

Corporate Governance Code

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Objective

The board and management are committed to ensuring that DFNZ maintains a high standard of corporate governance and adheres to high ethical standards. The board regularly reviews and assesses DFNZ's governance structures and processes to ensure that they are consistent with international best practice, in both form and substance. This code sets out DFNZ's compliance with the key principles of the NZ Corporate Governance Code 2017.

This corporate governance code makes reference to a proposed IPO and listing of the shares in the company on a public exchange. While the board is considering listing on the NZX, neither Dairy Farms NZ Limited or the board make any assurances or representations that such a listing will occur or will occur within any timeframe.

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Principle 1 – Code of Ethical Behaviour

“Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation”.

Recommendation 1.1:

The board is working towards developing standards of ethical behaviour to which DFNZ’s directors, employees and sharemilkers are expected to adhere (a code of ethics was approved in September 2019 and will be accessible on the DFNZ website). Regular performance reviews and progress discussions refer to key principles in the document.

The updated Code of Ethics contains an outline of DFNZ’s expectations about behaviour, namely that every director, employee and sharemilker:

- a. acts honestly and with personal integrity in all actions;
- b. takes all reasonable actions to ensure the health and safety of themselves and their workmates;
- c. undertakes proper receipt and use of corporate information, assets and property;
- d. in the case of directors, gives proper attention to the matters before them;
- e. acts honestly and in the best interests of DFNZ, shareholders and stakeholders and as required by law;
- f. adheres to procedures around giving and receiving gifts as set out in the Delegations of Authority Policy;

Recommendation 1.2:

DFNZ has developed a draft securities trading policy which will apply to employees, directors and sharemilkers. The policy mainly relates to compliance with insider trading laws which apply to listed companies and is expected to be finalised and published prior to listing.

Principle 2 – Board Composition & Performance

“To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”

Recommendation 2.1:

The board of DFNZ operates under a written charter which sets out the roles and responsibilities of the board. The board charter clearly distinguishes and discloses the respective roles and responsibilities of the board and management. The board charter is available electronically and is publicly available via the company’s website.

Recommendation 2.2:

DFNZ intends to develop a procedure for the nomination and appointment of directors to the board as per recommendation 3.4, including using a skills matrix to help ensure the correct mix of skills is achieved when considering appropriate appointments for the board. DFNZ has a Remuneration and Appointments Committee to focus on these activities. Key skill and experience requirements are set out in the board charter, along with induction procedures. DFNZ does not have a prescriptive procedure documented providing for character and background checks, however DFNZ would likely engage an independent consultant to assist with this. DFNZ’s board is comprised of non-executive directors, as required in the DFNZ Board Charter. The board charter specifies the minimum number of directors who are required to be independent. Currently the majority of directors are independent.

Recommendation 2.3:

DFNZ has not previously entered into written agreements with directors. For any future appointments, the terms of appointment will be documented into a written agreement. Directors are subject to appointment and removal from office via shareholder approval, which supersedes anything in a written agreement with respect to a director ceasing to hold office. The future written agreements are expected to include information about:

- DFNZ’s expectations of the director in his or her role;
- the director’s expected time commitment to DFNZ (including other duties);
- remuneration entitlements;
- indemnity and insurance arrangements;
- the requirement to disclose interests that may affect the director’s independence;
- a requirement to comply with corporate policies including the Board Charter, the Code of Ethics and Securities Trading Policy (once adopted on listing);
- the initial term of appointment;
- ongoing rights of access to corporate information; and
- ongoing confidentiality obligations.

Recommendation 2.4:

DFNZ discloses information about each director in its annual report with summaries on its website. Details in the annual report include a profile of experience, length of service, independence and ownership interests.

Recommendation 2.5:

DFNZ does not yet have a written diversity policy with respect to its Directors and Officers. When recruiting for any of these positions, DFNZ specifies particular skills and experience that are relevant to the role and looks for the best candidate. As DFNZ works towards listing it expects to develop further policy in this area.

Recommendation 2.6:

Directors are expected to undertake appropriate training to remain current on how to best perform their duties as directors. Where necessary, DFNZ recommends and pays for appropriate training courses to help develop and maintain directors’ skills and knowledge. DFNZ’s board charter includes details of director training expectations.

