

Non-GAAP Accounting Information Policy

Status:	Final
Version:	1.1
Policy Owner:	Chief Financial Officer
Policy Approver:	Audit Committee
Date Approved:	24/07/2019

1. Objective

To provide guidance on disclosure of non-GAAP information outside of the financial statements, so that consistency and credibility of market communications and transaction documents is maintained; to ensure compliance with the Financial Markets Authority (FMA) guidance note on disclosing non-GAAP financial information.

This policy provides direction on when non-GAAP financial information should or should not be used. It sets out what additional disclosure should be made so that the information is not misleading and supports more informative communication of performance to current or potential stakeholders.

2. Definitions

EBIT – Earnings before interest and tax.

EBITDA – Earnings before interest, tax, depreciation and amortisation.

Farm margin – Operating profit plus Corporate farm management and administration, less other income.

GAAP – Generally Accepted Accounting Practice. GAAP is defined in section 3 of the Financial Reporting Act 2013. In general GAAP results from the application of NZ IFRS which is based on IFRS.

GAAP Profit measure – “Profit or loss” as defined in paragraph 7 of NZ IAS 1 *Presentation of Financial Statements* and presented by DFNZ as “Net profit/(loss) after tax” in its financial statements.

Non-GAAP financial information – any measure of profit other than the “profit or loss” as defined in paragraph 7 of NZ IAS 1 *Presentation of Financial Statements*.

Non-operating items – income or expenses that are not able to be forecast in advance, may not be realised, are not regularly processed into the accounts, and do not relate to the core day-to-day business purpose of managing assets to grow grass, and sell milk. Examples include unrealised profits/losses on revaluation of property, plant and equipment (where not posted directly to Other Comprehensive Income) and gains/losses on disposal of property, plant and equipment. When non-operating items consists only of these two things, the preferred title is “gain/(loss) on revaluation/disposal of assets”.

Operating profit – EBITDA stripped of items not considered part of the core predictable, controllable operating activity of the business, such as gain/(loss) on revaluation/disposal of assets and any discontinued operations. For the purposes of defining Operating profit outside of the financial statements, the following is the standard definition: “*Earnings before interest, tax, depreciation, amortisation and non-operating items (such as periodic unrealised revaluation of farm assets)*”

3. EBIT, EBITDA, Farm Margin and Operating Profit Rationale

DFNZ uses Operating Profit, which is non-GAAP financial information, as a means of supplementing GAAP reporting for communicating profitability to the market and stakeholders.

Operating Profit is the key measure used internally to evaluate and report on the operational profitability and performance of the business, operating segments and individual farms. Results exclude the volatility of one-off transactions and unrealised items (non-operating items) together with any discontinued operations. This allows DFNZ to measure and report underlying operating performance trends of the business and facilitates meaningful comparisons from period to period.

Farm margin is the key measure used when discussing performance with Sharemilkers.

In forward-looking statements, EBITDA and Operating Profit are interchangeable, as it is not possible to forecast non-operating items. Most non-operating items are only recognised when a formal valuation is done for a financial report, hence interim management reports may refer to either EBITDA or Operating Profit for the purposes of managing performance.

To a lesser extent DFNZ also uses EBIT as a subtotal line in financial statements.

Since the non-GAAP financial information – EBIT, EBITDA, Farm Margin and Operating Profit – are additional information not forming part of financial reporting standards, there is a need to present this information appropriately in order to ensure consistency and comparability.

4. Presenting non-GAAP financial information

Due to the nature of DFNZ's business and industry, the Board and management consider the Operating Profit, Farm Margin, EBITDA and EBIT measures promote meaningful communication of financial information. These measures are also useful for certain stakeholders (e.g. banks), hence distribution of this information to the wider investing community ensures all stakeholders receive consistent financial information on the performance of the business.

An example of this disclosure is contained at Appendix 1.

