchange risk arises when future operational transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Forward contracts are the key instrument used to manage foreign exchange risk although other derivatives approved by the Board may be used from time to time.

The Group's material exposure during the reporting period was to USD and AUD denominated grain and other animal feed imports, and AUD denominated export sales.

(iii) Summarised sensitivity analysis

As cash balances are not subject to foreign exchange risk, these have been excluded from this analysis. Interest rate risk and foreign exchange risk assumptions have been made on estimated changes in the market.

Interest rate risk

At 29 April 2018 if market interest rates had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been $0.9 million (2017: $0.9 million) lower/higher mainly as a result of higher/lower interest expense on floating borrowings.

Foreign exchange risk

At 29 April 2018 if foreign exchange rates had been 10% higher with all other variables held constant, equity would have been $1.3 million (2017: $2.0 million) lower as a result of a change in fair value of derivatives designated as cash flow hedges.

At 29 April 2018 if foreign exchange rates had been 10% lower with all other variables held constant, equity would have been $1.6. million (2017: $2.5 million) higher as a result of an increase in fair value of derivatives designated as cash flow hedges.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

7.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to pay debts when they fall due.

The Group was in compliance with all of its banking facility agreements as at 29 April 2018.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are calculated using estimated cash outflows. Interest rate swaps cash outflows have been calculated using the forward interest rates applicable at the reporting date.

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
29 April 2018						
Trade payables	89,330	–	–	–	89,330	89,330
Interest Bearing Liabilities	5,283	5,283	147,859	–	158,425	145,139
Forward foreign exchange contracts inflow	(7,445)	–	–	–	(7,445)	–
Forward foreign exchange contracts outflow	7,460	–	–	–	7,460	–
Net Forward foreign exchange contracts	15	–	–	–	15	29
Total	94,628	5,283	147,859	–	247,770	234,498
30 April 2017						
Trade payables	66,600	–	–	–	66,600	66,600
Interest Bearing Liabilities	4,128	2,126	120,000	–	126,254	120,000
Forward foreign exchange contracts inflow	(91,894)	–	–	–	(91,894)	–
Forward foreign exchange contracts outflow	93,882	–	–	–	93,882	–
Net Forward foreign exchange contracts	1,988	–	–	–	1,988	1,978
Total	72,716	2,126	120,000	–	194,842	188,578

7.5 Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern and to maintain an optimal capital structure, so that they can continue to provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets or apply cash reserves to reduce debt.

The Group monitors capital, being the total equity of the group in conjunction with the financial undertakings pursuant to its debt financing agreements. These financial undertakings include an Interest Cover Ratio, Senior Leverage Ratio and Debt Service Cover Ratio. The Group ensures that it operates within the parameters of these financial undertakings at all times.

Notes to the financial statements (continued)

29 April 2018

7.6 Fair value estimation

The fair value of financial assets, financial liabilities and biological assets must be estimated for recognition and measurement and for disclosure purposes.

The following table presents the Group's assets and liabilities that are measured at fair value by level of fair value measurement hierarchy.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated				
At 29 April 2018				
ASSETS				
Biological assets			35,054	35,054
Derivatives used for hedging	–	2,269	–	2,269
Total assets	–	2,269	35,054	37,323
LIABILITIES				
Derivatives used for hedging	–	29	–	29
Total Liabilities	–	29	–	29
At 30 April 2017				
ASSETS				
Biological assets			32,872	32,872
Derivatives used for hedging	–	1,635	–	1,635
Total assets	–	1,635	32,872	34,507
LIABILITIES				
Derivatives used for hedging	–	1,978	–	1,978
Total Liabilities	–	1,978	–	1,978

Financial instruments and biological assets are categorised based on the following fair value measurement hierarchy:

Level 1

Level 1 includes instruments where fair value measurement is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The Group has no financial instruments measured at fair value in level 1.

Level 2

Level 2 includes instruments where fair value measurement is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is derived from prices).

Financial instruments measured at fair value included in level 2 comprise derivatives used for hedging. The fair value of derivatives that are not traded in an active market is determined by valuation techniques. All significant inputs used to fair value derivatives used for trading are observable and therefore these instruments are included at level 2.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows using market interest rates.

The fair value of forward exchange contracts is calculated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

Level 3

Level 3 includes instruments where fair value measurement is based on unobservable inputs.

The Group only has biological assets measured at fair value in level 3.

7 FINANCIAL RISK MANAGEMENT (CONTINUED)

7.7 Derivatives

Accounting Policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit and loss.

Amounts accumulated in equity are recycled to profit and loss in the periods when the hedged item will affect profit and loss (for instance when the forecast purchase or sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

(iii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit and loss.

	2018 $'000	2017 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	2,269	1,635
Total derivative financial instrument assets	2,269	1,635
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	29	1,978
Total derivative financial instrument liabilities	29	1,978
Net derivative financial instrument assets/(liabilities)	2,240	(343)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies.

(i) Forward exchange contracts - cash flow hedges

The Group operations are primarily domestic but also involve international purchases and exports. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase United States dollars, Australian dollars and Euros and to sell Australian dollars.

These contracts are hedging highly probable forecasted purchases and sales for future financial years. The contracts are timed to mature when payments for major purchases including grain shipments are scheduled to be made and when sales receipts are expected to be received.

During the period ended 29 April 2018, all hedges were fully effective.

CORPORATE GOVERNANCE

The Board and management of Tegel are committed to ensuring that Tegel maintains corporate governance practices in line with current best practice and adheres to the highest ethical standards.

Tegel is listed on the New Zealand stock exchange (NZX Main Board) and on the Australian securities exchange as an ASX Foreign Exempt Listing. As an ASX Foreign Exempt Listing, Tegel needs to comply with the NZX Listing Rules (other than as waived by NZX) and with the ASX Listing Rules to the extent specified in ASX Listing Rule 1.15.