Recommendation 2.7:

The DFNZ board charter contains procedures to regularly assess director, board and committee performance, including whether appropriate training (as contemplated by recommendation 2.6) has been received by directors. In addition, the board may choose to use external facilitators from time to time to conduct reviews.

Recommendation 2.8:

The Chair and the CEO are two different people. The DFNZ board charter requires all directors including the Chair to be non-executive.

Principle 3 – Board Committees

“The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.”

Recommendation 3.1:

DFNZ’s Audit and Risk Committee operates according to the DFNZ Audit and Risk Committee Charter. The charter requires a minimum of three directors on the committee, all of whom shall be non-executive. The majority shall be independent. The chair of the committee shall be an independent director and may not be the chair of the board. The members of the committee are identified in the annual report and on the DFNZ website. The charter is available on the DFNZ website.

The audit committee meets at least four times per year and is responsible for reporting significant financial matters to the full board. These matters may include:

- appointment and removal of independent auditors;
- whistleblower policy and procedures;
- direct liaison and communication with the independent auditors;
- reviewing financial reports and, if appropriate, recommending them to the full board for adoption;
- ensuring the lead audit partner changes at least every 5 years

Recommendation 3.2:

DFNZ’s Audit and Risk Committee Charter specifies that the CEO and CFO may be invited to attend meetings, and that for at least part of each meeting, no executive directors, management or other employees of DFNZ will be present.

Recommendation 3.3:

DFNZ’s Remuneration and Appointments Committee Charter requires at least three members with a quorum of two. The committee was established in late 2018, and initially the whole board are members. A majority of the committee are independent directors. Management is only present at portions of board meetings dedicated to remuneration and appointments responsibilities, at the invitation of the committee.

Recommendation 3.4:

In the past, the chair of DFNZ’s board has recommended previous director appointments to the board based on an analysis of DFNZ’s start-up phase requirements. DFNZ’s recently established Remuneration and Appointments Committee will undertake these activities in future.

Recommendation 3.5:

DFNZ’s Production Committee’s purpose is ongoing strategic level review of the productive capacity of the company’s land from a total farm system position, on both a short- and long-term sustainable basis. The Production Committee Charter sets out the roles and responsibilities of the committee, members and reporting. The charter is available on DFNZ’s website.

Recommendation 3.6:

Should DFNZ receive a takeover offer, the directors will immediately establish an independent takeover committee, charged with procuring independent advisory reports for shareholders. The board expects to expand and clarify these processes prior to listing via the adoption of a takeover committee charter.

Principle 4 – Reporting and Disclosure

“The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.”

Recommendation 4.1:

DFNZ has developed a draft continuous disclosure policy which, once approved, will be available on the DFNZ website. This policy was developed early to help build awareness of continuous disclosure obligations which would apply from listing. However, as the company is not currently listed it does not make continuous disclosure to shareholders and instead provides periodic reports and newsletters, as discussed in 4.3 below. The policy is expected to be finalised and published prior to a listing.

Recommendation 4.2:

The following policies are available on DFNZ's website:

- Board Charter
- Audit and Risk Committee Charter
- Production Committee Charter
- Remuneration and Appointments Committee Charter and Policy
- Dividend Policy
- Non-GAAP Accounting Information

The following policies are intended to be available on the website once they are developed:

- DFNZ Code of Ethics
- Diversity Policy
- Securities Trading Policy (once listed)
- Continuous Disclosure Policy (once listed)

Recommendation 4.3:

DFNZ annual and interim financial reports aim to be balanced, clear and objective. DFNZ provides CEO and/or Chairperson's reports with annual and interim financial reports, discussing environmental, economic, governance and social sustainability issues as appropriate. In addition, DFNZ regularly circulates shareholder information newsletters. Post-listing these updates will be made in compliance with the Continuous Disclosure Policy.

Principle 5 – Remuneration

“The remuneration of directors and executives should be transparent, fair and reasonable.”

Recommendation 5.1:

Director remuneration was originally approved by shareholders at the May 2015 annual meeting as part of the financials presented to the meeting. Since then, no changes have been made to director remuneration. Should changes be proposed, they would be proposed for shareholder approval at the next Annual or Special Meeting. Director remuneration is disclosed by individual directors in the DFNZ annual report and includes a breakdown of any additional remuneration for committee roles and any fees for other services provided.