Guidance on presenting non-GAAP financial information

Principle	Explanation
Defining the non-GAAP financial information	<p><u>Definition</u> – DFNZ will define non-GAAP financial information and support it with a clear explanation of the basis of calculation. See italicised definition above.</p> <p><u>Clear labelling</u> – DFNZ will clearly label non-GAAP financial information in a way that distinguishes it from GAAP financial information, and the label will accurately describe and reflect the non-GAAP financial information.</p> <p><u>Use of non-GAAP financial information</u> – DFNZ will clearly explain the reasons for presenting the non-GAAP financial information, consistent with the Rationale section above.</p>
Prominence	<p>DFNZ will not present non-GAAP financial information with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information.</p> <p>DFNZ will not in any way confuse or obscure presentation of GAAP financial information.</p>
Reconciliation	<p>DFNZ will provide a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information. Each significant adjustment will be itemised and explained separately.</p>
Consistency	<p>DFNZ will adopt a consistent approach to presenting non-GAAP information from period to period.</p> <p>DFNZ will also provide the non-GAAP financial information for comparative periods.</p> <p>If a change in approach is required from one period to the next, an explanation about the nature of the change, the reasons for the change, and the financial impact of the change will be provided.</p>
Unbiased	<p>Non-GAAP financial information should be unbiased. DFNZ will not use it to avoid presenting adverse information to the market, to over-emphasise favourable information, or to hide information.</p>
One-off/non-recurring items	<p>DFNZ will not describe items that have occurred in the past or are reasonably likely to occur in a future period as “one-off” or “non-recurring”, e.g. restructuring costs. DFNZ considers that unrealised revaluation gains/losses included in Net Profit After Tax reflect only a portion of the total revaluation adjustments resulting from the annual review of its portfolio, and being subject to unknown future market forces, cannot be assumed to be anything but non-operating.</p> <p>DFNZ will not “cherry pick” adjustments. When excluding non-operating items, both gains and losses will be excluded.</p>

5. Disclosing pro-forma financial information

Pro-forma financial information is non-GAAP financial information that is intended to show the effects of proposed, completed or hypothetical events or transactions on DFNZ’s financial position, performance, cash flows and/or prospects for illustrative purposes, to help with the assessment of a proposal. The guidance below will be applied in conjunction with the general principles set out earlier, whenever DFNZ presents pro-forma financial information.

Guidance on presenting pro-forma financial information

Principle	Explanation
Relevance	<p>DFNZ will avoid making adjustments that are not relevant to the proposal. The information will reflect the full transaction and not selected aspects of it.</p> <p>If a pro-forma income statement does not extend to Net Profit After Tax, DFNZ will explain the reasons for not doing so, and the likely impact on funding, tax, amortisation and any other items excluded from the pro-forma income statement.</p>
Compilation	<p>Pro-forma financial information will:</p> <ul style="list-style-type: none"> - Be prepared on the same basis as the accounting policies of the entity; - Use the most recent statutory financial statements as the starting point; and - Be based on reasonable and supportable assumptions.
Presentation	<p>Disclosure of pro-forma financial information will be supported by:</p> <ul style="list-style-type: none"> - Full details of the principal assumptions used; - Details of any significant judgements; - An explanation of how it was compiled; - A prominent statement to clarify that the information is for illustrative purposes only and does not represent DFNZ’s actual financial performance, position and/or cash flows; and - A statement whether the pro-forma financial information has been subject to audit or review. <p>When a range of pro-forma financial information is disclosed, a more favourable figure or fact within that range will not be given greater prominence.</p>
Reconciliation	<p>The amount and nature of all material adjustments made to the statutory financial information to derive to the pro-forma financial information should be disclosed by way of reconciliation, together with the reasons for those adjustments.</p>

Presenting non-GAAP financial information in financial statements

Whilst the FMA guidance does not cover disclosures in the financial statements themselves, DFNZ shall include a brief explanation of why EBIT, EBITDA, Farm Margin and Operating Profit are used and how they are calculated in the Accounting Policies set out in the Annual Report.

6. Review of this Policy

The Audit Committee expect to review this policy annually or as otherwise required.

Appendix 1: Non-GAAP financial reporting measures

DFNZ’s standard profit measure prepared under NZ GAAP is “Net profit/(loss) after tax”. DFNZ has used non-GAAP financial measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of farms and groups of farms, to establish operational goals and to allocate resources. They also represent some of the performance measures that are useful to DFNZ’s debt providers. For a more comprehensive discussion on the use of non-GAAP financial measures, please refer to the policy “Non-GAAP Accounting Information” available on our website (www.dairyfarms.nz).

Non-GAAP financial measures are not prepared in accordance with NZ IFRS and are not uniformly defined, therefore the non-GAAP financial measures reported in this document may not be comparable with non-GAAP financial measures that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by DFNZ in accordance with NZ IFRS.

DFNZ’s definition of non-GAAP profit measures used in this document:

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Operating Profit	Earnings before interest, tax, depreciation, amortisation and non-operating items (such as periodic unrealised revaluation of farm assets)
Farm Margin	Operating profit plus corporate farm management and administration, and other income

	20xx \$000	20xx \$000
Net profit/(loss) after tax - GAAP	xxx	xxx
Add back: Income tax expense / (income)	xxx	xxx
Add back: Net interest and finance costs	x,xxx	x,xxx
EBIT	x,xxx	x,xxx
Add back: Depreciation and amortisation expense	x,xxx	x,xxx
EBITDA	x,xxx	x,xxx
Add back: Non-operating items/gain/(loss) on revaluation/disposal of assets	xxx	xxx
Operating profit	x,xxx	x,xxx
Add back: Corporate farm management and administration	x,xxx	x,xxx
Deduct: Other income	(xxx)	(xxx)
Farm margin	x,xxx	x,xxx