Corporate governance principles and guidelines have been introduced in both New Zealand and Australia. These include the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Code 2017, the Financial Markets Authority Handbook 'Corporate Governance in New Zealand Principles and Guidelines' and the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations (3rd Edition) (which Tegel is not required to comply with as an ASX Foreign Exempt Listing) (collectively, the 'Principles').

Tegel has adopted charters and policies that document its governance practices. The Board considers that the Company's corporate governance practices and procedures substantially reflect the Principles. In this Corporate Governance Statement we report on how the Company has followed the recommendations set out in the Principles.

The full content of the Company's corporate governance policies can be found on the corporate governance section of the Company's website – investors.tegel.co.nz

ETHICAL STANDARDS

Code of Conduct

The Board recognises that high ethical standards and behaviours are central to good corporate governance and has implemented a Code of Conduct to guide the behaviour of its directors, senior managers and employees. Tegel's Code of Conduct establishes the framework by which directors and staff of Tegel are expected to conduct their professional lives by facilitating behaviour and decision-making that meets Tegel's business goals and is consistent with Tegel's values, policies and legal obligations. Tegel's Code of Conduct is available on Tegel's website at investors.tegel.co.nz and the intranet and forms part of the induction process for new employees. Tegel encourages staff to report any concerns they have about compliance with the Code of Conduct, Tegel policies or legal obligations.

The Code of Conduct addresses:

- Conflicts of interest;
- Confidentiality;
- Behaviours and responsibilities;
- Proper use of Tegel property and information;
- Compliance with laws and Tegel policies; and
- Reporting issues regarding breaches of the Code, legal obligations or other Tegel policies.

Securities Trading Policy and Guidelines

The Company is committed to complying with legal and statutory requirements with respect to ensuring directors and employees do not (and do not advise or encourage others to) trade Tegel shares while in possession of inside information.

Tegel's Securities Trading Policy and Guidelines (Securities Trading Policy) applies to all directors, officers and employees of Tegel and its subsidiaries. This Policy seeks to ensure that any such person who holds undisclosed price sensitive information does not:

- Trade in Tegel securities;
- Advise or encourage others to trade or hold Tegel shares; and/or
- Pass that price sensitive information onto others.

The Policy sets out additional rules, which includes the requirement for certain restricted persons to seek the Company's consent before trading and prescribes certain periods during which trading is not permitted.

Compliance with the Securities Trading Policy is monitored through the consent process, education and via notification by Tegel's share registrar when any director or senior manager trades in Tegel securities. All trading by directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and recorded in Tegel's securities trading registers.

Tegel's Securities Trading Policy is available on the Company's website.

BOARD OF DIRECTORS

Role of the Board

The Board is the ultimate decision-making body of the Company.

It is tasked with setting the tone that will determine the Company's relationship with shareholders and all stakeholders. The Board sets the strategic direction of the Company and selects the Senior Executive Team which is charged with operating the business. The Board will oversee the Senior Executive Team and will ultimately monitor performance of the Company on behalf of all shareholders. The Board is responsible for the corporate governance of the Company.

The Board has adopted a Board Charter that regulates internal Board procedure and describes the Board's specific role and responsibilities. The Board delegates management of the day-to-day affairs and responsibilities of the Company to the Senior Management Team under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals determined by the Board. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports within set limits. The Board regularly monitors and reviews management's performance in the execution of its delegated responsibilities.

The Board met for six regularly scheduled meetings during the year ending 29 April 2018. The Board intends to meet no less than six times during the year ending 28 April 2019.

Board Attendance

Director	Number of meetings attended
David Jackson	6/6
George Adams	6/6
Bridget Coates[1]	3/3
Tang Kok Yew	4/6
Brett Sutton	6/6
James Ogden[2]	0/0

1 Bridget Coates was appointed to the Board on 30 October 2017. The Denominator for Bridget Coates indicates the total number of meetings held since her appointment.

2 James Ogden resigned from the Board on 5 May 2017. No board meetings were held during the period prior to James Ogden's resignation.

The denominator indicates the total number of meetings held during the period ended 29 April 2018 except for Bridget Coates and James Ogden.

Board Membership, Size and Composition

The NZX Listing Rules state that the number of directors must not be fewer than three and a board must have at least two independent directors. Subject to this limitation, and in accordance with the provisions of Tegel's constitution and the Board Charter, which prescribe a maximum of eight directors, the size of the Board is determined by the Board from time to time.

As at 29 April 2018, the Board comprised six directors, comprising an independent non-executive Chairman (David Jackson), two independent non-executive directors (George Adams and Bridget Coates), two non-independent non-executive directors (Tang Kok Yew and Brett Sutton – both representatives of the majority shareholder, Claris Investments Pte. Limited), and one executive director (Phil Hand).

On 5 May 2017 independent non-executive Director David Jackson was appointed Chairman following the resignation of independent non-executive Chairman James Ogden from the Board. On 30 October 2017 independent non-executive Director Bridget Coates was appointed to the Board. A biography of each current director is set out on pages 26-27 of this Annual Report.

The Board has delegated to the Governance and Remuneration Committee the responsibility for recommending candidates to be nominated as directors. When recommending candidates to act as director, the Committee will take into account factors as it deems appropriate, including the diversity of background, experience and qualifications of the candidate. When appointing directors, the Board undertakes appropriate background checks.

As Tegel operates in specialised markets, the Board believes that it is important to have directors with a broad range of experience and skills, both locally and internationally, that are appropriate to meet its objectives. The Board considers the following skills and experience to be particularly relevant:

- Food processing and manufacturing;
- Consumer goods;
- Marketing;
- Health; safety and social responsibility;
- Finance;

Corporate Governance (continued)

- Organisational development;
- Public companies;
- Governance/legal; and
- Diversity of thought.

