

Dairy Farms NZ Limited
Annual Report
For the year ended
31 May 2019



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Chairman's Report

Year Ending 31 May 2019

Introduction

I have the pleasure of presenting the Annual Report for Dairy Farms NZ Limited (DFNZ) for the year ended 31 May 2019.

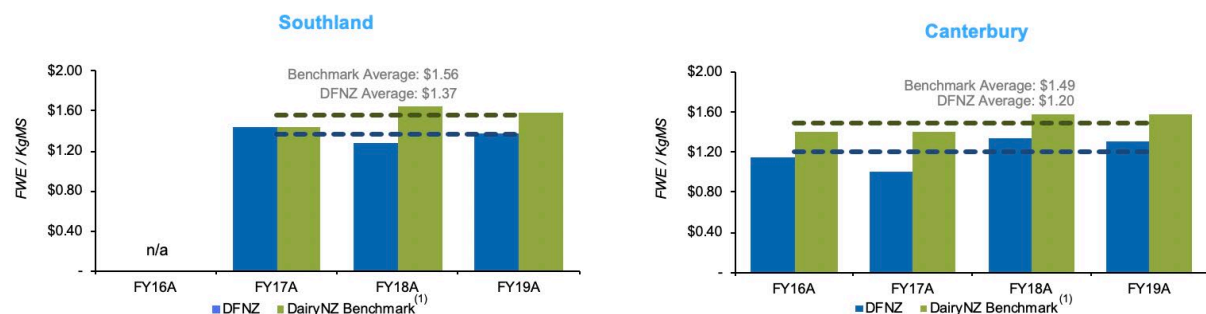
The year has been somewhat frustrating for both the board and management due for the most part to factors outside of the company's control. Encouragingly, the company was able to:

- not only maintain but slightly increase production by just over 1% over the 2018 year, which itself had seen significant production growth of 30% over the previous two years
- tightly control on-farm costs
- largely complete its Capital Expenditure program
- be publicly acknowledged for its farming environmental practices

As part of the research undertaken for our proposed IPO and capital raise we are able to state that DFNZ is a proven top quartile operator in terms of operational performance/ returns in New Zealand, underscoring the good work of both the management team and the very hands-on approach of the Production Sub-committee of the board.

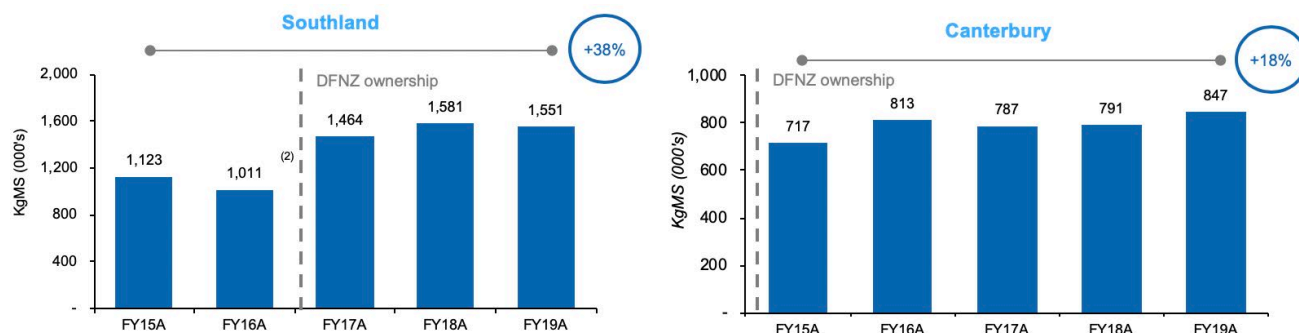
DFNZ's operational performance

Cost of production benchmarking per kg of milksolids



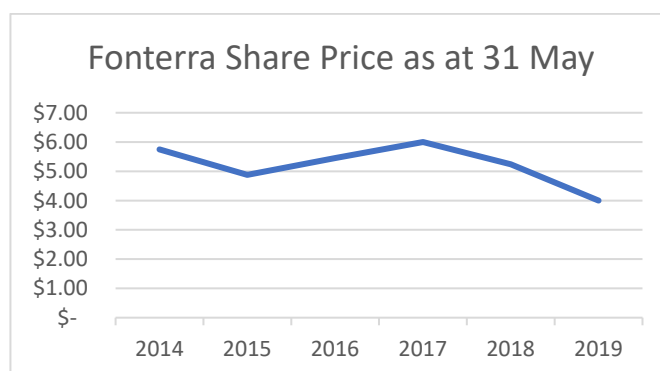
(1) Benchmark based on DairyNZ Economic Survey 2017-18 data Table 5.10 and DairyNZ forecasts. Shown as comparative to DFNZ by allocating farm working expenses based on a 50/50 model

On-farm productivity improvements



(2) Production data for Miro and Totara not available as these farms were supplying to OCD in the 2015-2016 season. Production estimated to be in line with 2014-2015

Operating Profit decreased by circa \$0.9 million to approximately \$3.4 million primarily due to a reduction in the Fonterra milk price to \$6.35 compared to \$6.75 in the previous year. This was further exacerbated by the well-publicised issues at Fonterra which saw them not able to pay a dividend and moreover, there was a significant drop in the value of the Fonterra shares that the company is required to own as a milk supplier.



As shareholders are aware, we also supply Synlait with A2 milk from one of our Canterbury farms and Synlait's milk price dropped to \$6.60 compared to \$6.85 the previous year due to the international milk price decline.

The company's net loss after tax, including non-cash write-downs in the value of its land and buildings was \$0.1 million. This is covered in more detail in the CEO Review. Accordingly, directors are not recommending the payment of a dividend to shareholders for the 2018-2019 year.

IPO Plans

Your directors have also been frustrated by the slower than expected path to an IPO despite significant effort and time from the company's board, management, and their advisors Deutsche Craigs and Clavell Capital.

