

# Dividend Policy

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| Version:         | 1.1                |
| Policy Owner:    | Board of Directors |
| Policy Approver: | Board of Directors |
| Date Approved:   | 28/09/2020         |
| Next Review Date | 28/09/2021         |

## Background

Dairy Farms NZ Limited (**DFNZ**) is planning to be a public company, listed on the NZX. DFNZ expects to pay dividends to its shareholders as a return for their investment.

## Dividend Expectation

The DFNZ Board will determine to pay dividends (potentially both interim and final) as appropriate taking into account relevant considerations at the time including:

- Current and forecast earnings and operating cash flows;
- Working capital requirements;
- Capital expenditure requirements;
- The cyclical nature of agricultural businesses like dairy, including that the final determination of milk price (revenue) is generated after the financial year has closed;
- The interests of Shareholders;
- The solvency requirements of the Companies Act;
- Any banking or other funding covenants by which the company is bound from time to time;
- General market considerations;
- Free cash-flow available for distribution; and
- Relevant market share price.

Dividends may be paid out in cash, or shareholders may be given an option to reinvest dividends as part of a dividend reinvestment plan (DRP).

DFNZ's target dividend pay-out ratio in respect of each financial year is to distribute between 80% and 100% of net profit after tax (excluding land revaluations and fair value adjustments for Fonterra shares held as part of milk supply obligations) to shareholders, subject to the considerations listed above.

Notwithstanding the dividend policies stated above, the Board of Directors of DFNZ has an absolute discretion to change its intentions, to increase or reduce dividends, or to not authorize any dividends at all on DFNZ shares. DFNZ can give no assurance about the level of dividends, if any, or the level of tax credits attached to dividends.

DFNZ will target dividend payments in April (if an interim dividend is considered) and October (if a final dividend is considered). Entitlement date would normally be the 20<sup>th</sup> of the month and payment date would normally be the last working day. These dates will be determined by the Board for each dividend.

### Tax on Dividends

DFNZ will follow best practice regarding tax on dividends paid. Generally, DFNZ's dividends will have imputation credits attached and dividend withholding tax deducted (if applicable). New Zealand tax resident shareholders may be able to use these tax credits to reduce their New Zealand income tax liability on the gross dividend amount.

Depending on the level of imputation credits attached to dividends, DFNZ may pay supplementary dividends to non-resident shareholders. Supplementary dividends offset the effect of non-resident withholding tax. DFNZ may receive a tax credit from the Inland Revenue Department equivalent to supplementary dividends and there is, accordingly, no disadvantage to New Zealand resident shareholders.

Some shareholders may have additional income tax to pay on a DFNZ dividend. We recommend that shareholders seek their own tax advice to determine the tax implications of a dividend derived from DFNZ.

### Recent Dividend History

| <b>Dividend</b> | <b>CPS</b> | <b>Imputation Credits</b> | <b>Date Paid</b> |
|-----------------|------------|---------------------------|------------------|
| Final 2017      | 1.0 cents  | 0.0 cents                 | 22 November 2017 |
| Final 2018      | 2.0 cents  | 0.389 cents               | 30 August 2018   |
| Final 2019      | Nil        | Nil                       | N/A              |
| Final 2020      | Nil        | Nil                       | N/A              |

### Review of this Policy

The Board expect to review this policy annually.