Independence of Directors

The factors the Company takes into account when assessing the independence of its directors are set out in the NZX Listing Rules, NZX Corporate Governance Code 2017 and ASX Best Practice Corporate Governance Recommendations. Generally, a director is considered to be independent if that director is not an executive of Tegel and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to Tegel.

The Board has determined that three out of the five non-executive directors are independent directors for the purposes of the NZX Listing Rules and in accordance with the Board Charter.

The Board will review any determination it makes on a director's independence on becoming aware of any new information that may affect that director's independence. For this purpose, directors are required to ensure they immediately advise Tegel of any new or changed relationship that may affect their independence or result in a conflict of interest.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The Chairman is required to be an independent director. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with senior executives including the Chief Executive Officer. The current Chairman, David Jackson, was appointed as Chairman on 5 May 2017 and is an independent, non-executive director.

Board Appointment, Training and Evaluation

At the time of appointment, a director is introduced to the business through a specifically tailored induction programme, including site visits. Following listing, upon appointment, each new director will receive a copy of Tegel's Corporate Governance Manual (comprising all of Tegel's core governance documents). All directors are regularly updated on relevant industry and Company issues and are expected to undertake training to remain current on how to best perform their duties as directors of Tegel.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. The Board, Board committees and each director have the right to seek independent professional advice at Tegel's expense to assist them in carrying out their responsibilities.

The Board has implemented a policy in relation to the performance evaluation of the Board, the Board's committees, individual directors and senior executives. The procedure for the appointment and removal of directors is ultimately governed by the Company's constitution. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy. Any shareholder holding 15% or more of the shares in the Company is entitled to appoint one or more directors in accordance with the Company's constitution.

Every director appointed by the Board must submit himself or herself for reappointment by shareholders at the next annual meeting following his or her appointment. Directors are subject to the rotation requirements set out in the NZX Listing Rules.

Conflicts of Interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to Tegel and their own interests. Accordingly, the Board has adopted a comprehensive Conflicts of Interest Policy to ensure that directors conduct themselves impartially at all times and that any conflicts of interest are identified, disclosed and impartially managed. Tegel maintains an interests register in which relevant disclosures of interest and securities dealings by the directors are recorded.

Company Secretary

The Company Secretary, Peter McHugh, is directly accountable to the Board through the Chairman on all matters to do with the proper functioning of the Board.

BOARD COMMITTEES

The Board uses committees to deal with issues requiring detailed consideration, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its committees and determines each committee's roles and responsibilities. The current committees of the Board are:

- Audit and Risk Committee; and
- Governance and Remuneration Committee.

The Governance and Remuneration Committee carries out the function of a nominations committee on behalf of the Board. Details of the roles and responsibilities of these committees are described in their respective charters and summarised below. The Committee Charters are available on Tegel's website.

Audit and Risk Committee

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company's:

- Risk management and internal control framework;
- Financial reporting and auditing processes;
- Tax and treasury management; and
- Legislative and regulatory compliance.

In particular, the Audit and Risk Committee oversees the financial reporting process to ensure the balance, transparency and integrity of published financial statements.

The Audit and Risk Committee held three meetings during the financial year ended 29 April 2018. The Committee intends to hold at least three meetings during the year ending 28 April 2019.

Under the Audit and Risk Committee Charter, the Committee must be comprised of a minimum of three members who are each a non-executive director, the majority of whom are also independent directors and at least one director with an accounting or financial background. Further, the Chairperson of the Committee is required to be independent and not be the Chairperson of the Board.

The current members of the Committee are Bridget Coates (independent Chairperson), George Adams, David Jackson (both independent) and Brett Sutton. All members are non-executive directors. David Jackson was Chairman of the Committee until 5 May 2017. George Adams was Chairman of the Committee from 5 May 2017 until 30 October 2017. Bridget Coates was appointed Chairperson of the Audit and Risk Committee on 30 October 2017.

Audit and Risk Committee attendance

Director	Number of meetings attended
David Jackson	3/3
George Adams	3/3
Bridget Coates[1]	2/2
Brett Sutton	3/3

1 Bridget Coates was appointed to the Committee on 30 October 2017. The denominator for Bridget Coates indicates the total number of meetings held since her appointment.

The denominator indicates the total number of meetings held during the financial year ended 29 April 2018, except for Bridget Coates.

Governance and Remuneration Committee

The primary function of the Governance and Remuneration Committee's role is to assist the Board by:

- Overseeing remuneration policies and practice;
- Overseeing management succession planning and governance practices at Tegel;
- Considering the composition of the Board;
- Recommending candidates to fill Board vacancies as and when they arise; and
- Overseeing governance practices at Tegel.

The Committee held four meetings during the year ended 29 April 2018. The Committee intends to hold at least three meetings during the year ending 28 April 2019.

Corporate Governance (continued)

Under the Governance and Remuneration Committee Charter, the Committee must be comprised of a minimum of three members, a majority of whom are independent directors and at least one director with listed company experience.

The current members of the Committee are George Adams (independent Chairman), David Jackson and Bridget Coates (both independent) and Brett Sutton. Independent director James Ogden was a member of the Committee until 5 May 2017. Independent director David Jackson joined the committee on 5 May 2017. Independent Director Bridget Coates joined the committee on 30 October 2017.

Governance and Remuneration Committee attendance

Director	Number of meetings attended
George Adams	4/4
David Jackson	4/4
Bridget Coates[1]	2/2
Brett Sutton	4/4

1 Bridget Coates was appointed to the Committee on 30 October 2017. The denominator for Bridget Coates indicates the total number of meetings held since her appointment.