As part of the proposed growth plan management review of over 100 farms as potential acquisition candidates, the company identified groups of farms in Waikato and Southland which after due diligence were assessed as being a perfect fit to add to our portfolio. The farms were contracted subject to due diligence and a capital raise in the first quarter of 2019. The company and its advisors then progressed the proposed capital raise with key local market participants, one in particular who indicated that they would progress on a reasonable basis. After a considerable period of industry due diligence and transaction structuring which gave added confidence to the likelihood of a transaction occurring, that party effectively withdrew by making an offer that would be unacceptable to the company and its shareholders. Throughout this period the company and its advisors worked on a success only basis on structuring alternative plans with multiple parties which have resulted in further opportunities to expand the size of the company to see a successful listing on the NZX. The company is proceeding to progress these plans with urgency.

As investors will be aware the Government is strictly enforcing the requirements of the Overseas Investment Act which effectively means that a DFNZ equity raise has to be limited to New Zealand based/owned investors only. On the positive side, lead advisor Deutsche Craigs have gained increasing confidence from the feedback received and see "DFNZ as an attractive IPO candidate (provided it can grow its asset base)".

The primary focus of the board continues to be to create the right platform to allow an IPO to happen as planned.

We have now begun the 2020 financial year with production across our farms budgeted to exceed last years' levels and the current projection by the major banks is for a rise in the milk price to approximately \$7.00. This projection is currently being borne out by the most recent dairy trade auctions and should see the company in a position to resume paying fully imputed dividends for the current year.

The 2019 accounts were impacted by a number of non-cash items. Our independent farm valuations dropped due to the current environment where Government policy has had the effect of there being minimal foreign investment in New Zealand farmland and accordingly prices fell. However, it is important to note for the second consecutive year our farm values have strongly out-performed the New Zealand average due to the superior quality and location of our farms.

30 June	Average Dairy Percentage Change per Ha Over Previous Year	DFNZ Average Price per Ha Over Previous Year	DFNZ Performance Relative to Dairy Ha Price
2017	+7%	+4%	-3%
2018	-8%	+1%	+9%
2019	-21%	-5%	+16%

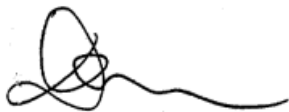
Source. REINZ, DFNZ

Further, as mentioned above, the value of the company's Fonterra shares also saw a significant drop. It is hoped that once Fonterra's restructuring and profit improvement plans take effect that there will be a recovery in their share price in the medium term.

Looking forward

The company is working hard to enable a successful listing on the NZX despite the challenges of the current economic/political environment and we expect to be in a position to progress opportunities expeditiously. We are progressing multiple opportunities to work with vendors whose previous route to monetisation through a traditional sale is now also severely restricted. The opportunity of participating in a stock exchange listing as part of DFNZ is increasingly compelling, as potentially the only route for them to exit or monetise part or all of their farm investments. Directors and management are encouraged by the view of Deutsche Craigs regarding the potential market acceptance of a DFNZ listing and also the quality of farms that we are now evaluating. This should lead to DFNZ undertaking its capital raise by issuing shares as partial consideration for farm assets and thus have an IPO where the farm vendors will be able to monetise their assets.

Lastly, we would like to take this opportunity to thank shareholders, staff, sharemilkers, ASB Bank and our other strategic partners for their ongoing assistance and support, and look forward to discussing the company's progress in more detail at the company Annual Meeting of Shareholders to be held on Friday, 29 November 2019.