Recommendation 5.2:

DFNZ has a detailed Remuneration and Appointments Committee Charter and Policy for directors and officers. All remuneration decisions for officers are made by the Remuneration and Appointments Committee. Executive remuneration packages are expected to contain elements that are dependent on the performance of DFNZ and on the performance of the individual, relative weight given to each remuneration component and performance criteria. Executive remuneration may include equity-based remuneration. Non-executive director remuneration is a fixed level of fees reflecting the time commitment and level of responsibility of roles, including committee contributions. Director fees are not performance based and may include equity-based remuneration. This charter and policy is available on DFNZ's website.

Recommendation 5.3:

Disclosure of the CEO's total remuneration has been included in the annual report in a summary format. The DFNZ Remuneration and Appointments Committee expects to review the appropriate reporting, potentially including disclosure of the base salary, short-term incentives and long-term incentives as well as the performance criteria used to determine performance-based payments.

Principle 6 – Risk Management

“Directors should have an understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks”

Recommendation 6.1:

DFNZ has a risk management process revolving around a comprehensive risk register. Reporting is designed to highlight controls and processes used to manage existing risks. The CEO and CFO regularly consider if any new risks have emerged to be added to the register. The risk register records the likelihood and impact of each risk and notes the steps taken to mitigate each risk, including insurance, and makes an assessment of residual risk.

The risk register is reviewed regularly by the Audit and Risk Committee, and where relevant, key risks are reported to the full Board. Should there be any incident involving fraud or other break-down of DFNZ’s internal controls, the Audit and Risk Committee would review the incident and make recommendations to the board.

Recommendation 6.2:

The majority of DFNZ’s health and safety risks present on-farm. The Production Committee is therefore the primary committee considering management processes and controls for on-farm health and safety risks. Overall health and safety reporting is completed monthly to the board, including a compliance score matrix and an actions and initiatives table. Health and safety risks, performance and management are reported to shareholders at least annually in the annual report.

Principle 7 – Auditors

“The board should ensure the quality and independence of the external audit process.”

Recommendation 7.1:

DFNZ's External Auditor Independence Policy does not allow the external auditor to provide non-audit services to DFNZ.

DFNZ's Audit and Risk Committee Charter sets out responsibilities for sustaining communication with the external auditors, along with an annual review of the external auditor's performance.

Recommendation 7.2:

DFNZ's external auditor has been invited to attend the Annual Meeting since 2017 to answer any potential questions from shareholders in relation to the audit. PwC have indicated that they expect to accept this invitation from 2019.

Recommendation 7.3:

DFNZ does not have an internal audit function. DFNZ management regularly report on the effectiveness of its risk management and internal processes to both the Audit and Risk Committee and the Board and respond to queries as required.

Principle 8 – Shareholder Rights & Relations

“The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.”

Recommendation 8.1:

DFNZ has recently redeveloped its website, to enable investors and interested stakeholders access to financial and operational information and key corporate governance information. The website includes:

- points of contact so shareholders can communicate directly with DFNZ;
- names and brief bios of directors and key members of management;
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- copies of notices of meetings of security holders, results of meetings and any accompanying documents and transcripts.

The following information is also available on the website:

- an overview of the business;
- a description of how it is structured;
- a summary of DFNZ's history;
- a calendar of dates regarding results presentations and the annual meeting;
- details in relation to upcoming and historic dividends, along with DFNZ's dividend policy;
- copies of media releases
- contact details for both shareholder/analyst/media enquiries and DFNZ's share registry.

Recommendation 8.2:

DFNZ encourages communication with investors and provides options to receive communications electronically and via website contact links. Shareholder meetings are scheduled to be held at times and locations that are convenient to shareholders. The CEO attends annual meetings.

Recommendation 8.3:

DFNZ Shareholders have the right to vote on major decisions which may change the nature of the company, as set out in DFNZ's Constitution. Normally such votes would be held at the Annual Shareholder Meeting but may be held at a Special Meeting if required.

Recommendation 8.4:

Once DFNZ is listed, each shareholder shall have one vote per share they own in DFNZ, equally with other shareholders.

Recommendation 8.5:

The annual shareholders notice of meeting is posted on the DFNZ website as well as being emailed directly to shareholders, at least 28 days prior to the meeting.

Review of this Code

The Board expect to review this code annually or as otherwise required.