The denominator indicates the total number of meetings held during the period ended 29 April 2018, except for Bridget Coates.

Board Sub-Committee

From time to time, the Board may constitute an ad-hoc committee to deal with a particular issue that requires specialised knowledge and experience.

A Board Sub-Committee comprised of the Chairman, the Chair of the Audit and Risk Committee and the Chief Executive Officer was formed on one occasion. The purpose of the Board Sub-Committee was to approve adjustments made to the financial statements and the results release documentation, following meetings of the Audit and Risk Committee and Board, and to approve the release of the final financial statements and related documentation at the half-year.

A Board Sub-Committee comprised of the Chairman, George Adams and the Chief Executive Officer was formed on one occasion. The purpose of the Board Sub-Committee was to approve adjustments made to the financial statements and the results release documentation, following meetings of the Audit and Risk Committee and Board, and to approve the release of the final financial statements and related documentation at the full-year.

A Board Sub-Committee comprised of David Jackson, George Adams and Bridget Coates (the independent directors of Tegel), was formed to manage the response of Tegel to the takeover offer received from Bounty Holdings New Zealand Limited. The Sub-Committee met six times until the date of this Report.

REPORTING AND DISCLOSURE

Financial Reporting

The Board is responsible for ensuring the integrity of its financial reporting. As noted above under 'Board Committees', the Audit and Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit and Risk Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. As part of this process, the Chief Executive Officer and Chief Financial Officer are required to state to the Board that, to the best of their knowledge, the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards and those reports are founded on a sound system of risk management and internal control, which is operating effectively.

Continuous Disclosure Policy

Tegel is committed to the promotion of investor confidence by ensuring that the trading of Company shares takes place in an efficient, competitive and informed market. The Company's Continuous Disclosure Policy establishes the Company's policies for meeting the continuous disclosure requirements of the NZX Main Board. A copy of the Continuous Disclosure Policy is available on the Company's website.

REMUNERATION

Non-Executive Director Remuneration

The maximum total monetary sum payable by the Company by way of non-executive directors' fees (in their capacity as directors of Tegel or any of its subsidiaries) is $600,000 per annum, as approved by shareholders in advance of listing. The fees for non-executive directors vary depending on their duties, including for committee work, as detailed in the table below. It is currently intended that Tegel will not pay non-executive directors' fees exceeding, in aggregate, approximately $387,000 in FY2019. The total pool of director fees has been fixed at the amount specified above to allow for the appointment of new non-executive directors or replacement non-executive directors in the event that the existing non-independent, non-executive directors were to resign at any time in the future.

Non-executive directors do not take a portion of their remuneration under an equity security plan but directors may hold shares in the Company, details of which are set out in the Director Independence and Interests Disclosures section.

The non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with Tegel's business. No retirement allowances will be paid to the non-executive directors on their retirement.

Non-executive directors received the following directors' fees, remuneration and other benefits from the Company in the period ended 29 April 2018:

Name of director	Director Fees	Remuneration & Governance Committee Fees	Audit & Risk Committee Fees	Total
David Jackson	169,000	–	–	169,000
George Adams	90,000	10,000	14,877	114,877
Bridget Coates[2]	45,682	2,538	7,614	55,833
Tang Kok Yew	–	–	–	–
Brett Sutton	–	–	–	–
James Ogden[1]	3,269	–	–	3,269
Total	**307,951**	**12,538**	**22,491**	**342,980**

1 James Ogden resigned on 5 May 2017.

2 Bridget Coates was appointed to the Board on 30 October 2017.

Executive Director Remuneration

Phil Hand receives remuneration and other benefits in his role as CEO. He does not receive any additional remuneration in his capacity as a director. Phil Hand received remuneration (inclusive of the value of benefits) during, and in respect of, the period ended 29 April 2018 of $773,593 (2017: $768,096). Phil Hand was granted 497,059 performance rights under a long-term incentive plan (LTI Plan) in July 2017 – see Senior Manager and Employee Remuneration below for detail on the LTI Plan.

Each year, key performance objectives are set for the CEO, which are approved by the full Board. The Board annually reviews and evaluates the performance of the CEO against those objectives.

Senior Manager and Employee Remuneration

The remuneration policy for senior management is designed to attract, reward and retain high quality employees who will enable the Company to achieve its short and long term objectives.

The remuneration packages of senior management consist of a combination of fixed remuneration, a variable at-risk cash-based short-term incentive bonus (if pre-determined Company and individual performance objectives are met) and a discretionary long-term incentive component. Each year a review is carried out to benchmark salaries with market increases and adjustments are made accordingly.

Tegel has implemented a long-term incentive for senior managers (LTI Plan). This is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests.

Under the LTI Plan, participants are granted performance rights. Each performance right gives the participant the right to acquire one ordinary share, subject to meeting vesting conditions set by the Board. The Board has an absolute discretion to invite employees or contractors of the Tegel Group to participate in the LTI Plan and to set the terms and conditions of the performance rights at the time they are granted, including the number of performance rights to be granted, consideration for the grant (if any) and the vesting conditions attached to those performance rights.

Corporate Governance (continued)

The Board approved a grant of performance rights in July 2017 (2018 Performance Rights). During the year, David Taylor and Martin Baker left Tegel. The Board resolved for both to be considered Good Leavers under the terms of the LTI Plan. As a result, David Taylor and Martin Baker have retained 58.33% of their 2017 Performance Rights and 25% of their 2018 Performance Rights.