David Belcher

Chairman

CEO Report

Year Ending 31 May 2019

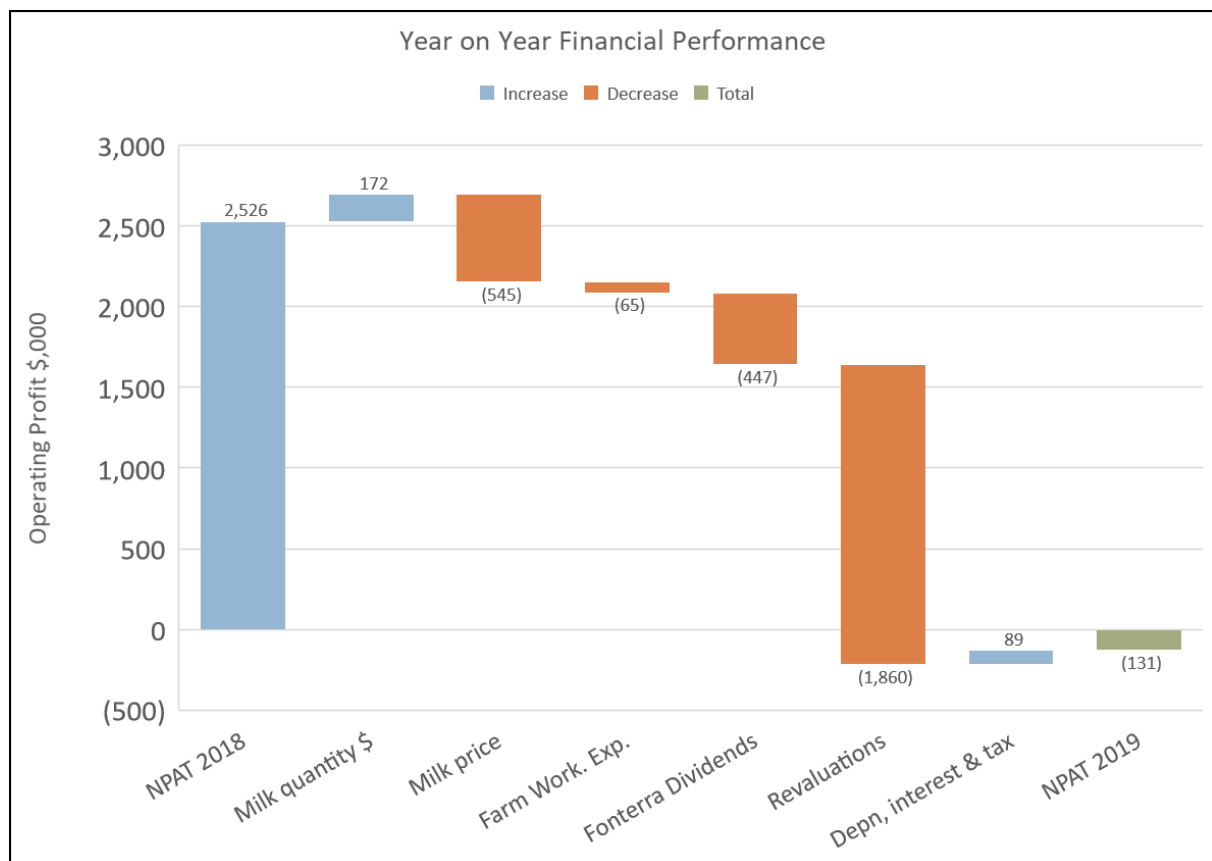
Overview of the Year

DFNZ experienced a successful year on farm with milk production and costs comparable to the prior year.

The business delivered an after-tax loss of \$0.1m, down from a profit of \$2.5m in 2018. Within this, the key Operating Profit measure has decreased \$0.9m from \$4.3m to \$3.4m. While milk production increased by 1.1% from 2018, Profit was negatively impacted by:

- reduced milk income of \$0.4m following a reduction in milk price to \$6.35 compared to \$6.75 (Fonterra) and \$6.60 compared to \$6.85 (Synlait);
- the non-payment of any Fonterra dividend compared to last year’s \$0.4m;
- non-cash revaluation of assets down \$0.6m compared to a \$1.2m increase in 2018.

The following waterfall graph summarises these changes.

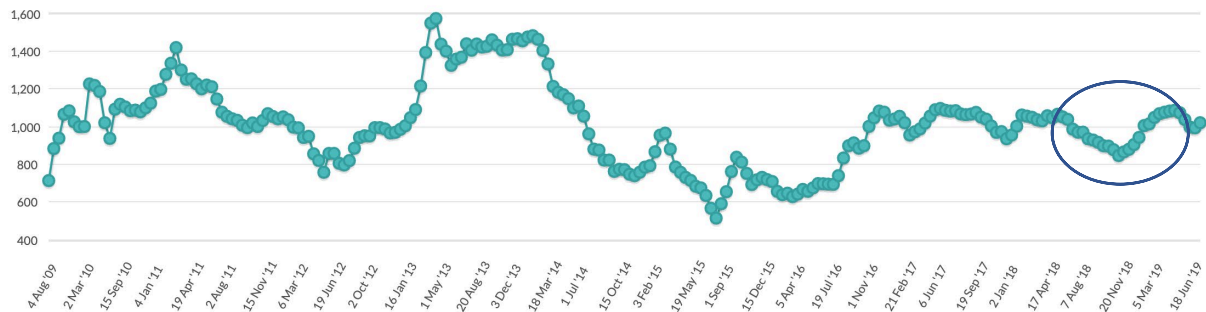


DFNZ is required to own Fonterra shares in order to supply milk to the co-operative. Driven at least in part by Fonterra not paying any dividend during the year the market price of Fonterra shares reduced from \$5.17 to \$4.00.

International dairy commodity prices experienced a softer market than the previous year. Milk processor projections and other third-party analysis of the milk price in New Zealand has

resulted in revenue being accrued for the 2018/19 season milk at \$6.35 for Fonterra and \$6.60 for Synlait (including a \$0.20 per kg of milksolids a2 milk premium).

GDT Price Index over 10 years



Capital Development

At the time of purchase or lease of farms DFNZ has applied to the Overseas Investment Office for approval as required under the Overseas Investment Act. Promoted by DFNZ in these applications is a commitment to undertake capital improvements aligned to on-farm contingencies.

The following is a summary of on-farm development undertaken during the year.

Investment Summary Table - Southland

Item	Actual Investment to 31 May 2019 \$000
Houses	244
Effluent	256
Stand off pad - Totara	247
Cowshed Improvements	128
Land and Laneways	65
Other	46
Total	986

Major components of the development expenditure were:

Houses

Two houses had double glazing installed.

Two further houses had new kitchens installed coupled with some internal refurbishment.

One house received a replacement garage.

Effluent

The development of the Totara effluent system has been a significant project. The existing pond was emptied, repaired, and synthetically lined with gas venting and under liner drainage inspection capability installed.

The discharge area that effluent can be spread over was increased by 24 hectares and a new travelling irrigator with fail safe Harvest technology installed to improve the distribution of effluent while reducing the risk of over application.

Stand Off Pad

The Totara farm stand-off pad is largely complete. It is now in the process of being connected into the farm effluent system.

Cowshed Improvements

Enhanced milk cooling capability has been installed where required to ensure all cowsheds have the capacity to meet new milk cooling regulations. In most instances surplus milk vats on the farms have been configured to hold chilled water to pre cool milk before it enters the milk vat.

The two oldest cowsheds, Totara and Kowhai were given some capital refurbishment such as improved effluent handling and wash down capability.

Land and Laneways

Kowhai and Rata lanes were improved and cambered away from open drains for improved stock flow, vehicle manoeuvrability, and environmental outcomes.

Other

Primarily drainage on Matai, and wetland development and plantings on Matai and Miro.

Investment Summary Table – Canterbury

Item	Actual Investment to 31 May 2019 \$000
Houses	308
Irrigation	350
Water Supply	143
Land and Laneways	67
Other	73
Total	941

Houses

A major housing development is in progress with the installation of three single person self-contained accommodation units on the Fairview farm and four units on the Lowcliffe farm. This development will deliver warm, durable and compliant accommodation for staff on farm, making the Lowcliffe farms more attractive places of employment.