Performance Rights on issue:

	2018			2017			
Participant	Granted	Cancelled	Total	Granted	Cancelled	Total	Total
Phil Hand	497,059	–	497,059	333,333	–	333,333	830,392
Peter McHugh	179,412	–	179,412	113,889	–	113,889	293,301
Christine Cash	147,059	–	147,059	89,946	—	89,946	237,005
Evelyn Davis	85,294	–	85,294	62,037	–	62,037	147,331
Edward Campion	82,353	–	82,353	58,889	–	58,889	141,242
John Russell	82,353	–	82,353	58,889	–	58,889	141,242
Austin Laurenson	82,353	–	82,353	58,889	–	58,889	141,242
David Taylor[1]	82,353	61,765	20,588	58,889	24,539	34,350	54,938
Martin Baker[1]	82,353	61,765	20,588	58,889	24,539	34,350	54,938
Total	1,320,589	123,530	1,197,059	893,650	49,078	844,572	**2,041,631**

1 David Taylor and Martin Baker left Tegel during the period ended 29 April 2018. The Board resolved to treat both as Good Leavers in accordance with the terms of the LTI Plan. As a result David Taylor and Martin Baker have retained a portion of performance rights calculated based on the duration of their service during the respective grant period.

The Governance and Remuneration Committee recommends the annual grant value of performance rights. The number of performance rights is then determined by the Board by dividing the grant value by the fair value of the performance rights. Participants do not pay any consideration for the performance rights and once they vest, participants will not pay any issue price when they elect to acquire ordinary shares in exchange for their vested performance rights.

Vesting of performance rights on issue is conditional on meeting a performance hurdle relating to Tegel's total shareholder return over the vesting period (ending after Tegel announces its financial results for the 2019 and 2020 financial years) being positive and ranking above the 50th percentile of total shareholder returns for companies in the S&P / NZX50; and the participant remaining employed by the Group at the time of vesting. The number of performance rights that will vest will be calculated on a straight line basis where Tegel's total shareholder return ranks between the 50th and 75th percentile, and all of the performance rights will vest where Tegel's total shareholder return ranks 75th percentile or above.

The Governance and Remuneration Committee is responsible for overseeing the remuneration and performance assessments of the Company's senior management team upon the recommendation of the CEO of the Company. The performance of senior executives is reviewed regularly by the CEO who meets with each senior executive to discuss their performance, as measured against key performance targets (both financial and non-financial) previously established and agreed with that executive. During the year ended 29 April 2018, performance reviews took place in accordance with that process.

The number of employees or former employees of the Group who, not being directors of Tegel, received remuneration and any other benefits in their capacity as employees in respect of FY2018 that in value was or exceeded $100,000 per annum was as follows:

Remuneration bracket	Number of employees
$100,000 – $110,000	34
$110,001 – $120,000	25
$120,001 – $130,000	19
$130,001 – $140,000	15
$140,001 – $150,000	12
$150,001 – $160,000	8
$160,001 – $170,000	6
$170,001 – $180,000	7
$180,001 – $190,000	6
$190,001 – $200,000	2
$200,001 – $210,000	3
$210,001 – $220,000	4
$220,001 – $230,000	2
$240,001 – $250,000	1
$250,001 – $260,000	1
$270,001 – $280,000	1
$290,001 – $300,000	3
$330,001 – $340,000	1
$340,001 – $350,000	1
$350,001 – $360,000	1
$430,001 – $440,000	2
Total	**154**

* The table includes base salaries, short-term incentives and vested or exercised long-term incentives. The table does not include: long-term incentives that have been granted and have not yet vested. Where the individual is a KiwiSaver member, contributions of up to 4% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia contributions of 9.5% of gross earnings towards Australian Superannuation are included in the above table. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars. No employee appointed as a director of a subsidiary company of Tegel receives any remuneration or other benefits for acting in this capacity.

Corporate Governance (continued)

DIVERSITY

The Board is committed to having an inclusive workplace that embraces and values diversity while always upholding the principle of meritocracy. The Board recognises that building diversity across Tegel will contribute to the achievement of its corporate objectives (including optimising financial performance in a competitive labour market) and will enhance its reputation.

On 2 May 2016 Tegel adopted a Diversity Policy and is committed to achieving diversity in the skills, attributes and experience of its Board members, management and staff across a broad range of criteria (including, but not limited to, gender, race, ethnicity, disability, age, sexual orientation, gender identity, marital or family status, religious or cultural background and more). Tegel has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experiences. The Company works to ensure that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit.

The Board as a whole is responsible for overseeing and implementing the Diversity Policy.

The respective numbers and proportions of men and women at various levels within the Tegel workforce as at 30 April 2017 and 29 April 2018 are set out in the table below:

	Female				Male			
	2018		2017		2018		2017	
	Number	%	Number	%	Number	%	Number	%
Directors	**1**	**17**	0	0	**5**	**83**	6	100
Senior Executives[1]	**2**	**29**	2	22	**5**	**71**	7	78
Management[2]	**86**	**43**	78	39	**116**	**57**	120	61
Non-management	**992**	**44**	920	45	**1,242**	**56**	1,136	55

1 Senior Executives are considered to be the CEO and his direct reports (Senior Executive Team). Note that CEO, Phil Hand, is included in the number of directors and senior executives reported.

2 Management with staff reports.

For the year ended 29 April 2018, the total company gender split was 56% male and 44% female and compared to 55% male and 45% female in the prior year.

The Board has evaluated the performance of the Company against its diversity policy and considers that it has complied with it. Tegel implemented a system to collect ethnicity data across its entire workforce. As at 29 April 2018, data was collected for 15.6% of the workforce. This data is set out in the table below:

Ethnicity	Number
NZ European / Pakeha	105
Pacific Islander	98
Maori	73
Asian (incl. India & Pakistan)	70
Middle Eastern, Latin American, African	8
European	5
Other	21
Overall workforce	**380**

RISK MANAGEMENT

Tegel has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

- Optimise the return to, and protect the interests of, stakeholders;
- Safeguard the Company's assets and maintain its reputation;
- Improve the Company's operating performance;
- Fulfil the Company's strategic objectives; and
- Manage the risks associated with the business.

The Board ultimately has responsibility for internal compliance and internal control processes. The Audit and Risk Committee, in conjunction with management, regularly reports to the Board on the effectiveness of the company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating effectively and efficiently in all material respects.

The Company does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team, with oversight from the Audit and Risk Committee.

Compliance with internal controls is reviewed annually by Tegel's auditors.

Health and Safety

The Board and management are committed to promoting a safe and healthy working environment for everyone working in, or interacting with, Tegel's business. Tegel has adopted a proactive health and safety risk strategy and programme of work, including adopting a Health and Safety Policy to ensure Tegel remains compliant with its health and safety obligations. ''Think Safe, Work Safe'' is the safety message at the forefront of Tegel's risk management culture.

Tegel's Health and Safety Policy requires Tegel people to endeavour to take all reasonably practicable steps to provide a working environment that promotes health and wellbeing, while minimising the potential for any risk, personal injury, ill health or damage. Strict controls in health and safety and risk management are maintained at processing facilities and plants are inspected regularly by the Ministry for Primary Industries, government authorities and customers. Tegel is proud of its strong health and safety record, with a Lost-Time Injury Frequency Rate of 2.05 per 200,000 hours worked in the financial year ended 29 April 2018.

AUDITOR INDEPENDENCE

Tegel's Audit and Risk Committee Charter requires the external auditor to be independent. Tegel has adopted an Auditor Independence Policy that requires, and sets out the criteria for, the external auditor to be independent. The Policy recognises the importance of facilitating frank dialogue between the Audit and Risk Committee, the auditor and management. The Audit and Risk Committee Charter requires that the audit partner is rotated after a maximum of five years.

The Audit and Risk Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence and qualifications, and overseeing and monitoring its performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit, and reviewing the auditor's service delivery plan.

In carrying out these responsibilities the Audit and Risk Committee intends to meet regularly with the auditor without executive directors or management present.

The auditor is restricted in the non-audit work it may perform. In the financial year ended 29 April 2018, the audit firm has undertaken specific non-audit work. None of that non-audit work is considered to have compromised (or be seen to have compromised) the independence of the auditor. For further details on the audit and non-audit fees paid and work undertaken during the period, refer to note 6.3 of the financial statements.

Corporate Governance (continued)

SHAREHOLDER RELATIONS

Tegel is committed to maintaining a full and open dialogue with its shareholders and has a Shareholder Communications Policy to promote effective two-way communication with shareholders and encourage effective participation at general meetings of the Company.

The aim of the Company's communications programme is to provide shareholders with information about the Company and to enable shareholders to actively engage with the Company and exercise their rights as shareholders in an informed manner. The Company facilitates communication with shareholders through written and electronic communications, and by facilitating shareholder access to directors, management and the Company's auditors.

The Company provides shareholders with communication through the following channels:

- The investor section of the Company's website;
- The annual report;
- The interim report;
- The annual shareholders' meeting;
- Regular disclosures on Company performance and news via the NZX and ASX online disclosure platforms; and
- Disclosure of presentations provided to analysts and investors during regular briefings.

The Company's website is an important part of the Company's communications programme. Included on the website is a range of information relevant to shareholders and others concerning the operation of the Company and its subsidiaries, including information about the Company and its history, biographies of the Company's directors, the Company's Constitution, Board Charter (and the charters of the various subcommittees) and other corporate governance policies of the Company.

Copies of all NZX and ASX announcements including investor presentations and, where appropriate, transcripts are posted in the investor section of the Tegel website: investors.tegel.co.nz

Shareholders may, at any time, direct questions or requests for information to directors or management through the Company's website or by contacting the Company's investor relations team, the contact details for whom are available on the Company's website and on NZX and ASX announcements.

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and its share registrar electronically. A large number of Tegel shareholders have elected to receive electronic communications.

Tegel places great importance on its shareholder and investor engagement. During the year, the Company continued to educate the market on the poultry sector and develop its communications. The Company increased its disclosure, particularly on non-financial information as demonstrated on the website and in this annual report.

During FY2018, the Company maintained an active dialogue with shareholders through planned investor relations activities and also through responding to queries. The Company conducted one-on-one and group investor meetings in New Zealand, Australia and England involving Tegel Executives which included conducting full results roadshows following the release of the interim and year end results. Adhoc requests for meetings were responded to and visits to farms, processing facilities and supermarkets were conducted to ensure that Tegel is understood more widely. The investor relations manager provides a report on all investor relations activity at each Board meeting.

Tegel is committed to effective corporate governance. During the year, the Chairman and new Independent Director carried out a Corporate Governance Roadshow meeting one-on-one with major shareholders who collectively held 25.6% of Tegel's issued shares. Matters discussed focused on the Company's strategy, disclosure and governance matters such as remuneration and risk management.

Annual Shareholders' Meeting

Tegel holds its Annual Shareholders' Meeting in Auckland. The Board uses the AGM to comment on the Company's results for the previous year and to engage with shareholders. This forum provides the opportunity for shareholders to ask the Board questions. The Executive Team are also present to meet with shareholders. In addition, the auditor, PricewaterhouseCoopers, is available to answer any questions about its audit report.

A Notice of Meeting is sent to shareholders in advance of the Annual Shareholders Meeting.

The Annual Shareholder Meeting is webcast and a record of the proceedings is also made available on the Tegel website shortly after the end of the meeting.

All formal business items at the Annual Shareholder Meeting are conducted on a poll, rather than by a show of hands. The Company's share registrars ensure that all properly submitted proxy votes are counted and a member of the registrar's staff acts as scrutineer to ensure that votes cast are correctly received and recorded.

Share Register

Tegel's share register is audited annually for accuracy.