Two existing dwellings that are beyond justifying further repair and investment will be demolished.

Irrigation

Having successfully bored two new irrigation wells these have now been commissioned with submersible pumps and motors. New irrigation mainlines have been installed to physically support the transfer of consented water from source to irrigators.

Lowcliffe Dairies Limited now has much more reliable water with greater legal and physical versatility to apply all water to all hectares.

While trenches were open to install irrigation lines the opportunity was taken to install additional house and stock water lines and further effluent distribution lines.

The below photo shows the pump and motor on the Lowcliffe farm well beginning to be lowered to a depth of approximately 100 metres.



Water Supply

The quality of the new ground water is very high. Part of the above irrigation development strategy has been to separate irrigation, stock, and house water. This will ensure water to all houses, including the new housing locations is of the highest quality while allowing minerals to be added to stock water.

Land and Laneways

With the addition of a further 71 hectares of Boulton Family Trust leased land Lowcliffe Dairies Ltd upgraded lane access to and within the new land. The following photos show the road crossing on Waipuna Road and an upgraded bridge crossing a drain on its way to the Lowcliffe cowshed.



Other

Some re-fencing was completed on the new 71 hectares of Boulton Lease to better align the paddocks with the lane access. The effluent management infrastructure at the exit race of the Lowcliffe cowshed was upgraded and increased milk filtration capacity was installed in the Lowcliffe shed to meet MPI regulations for the number of cows being milked.

Farm Performance

Otapiri Farms – Central Southland

The 2018/19 farming year was the third season under DFNZ ownership and management in partnership with our Herd Owning Sharemilkers (HOSM).

HOSM for the 2018/19 season:

Farm	Sharemilking Business	Sharemilking Farmer	Previous Location
Kowhai	Mansir Sharemilking Limited	James Mansell and Bonnie Fulton	Southland
Matai	Redlands Sharemilking Ltd	Ross and Kristy Conder	Canterbury
Miro	Redlands Sharemilking Ltd	Ross and Kristy Conder	Canterbury
Rata	DETJ Limited	Dave and Emma Campbell	Southland
Totara	M & R Prankerd	Michael and Ruth Prankerd	Southland

The HOSM agreements for Rata, Matai and Miro farms concluded their three-year term on 31 May 2019. By mutual agreement a new three-year HOSM term has been entered into with DETJ Ltd (Dave and Emma Campbell) on Rata farm. Ross and Kristy Conder have entered into a new three-year HOSM in their own right on Matai farm. Redlands Sharemilking Limited decided to not renew their agreement with only Miro farm available to them. Adam and Nicole Gerritsen have commenced HOSM on Miro farm on 1 June 2019.

Following a kind start to the season mid-October to late December experienced high and continuous levels of rain. High soil moisture levels prevented vehicle access to paddocks delaying regrassing of crop paddocks and applying fertiliser. As a result, grass growth and utilisation were negatively impacted. Total milksolid production of 1,551,000 kg was 98% of 2018 season production. Farm working expenses exceeded the prior year by \$0.1m (5%) with approximately 60% of this increase due to additional cost of feed purchased.

Lowcliffe Farms – Mid Canterbury

Illingworth Sharemilking Limited (Jimmy Illingworth & Melissa Tapp) continues to sharemilk both the Lowcliffe and Fairview farms.

Total milksolids of 847,000 kg was 7% above the previous season. This production increase was assisted by gaining access to an additional 71 hectares of Boulton Family Trust lease from 1 August 2018.

Farm costs were \$1.31/kg milksolids compared with \$1.34/kg milksolids last year.

Boulton Lease

Having successfully tendered to retain the 185 hectares of original lease plus an additional 71 hectares in June 2017 Overseas Investment Office (OIO) approval was granted in July 2018. Access to the additional 71 hectares began on 1 August 2018. Lowcliffe Dairies Limited has security of this lease until 31 May 2022 with an option to extend the lease until 2027.

Environmental

Otapiri Farms – Central Southland

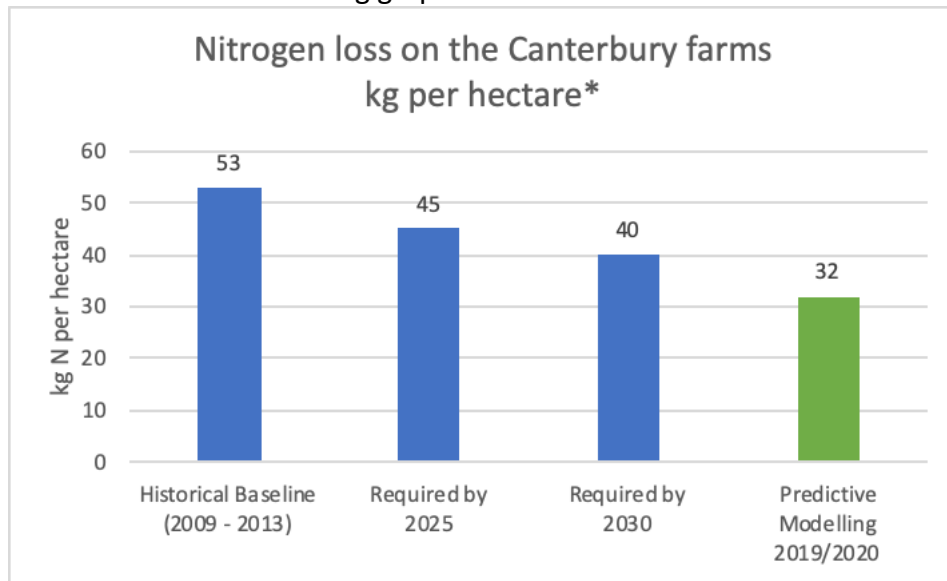
It was pleasing to have our efforts to improve the environment of DFNZ's Southland farms recognised by an article in the May 2019 edition of Open Space, the QEII National Trust magazine. Coupled with this and a bumper Kakapo hatching, Jesse Bythell (QEII Southland Regional Representative) asked if she could harvest Kahikatea fruit from Matai farm to enable DOC to feed the Kakapo chicks. See the following link for more on this story:

<https://qeiiationaltrust.org.nz/fruitforkakapo/>

Lowcliffe Farms – Mid Canterbury

Being located in the Hinds/Hekeao Plains catchment the Lowcliffe & Fairview farms operate under a Land Use Consent (LUC) granted by Environment Canterbury. Conditions of this LUC require calculation of a historical nitrogen loss baseline (Lowcliffe Dairies Limited's baseline is

53 kg N per hectare) and then achieving stepped nitrogen loss reductions over time. These step reductions and Lowcliffe Dairies Limited’s predicted nitrogen loss for 2019/20 year are summarised in the following graph.