DIRECTOR INDEPENDENCE AND INTEREST DISCLOSURES

Interests Register

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. Those interests (or changes to interests) notified and recorded in Tegel's Interests Register during the period ended 29 April 2018 are set out below.

Director	Entity	Relationship
David Jackson	Mitre 10 Holdings Limited and subsidiaries	Director
	Fonterra Co-operative Group Limited	Resigned as Director
George Adams	Apollo Foods Limited and subsidiaries	Executive Chair, Shareholder
	Insightful Mobility Limited	Chair, Shareholder
	Nexus Foams Limited	Chair
	Mix Global Holdings Limited and subsidiaries	Chair
Bridget Coates	Reserve Bank of New Zealand	Director
	White Cloud Nutrition Inc. and subsidiaries	Chair, Shareholder
	Arcangels Nominee Limited	Director
Tang Kok Yew	UTAC Holdings Limited and subsidiaries	Chair
	Live Entertainment Holdings Pty Limited and subsidiaries	Chair
	Velocity Frequent Flyer Holdco Pty Limited and subsidiaries	Director
Brett Sutton	Live Entertainment Holdings Pty Limited and subsidiaries	Director
	Velocity Frequent Flyer Holdco Pty Limited and subsidiaries	Director

In accordance with Section 148(2) of the Companies Act 1993, no directors acquired or disposed of relevant interests in Tegel ordinary shares and other equity securities during the period ended 29 April 2018.

As at 29 April 2018, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in Tegel ordinary shares and other equity securities as follows:

Name	Beneficial interest
David Jackson	57,260
Phil Hand[1]	645,059
George Adams	32,258
Tang Kok Yew	–
Brett Sutton	–
Bridget Coates	–

1 In addition, Phil Hand has a beneficial interest in 830,392 performance rights under the Tegel LTI plan.

There were 355,906,183 ordinary shares on issue as at 29 April 2018.

Indemnification and Insurance of Directors

For the purposes of section 162 of the Companies Act 1993, an entry was made in the Interests Register in relation to insurance (including run-off insurance) effected for Directors of Tegel, in relation to any act or omission in their capacity as directors and in respect of prospectus liability insurance. Deeds of indemnity were also granted to each new director during the year and particulars were entered in the Interests Register.

Corporate Governance (continued)

SHAREHOLDINGS

Shareholder Information

As at 29 June 2018 there were 355,906,183 Tegel Group Holdings Limited ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of shareholding	Number of shareholders	Number of ordinary shares	Percentage of issued capital
1 to 999	223	116,313	0.0%
1,000 to 4,999	1,329	3,498,422	1.0%
5,000 to 9,999	833	5,603,697	1.6%
10,000 to 49,999	1,372	27,130,197	7.6%
50,000 to 99,999	184	11,918,435	3.4%
100,000 and over	163	307,639,119	86.4%
		355,906,183	**100.00%**

As at 29 June 2018 there were 12 shareholders holding between 1 and 200 ordinary shares (a minimum holding under the NZX listing rules).

As at 29 June 2018, there were nine individuals holding 2,041,631 performance rights to acquire shares issued by Tegel under its employee long-term incentive scheme. The performance rights carry no voting rights.

There is currently no on-market buy-back of the Company's ordinary shares.

Set out below are details of the shareholders having the 20 largest holdings of ordinary shares in Tegel as at 29 June 2018:

	Shareholder	Number of ordinary shares	Percentage
1	Claris Investments Pte. Limited	160,157,782	45.00%
2	Bounty Holdings New Zealand Limited	65,428,877	18.38%
3	Accident Compensation Corporation - NZCSD <Acci40>	8,321,708	2.34%
4	HSBC Nominees (New Zealand) Limited - NZCSD <Hkbn90>	5,434,163	1.53%
5	JP Morgan Nominees Australia Limited	5,072,866	1.43%
6	FNZ Custodians Limited	4,150,714	1.17%
7	JBWere (NZ) Nominees Limited <NZ Resident A/C>	3,852,251	1.08%
8	Forsyth Barr Custodians Limited <1-Custody>	3,045,724	0.86%
9	Ryca Investments Limited	2,700,000	0.76%
10	Citibank Nominees (New Zealand) Limited - NZCSD <Cnom90>	2,656,928	0.75%
11	HSBC Nominees (New Zealand) Limited A/C State Street - NZCSD <Hkbn45>	2,628,371	0.74%
12	Public Trust Class 10 Nominees Limited - NZCSD	2,164,327	0.61%
13	Cs Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>	1,898,620	0.53%
14	Ubs Nominees Pty Ltd	1,781,100	0.50%
15	Masfen Securities Limited	1,316,046	0.37%
16	David Lyall Holdings Limited	1,310,000	0.37%
17	Custodial Services Limited <A/C 3>	1,081,528	0.30%
18	JBWere (NZ) Nominees Limited <56618 A/C>	969,090	0.27%
19	Custodial Services Limited <A/C 4>	891,817	0.25%
20	Hui Wen Yang	840,000	0.24%

Subsidiary Company Directors

The following persons were directors of Tegel's subsidiaries during the year ended 29 April 2018:

Subsidiary	Directors
Ross Group Enterprises Limited	Phil Hand Peter McHugh
Tegel Foods Limited	Phil Hand Peter McHugh
Tegel International Services Limited	Phil Hand Peter McHugh
Ross Group Developments Limited	Phil Hand Peter McHugh
SH12 Limited	Phil Hand Peter McHugh

There were no entries made in the subsidiary company interests registers during the financial period.

Substantial Product Holders

The following persons were substantial product holders in Tegel as at 29 June 2018, according to notices given to Tegel, in respect of the number of quoted voting products noted below:

Substantial Product Holder	Total number of ordinary shares in respect of which a relevant interest is held	Percentage held in class that the relevant interest represents
Claris Investments Pte. Limited	160,157,782	45.00%
Bounty Holdings New Zealand Limited	244,770,627	68.774%

Tegel Group Holdings Limited was also a substantial product holder due to having an interest in 163,095,431 ordinary shares (representing 45.83% of total ordinary shares on issue) that were subject to voluntary escrow arrangements whereby the respective shareholders had agreed not to sell or otherwise dispose of their shares until the first business day after Tegel's preliminary announcement has been released in respect of its financial results for the year ending 30 April 2017. Therefore, the escrow arrangements ceased on 29 June 2017.

Bounty Holdings New Zealand Limited (Bounty) has entered into a lockup agreement with Claris Investments Pte. Limited in respect of its 45% interest in Tegel ordinary shares as per the takeover offer documents dated 28 May 2018. Including the shares subject to the lock up agreement, as at 29 June 2018, Bounty has received acceptances in respect of its offer of 49.928%. These shares remain subject to the conditions of the takeover offer, including approval by the Overseas Investment Office. In addition, Bounty acquired 18.846% of Tegel shares on or prior to 29 June 2018. As at 29 June 2018, Bounty therefore holds a total interest in Tegel ordinary shares of 68.774%.

DIVIDEND POLICY

The payment of a dividend by Tegel is at the discretion of the Board and will be a function of a number of factors, including the general business environment, the operating results and the financial condition of Tegel, future funding requirements, capital management initiatives, taxation considerations (including the level of imputation credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Tegel and any other factors the Board may consider relevant. Dividends will only be declared if Tegel meets appropriate solvency requirements.

Having regard to the factors outlined above, it is the Board's current intention to target a dividend payout ratio in the range of 60% to 75% of annual NPAT excluding the expense relating to the non-cash amortisation of customer contracts.

The final dividend of 4.1 cents per share for the financial year ended 29 April 2018 (FY2018) and the total dividends of 7.55 cents per share for that year are in excess of the Group's current dividend policy. The final dividend for FY2018 was paid giving consideration to the current level of available imputation credits and the terms of the takeover offer by Bounty Holdings New Zealand Limited, being the maximum permitted dividend and included in the effective offer price of the Independent Advisers Report. The dividend policy for the Group has not changed and the payout ratio of the FY2018 total dividends is not an indication of future dividends.

No assurances or guarantees can be given by any person, including the Board, about payment of any dividend and the level of imputation on any such dividend.

Corporate Governance (continued)

NZX WAIVERS

On 31 March 2016, immediately prior to listing on the NZX Main Board, NZX Regulation granted Tegel a waiver from NZX Listing Rule 3.1.1, for a period of three business days from the date of allotment on NZX, to the extent that rule required Tegel to have in place a Constitution that contained the content requirements set out in that rule (the Waiver). The Waiver meant that the existing constitution of Tegel (which did not contain the content requirements set out in NZX Listing Rule 3.1.1 (the Existing Constitution) could stay in place until Tegel's new Constitution was adopted on allotment of shares under the IPO Offer. The new Constitution contains the content requirements set out in NZX Listing Rule 3.1.1. A copy of the Waiver and the new Constitution is available at investors.tegel.co.nz.

STOCK EXCHANGE LISTINGS

The Company's shares were listed on the NZX Main Board and ASX on 3 May 2016.

None of the NZX, the ASX or the Financial Markets Authority has taken any disciplinary action against Tegel during the financial year ending 29 April 2018.

Pursuant to ASX listing rule 1.15.3 Tegel confirms that it has complied and continues to comply with the listing rules of its home exchange, the NZX Main Board.

DONATIONS

In addition to products donated to the Auckland City Mission and Ronald McDonald House, Tegel made donations during the reporting period of $2,700. Further details of Tegel's community engagement are shown on page 13.

CREDIT RATING

Tegel does not currently have an external credit rating status.

GLOSSARY

Affinity Equity Partners	Affinity Equity Partners Limited and its affiliates
ASX	Australian Securities Exchange
CEO	Chief Executive Officer
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FCR	Feed Conversion Ratio
FMCG	Fast Moving Consumer Goods
FY	Financial Year
GAAP	New Zealand Generally Accepted Accounting Practice
Group	Tegel Group Holdings Limited and its subsidiaries
IPO	Initial Public Offering
LTI Plan	Long term incentive plan
NPAT	Net Profit after Tax
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZX	New Zealand Stock Exchange
Tegel	Tegel Group Holdings Limited

CORPORATE DIRECTORY

Key Financial Reporting Dates

FY2017 Annual Reporting Period
53 weeks: 25 April 2016 to 30 April 2017

FY2018 Interim Reporting Period
26 weeks: 1 May 2017 to 29 October 2017

FY2018 Annual Reporting Period
52 weeks: 1 May 2017 to 29 April 2018

Board of Directors

David Jackson (Chairman)

Phil Hand (Chief Executive Officer)

George Adams

Bridget Coates

Tang Kok Yew

Brett Sutton

Auditor

PricewaterhouseCoopers
188 Quay Street
Auckland

Lawyers

Minter Ellison Rudd Watts
Lumley Centre
88 Shortland Street
Auckland 1010

Tegel Group Holdings Limited

Ticker: TGH

Dual listed on the NZX and ASX

NZ company number: 3233930

ARB number: 611 273 539

Registered Office and principal administration office

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Auckland, 1023

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Australia

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Telephone

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Investor Relations

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Share Registry

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Website

www.tegel.co.nz

Future Annual Reports

We would like to remind shareholders that they have the option of receiving their Annual Report electronically and would encourage shareholders to take up this option to allow faster delivery of this document to you, provide an environmentally friendly document and reduce the costs to the Group.

This annual report can be accessed online at **www.tegel.co.nz/investors**

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