*As modelled in Overseer v6.3.1 FM

Dairy Farms NZ Limited

Health and Safety

DFNZ continues to act in a way that encourages the development of a positive health and safety culture on our farms for all people involved. We recognise we have a clear responsibility to provide our sharemilkers with farms that have safely operating infrastructure such as structural and electrical soundness.

The Production Committee of DFNZ have visited all farms multiple times through the past year and during visits have inspected H&S records and sought evidence of effective H&S culture on farm.

DFNZ management and staff have held regular health and safety meetings in their work environment.

Mycoplasma bovis

The Ministry for Primary Industries (“MPI”), in association with the dairy and beef industries, continue to pursue eradication of this disease from New Zealand. All dairy farms in New Zealand had bulk milk samples tested through the spring of 2018. All DFNZ farms tested negative for M. bovis. DairyNZ has just announced (23 July 2019) that dairy farmers will be contributing 2.9 cents/kg milk solids over the coming seasons to meet the dairy industry’s share of costs for testing, eradication and compensation as agreed under the Government Industry Agreement (GIA).

Principles for Responsible Investment (PRI)

In October 2017 DFNZ became a signatory to PRI and remains committed to incorporating environmental, social and governance (ESG) factors into its investment decisions. An annual report was submitted to PRI via their online reporting framework in April 2019.

2020 Season

DFNZ looks forward to the 2019/20 season with confidence. Cows are ready to calve, and the farms have good levels of pasture cover.

Planned projects will see further enhancements to:

- People outcomes via the completion of the new housing in Canterbury;
- Environmental outcomes via improved effluent management in Southland as we complete the synthetic lining of two more effluent ponds (Rata and Miro);
- Productivity outcomes in Canterbury via improved water reliability and a full year under Illingworth Sharemilking Limited management of the additional Boulton Lease land.



Craig McBeth
CEO

DAIRY FARMS NZ LIMITED

Key financial disclosures

For the year ended 31 May 2019

Directors' Responsibility Statement

For the year ended 31 May 2019

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 May 2019 and the financial performance and cash flows for the year ended on that date.

The Directors consider that 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 of the 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 Reporting Act 2013 and the Companies Act 1993.

The Directors are pleased to present the financial statements for Dairy Farms NZ Limited and its controlled entities (together the "Group") for the year ended 31 May 2019.

The financial statements contained on pages 15 to 31 have been authorised for issue on 31 July 2019.

For and on behalf of the Board



David Belcher
Chairman



Aaron Moody
Director and Chair of Audit and
Risk Committee

Dairy Farms NZ Limited
Statement of Profit or Loss

For the year ended 31 May 2019

	Note	2019 \$000	2018 \$000
Operating revenue	1	7,661	8,035
Farm working expenses	2	(3,180)	(3,098)
Farm margin		4,481	4,937
Other income (Fonterra dividends)	3	-	447
Corporate farm management and administration	4	(1,076)	(1,094)
Operating profit		3,405	4,290
Gain/(loss) on revaluation/disposal of assets	5	(638)	1,222
Earnings Before Interest, Tax, Depreciation and Amortisation		2,767	5,512
Depreciation and amortisation expense	11	(1,077)	(827)
Earnings Before Interest and Tax		1,690	4,685
Net interest costs	6	(1,852)	(1,662)
Expired lease not capitalised	6	(48)	(212)
Net interest and finance costs		(1,900)	(1,874)
Net profit/(loss) before tax		(210)	2,811
Income tax (expense)/gain	7	79	(285)
Net profit/(loss) after tax		(131)	2,526
Earnings per share			
Basic earnings per share (New Zealand Dollars)	8	(0.003)	0.057
Diluted earnings per share (New Zealand Dollars)		(0.003)	0.049

The accompanying notes form an integral part of these financial statements

Dairy Farms NZ Limited
Statement of Other Comprehensive Income

For the year ended 31 May 2019

	2019 \$000	2018 \$000
Net profit/(loss) after tax	(131)	2,526
Other comprehensive income/(loss) for the period		
Items that will never be reclassified to profit or loss		
Gain/(loss) on revaluation of land and buildings	11 (3,166)	(901)
Deferred tax on revaluations	68	358
Gain/(loss) on revaluation of equity instruments (Fonterra shares)	(2,215)	(1,450)
	<u>(5,313)</u>	<u>(1,993)</u>
Other comprehensive income/(loss) for the period, net of income tax	(5,313)	(1,993)
Total comprehensive income/(loss) for the period	(5,444)	533

The accompanying notes form an integral part of these financial statements.

Dairy Farms NZ Limited

Segment Report

For the year ended/as at 31 May 2019

(a) Operating Segments

The Group has two primary operating divisions: Canterbury and Southland. Aside from varying geographical locations, these segments have different soil types, irrigation requirements and regional council environmental compliance obligations. Key management reporting is at a segment level as well as individual farm level.

Other non-segmented amounts relate to Corporate activities including finance, treasury, Board and executive costs, and includes consolidation adjustments. An administration fee is charged annually to each farm for a portion of corporate costs, and eliminated on consolidation.

(b) Operating Segment Information

	Canterbury		Southland		Total operating segments		Other including Corporate		Total	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Total segment revenue	2,750	2,699	4,911	5,336	7,661	8,035	-	-	7,661	8,035
Farm working expenses	(1,112)	(1,063)	(2,130)	(2,035)	(3,242)	(3,098)	62	-	(3,180)	(3,098)
Farm margin	1,638	1,636	2,781	3,301	4,419	4,937	62	-	4,481	4,937
Other income (Fonterra dividends)	-	137	-	310	-	447	-	-	-	447
Administration	(246)	(272)	(558)	(615)	(804)	(887)	(272)	(207)	(1,076)	(1,094)
Operating profit	1,392	1,501	2,223	2,996	3,615	4,497	(210)	(207)	3,405	4,290
Gain/(loss) on revaluation/disposal of assets	171	1,598	(809)	(376)	(638)	1,222	-	-	(638)	1,222
Earnings before interest, tax, depreciation and amortisation	1,563	3,099	1,414	2,620	2,977	5,719	(210)	(207)	2,767	5,512
Depreciation and amortisation expense	(642)	(376)	(413)	(427)	(1,055)	(803)	(22)	(24)	(1,077)	(827)
Earnings before interest and tax	921	2,723	1,001	2,193	1,922	4,916	(232)	(231)	1,690	4,685
Net lease, interest and finance costs*	(78)	(214)	-	-	(78)	(214)	(1,822)	(1,660)	(1,900)	(1,874)
Net profit/(loss) before tax	843	2,509	1,001	2,193	1,844	4,702	(2,054)	(1,891)	(210)	2,811
Income tax expense	(420)	(260)	(259)	(783)	(679)	(1,043)	758	758	79	(285)
Net profit/(loss) after tax	423	2,249	742	1,410	1,165	3,659	(1,296)	(1,133)	(131)	2,526

* Remaining costs in Canterbury represent short-term lease/rental costs in relation to the expired Boulton lease. The new lease has been capitalised per NZ IFRS16Leases.

The accompanying notes form an integral part of these financial statements.

Dairy Farms NZ Limited

Statement of Cash Flows

For the year ended 31 May 2019

	2019 \$000	2018 \$000
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	7,876	7,586
Dividends received	-	447
Income tax received	-	19
Interest received	2	42
	<u>7,878</u>	<u>8,094</u>
Cash was applied to:		
Payments to suppliers and employees	(4,255)	(4,300)
Interest paid	(1,880)	(1,405)
Income tax paid	(486)	-
	<u>(6,621)</u>	<u>(5,705)</u>
Net cash flow from operating activities	1,257	2,389
Cash flows from investing activities		
Cash was provided from:		
Proceeds from disposal of property, plant and equipment	32	-
	<u>32</u>	<u>-</u>
Cash was applied to:		
Purchases of property, plant and equipment	(1,766)	(907)
Purchases of intangibles / website development	-	(24)
Purchase of investments (Fonterra shares and other supplier shares)	(662)	(4,169)
	<u>(2,428)</u>	<u>(5,100)</u>
Net cash flow from investing activities	(2,396)	(5,100)
Cash flows from financing activities		
Cash was provided from:		
Increase in external borrowings and bank overdraft	545	-
Issue of ordinary shares	106	34
	<u>651</u>	<u>34</u>
Cash was applied to:		
Net dividends paid to shareholders after dividend reinvestment scheme	(889)	(444)
Term lease payments	(222)	(11)
Repayment of external borrowings	(78)	(53)
	<u>(1,189)</u>	<u>(508)</u>
Net cash flow from financing activities	(538)	(474)
Net increase/(decrease) in cash held	(1,677)	(3,185)
Opening cash	680	3,865
Cash and cash equivalents, bank overdraft	9	680

Reconciliation of Profit After Tax With Net Cash Flow from Operating Activities

	2019 \$000	2018 \$000
Net profit after tax	(131)	2,526
Add/(deduct) non-cash/non operating items:		
Depreciation, amortisation and impairment	1,077	827
Gain/(loss) on revaluation/disposal of assets	638	(1,222)
Change in deferred taxation	(276)	(166)
Other non-cash/non-operating items	(13)	406
	<u>1,295</u>	<u>2,371</u>
Add/(deduct) movement in working capital items:		
Change in working capital on purchase of PP&E	160	(186)
Change in inventories	5	(50)
Change in accounts receivable and prepayments	263	(568)
Change in trade creditors, provisions and accruals	(109)	374
Change in income tax payable/receivable	(357)	448
	<u>(38)</u>	<u>18</u>
Net cash flow from operating activities	1,257	2,389

The accompanying notes form an integral part of these financial statements.

Dairy Farms NZ Limited
Statement of Financial Position

As at 31 May 2019

	Note	2019 \$000	2018 \$000
ASSETS			
Current			
Cash and cash equivalents	9	1	680
Trade and other receivables	10	2,171	2,433
Inventories		121	126
Total current assets		2,293	3,239
Non-current			
Property, plant and equipment	11	73,854	76,568
Right of use (leased assets) and other intangible assets	11	943	41
Fonterra shares and other investments	13	7,724	9,536
Deferred tax asset		19	-
Other non-current assets		-	9
Total non-current assets		82,540	86,154
Total assets		84,833	89,393
LIABILITIES			
Current			
Short-term debt	9	2,508	87
Income tax payable	7	63	421
Accounts payable and accruals	14	924	1,031
Total current liabilities		3,495	1,539
Non-current			
Long-term debt	9	42,432	42,465
Deferred tax liability	7	-	257
Total non-current liabilities		42,432	42,722
Total liabilities		45,927	44,261
EQUITY			
Share capital	24	43,051	42,946
Reserves	24	(2,876)	2,592
Retained earnings	24	(1,269)	(406)
Total equity		38,906	45,132
Total liabilities and equity		84,833	89,393

These financial statements have been authorised for issue on 31 July 2019.



David Belcher
Chairman



Aaron Moody
Director and Chair of Audit and Risk Committee

The accompanying notes form an integral part of these financial statements.

Dairy Farms NZ Limited
Statement of Changes in Equity

For the year ended 31 May 2019

	Ordinary fully paid shares	Sub-ordinated ordinary fully paid shares	Share option reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 June 2017	41,769	1,143	78	3,947	196	(2,145)	44,988
Total comprehensive income for the period							
Profit or loss	-	-	-	-	-	2,526	2,526
Other comprehensive income							
Land and buildings revaluation gains/(losses), net of tax	-	-	-	(543)	-	-	(543)
Changes in fair value of equity instruments	-	-	-	-	(1,450)	-	(1,450)
Total other comprehensive income	-	-	-	(543)	(1,450)	-	(1,993)
Total comprehensive income for the period	-	-	-	(543)	(1,450)	2,526	533
Transactions with shareholders, recorded directly in							
Contributions by and distributions to shareholders							
Proceeds from shares issued	34	-	-	-	-	-	34
Share issue costs	-	-	-	-	-	-	-
Revaluation reserve transferred to retained earnings on	-	-	-	343	-	(343)	-
Share option reserve movement	-	-	-	-	-	-	-
Dividends to shareholders	-	-	-	-	-	(444)	(444)
Total contributions by and distributions to shareholders	34	-	-	343	-	(787)	(410)
Balance at 31 May 2018	41,803	1,143	78	3,747	(1,254)	(406)	45,111
Balance at 1 June 2018	41,803	1,143	78	3,747	(1,254)	(406)	45,111
Total comprehensive income for the period							
Profit or loss	-	-	-	-	-	(131)	(131)
Other comprehensive income							
Land and buildings revaluation gains/(losses), net of tax	-	-	-	(3,098)	-	-	(3,098)
Changes in fair value of equity instruments	-	-	-	-	(2,215)	-	(2,215)
Total other comprehensive income	-	-	-	(3,098)	(2,215)	-	(5,313)
Total comprehensive income for the period	-	-	-	(3,098)	(2,215)	(131)	(5,444)
Transactions with shareholders, recorded directly in							
Contributions by and distributions to shareholders							
Proceeds from shares issued	106	-	-	-	-	-	106
Share issue costs	-	-	-	-	-	-	-
Revaluation reserve transferred to retained earnings on	-	-	-	(59)	-	59	-
Share option reserve movement	-	-	(98)	-	-	98	-
Rounding	(1)	-	(1)	2	1	-	1
Dividends to shareholders	-	-	-	-	-	(889)	(889)
Total contributions by and distributions to shareholders	105	-	(99)	(57)	1	(732)	(782)
Balance at 31 May 2019	41,908	1,143	(21)	592	(3,468)	(1,269)	38,885

Dairy Farms NZ Limited

Additional financial disclosures including notes to the financial statements

For the year ended 31 May 2019

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements

For the year ended 31 May 2019

1 Operating Revenue

	2019 \$000	2018 \$000
Farm milk proceeds	7,619	8,012
Other farm income	42	23
Total operating revenue	7,661	8,035

Income Recognition Accounting Policies

Revenue

Revenue is recognised to the extent that it is highly probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Initial application of IFRS 15 Revenue from contracts with customers

The Group elected to early adopt this standard from 1 June 2017, using the modified retrospective approach. Adoption of the standard resulted in no change to the recognition of the accrued income asset, nor to the prior comparative 2017 numbers.

Milk sales

Revenue from the sale of milk is measured at the fair value of the consideration received or receivable, net of any discounts and volume rebates. Revenue is recognised when control of the milk has been transferred to the buyer at the time the milk is picked up. Revenue is recognised at 50% (reflecting the sharemilking agreements) of the latest estimated total milk price of \$6.35/kg milksolids from Fonterra, whereas receipts during the year averaged \$5.00/kg milksolids for milk supplied during the year. From Synlait the latest estimated total milk price is \$6.60/kg milksolids (including \$0.20 A2 premium), whereas receipts during the year averaged \$5.00/kg milksolids for milk supplied during the year.

In assessing the amount for which it is highly probable that a significant reversal will not occur the Group considered:

- all available market evidence around the expected milk prices; and
- historic evidence around the accuracy of the estimated price at 31 May compared with the final milk price.

Based on our assessment the forecast milk prices of \$6.35/kg milksolids for Fonterra and \$6.60/kg milksolids for Synlait meet the highly probable criteria.

2 Farm Working Expenses

Farm Working Expenses includes the following items by nature:

	2019 \$000	2018 \$000
Grazing	925	909
Fertiliser	709	693
Supplementary feed	529	475
Repairs and maintenance	405	521
Pasture and cropping	171	113
Other	441	387
	3,180	3,098

3 Other Income

	2019 \$000	2018 \$000
Fonterra dividends received	-	447
	-	447

4 Corporate Farm Management and Administration

includes the following items:

	2019 \$000	2018 \$000
Employee remuneration	552	588
Directors' fees	110	110
Legal fees and valuations, including due diligence on potential acquisitions	142	60
Audit of annual financial statements of the Company and Group - PwC	32	37
Other non-audit services provided by PwC - Tax compliance services	-	3
Share option expense	-	21
Donations	-	1
Other expenses	240	274
	1,076	1,094

5 Gain/(loss) on Revaluation/Disposal of Assets

	Note	2019 \$000	2018 \$000
Capital (losses)/gains on revaluation - reversing previous losses through profit/loss	11	(593)	1,236
Gain/(loss) on disposal of assets		(45)	(14)
		(638)	1,222

6 Interest - Finance Income and Expense

	2019 \$000	2018 \$000
Finance income contains the following items:		
Interest income	2	42
Finance income	2	42
Interest funding contains the following items:		
Interest on bank loans and overdrafts	(1,511)	(1,404)
Lease interest	(29)	(1)
Bank facility fees	(314)	(299)
Interest funding expense	(1,854)	(1,704)
Net interest	(1,852)	(1,662)
Leases contains the following items:		
Canterbury farm short-term lease/rental (expired, replacement lease capitalised per IFRS 16), see note 9	(48)	(212)
Leases expense	(48)	(212)
Net interest and finance costs	(1,900)	(1,874)

Interest income

The Group recognises interest revenue on an accruals basis when the services are rendered using the effective interest rate method.

Interest expense

Finance costs that are directly attributable to the acquisition of an asset that takes a substantial time to construct are capitalised as part of the cost of that asset. During the year there was no capitalised interest. Other finance costs are recognised in profit or loss when incurred.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

7 Income Taxes

	2019 \$000	2018 \$000
Current tax expense		
Current year	(115)	(428)
Adjustments for prior years	(13)	-
	<u>(128)</u>	<u>(428)</u>
Deferred tax expense		
Origination and reversal of temporary differences	194	140
Adjustments for prior years	13	3
	<u>207</u>	<u>143</u>
Income tax (expense)/income	<u>79</u>	<u>(285)</u>
Provision for tax		
Opening balance	(421)	-
Income tax expense	(115)	(428)
Provisional tax paid	486	-
Imputation credits/RWT attached to dividends received	-	7
Transfers, refunds and adjustments	(13)	-
Residual tax refund due/(tax to pay)	<u>(63)</u>	<u>(421)</u>
Imputation credits		
Balance as at 1 June	4	23
Taxation paid	486	(54)
Imputation credits/RWT attached to dividends received	-	7
Imputation credits attached to dividends paid	(346)	-
Transfers, refunds and adjustments	-	28
Balance as at 31 May	<u>144</u>	<u>4</u>

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 \$000	Assets 2018 \$000	Liabilities 2019 \$000	Liabilities 2018 \$000	Net 2019 \$000	Net 2018 \$000
Property, plant and equipment	-	-	(2)	(263)	(2)	(263)
Provisions	21	6	-	-	21	6
Other items	-	-	-	-	-	-
Tax asset/(liability)	<u>21</u>	<u>6</u>	<u>(2)</u>	<u>(263)</u>	<u>19</u>	<u>(257)</u>

Movement in deferred tax on temporary differences during the year

	Balance 1 Jun 2017 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Balance 31 May 2018 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Balance 31 May 2019 \$000
Property, plant and equipment	(426)	(195)	358	(263)	193	68	(2)
Provisions	3	3	-	6	15	-	21
Other items	-	-	-	-	-	-	-
	<u>(423)</u>	<u>(192)</u>	<u>358</u>	<u>(257)</u>	<u>208</u>	<u>68</u>	<u>19</u>

Income Tax Accounting Policies

Income tax expense comprises current and deferred taxation and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised directly in other comprehensive income or equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable with respect to previous periods.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill or differences relating to subsidiaries. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be recognised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

8 Earnings Per Share and Net Tangible Assets

Basic earnings per share

The calculation of basic earnings per share at 31 May 2019 was based on the loss attributable to ordinary shareholders of \$131,000 (2018: profit of \$2,526,000) by the weighted average number of shares, 44,539,322 (2018: 44,441,322) on issue. There are dilutive shares in the form of sub-ordinated shares and share options.

Number of shares

	Note	2019 \$000	2018 \$000
Weighted average number of shares - ordinary		44,539	44,441
Weighted average number of shares - diluted		<u>46,034</u>	<u>45,936</u>
Number of ordinary shares		44,566	44,458
Number of sub-ordinated shares		1,495	1,495
Number of options		6,000	6,000
Number of farmer-director options	24	-	409
Total shares		<u>52,061</u>	<u>52,362</u>

Net Tangible Assets

	2019 \$000	2018 \$000
Total assets	84,833	89,393
Total liabilities	(45,927)	(44,261)
less intangible assets including leased assets	(943)	(41)
plus/(less) deferred tax	(19)	257
	<u>37,944</u>	<u>45,348</u>

Net tangible assets per share - basic

	2019 \$	2018 \$
Net tangible assets per share - basic	0.851	1.020

Earnings per share - basic

	2019 \$000	2018 \$000
Earnings per share - basic	(0.003)	0.057
Earnings per share - diluted	(0.003)	0.049

Earnings per Share Accounting Policies

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

9 Cash and Financing Facilities

	2019 \$000	2018 \$000
Current bank trading accounts	1	680
Cash and cash equivalents	1	680
Bank overdraft	(998)	-
Amortising portion of term debt	(1,200)	-
Short term lease liabilities	(310)	(9)
Fonterra Co-op support short term loan	-	(78)
Short term debt	(2,508)	(87)
Long term lease liabilities	(632)	(10)
Term financing facilities	(41,800)	(42,455)
Term debt	(42,432)	(42,465)
Net Debt	(44,939)	(41,872)

Net debt reconciliation

	Cash/bank overdraft \$000	Fonterra Co-op support loan \$000	Lease liabilities due within 1 year \$000	Lease liabilities due after 1 year \$000	Debt due within 1 year \$000	Debt due after 1 year \$000	Total \$000
Net debt as at 1 June 2017	3,865	(131)	-	-	-	(42,455)	(38,721)
Recognition of lease liabilities on early adoption of IFRS 16	-	-	(10)	(20)	-	-	(30)
Cash flows	(3,185)	53	1	10	-	-	(3,121)
Net debt as at 31 May 2018	680	(78)	(9)	(10)	-	(42,455)	(41,872)
New finance lease liabilities	-	-	(293)	(881)	-	-	(1,174)
Interest payments on lease liabilities	-	-	8	21	-	-	29
Cash flows	(1,677)	78	(16)	238	(1,200)	655	(1,922)
Net debt as at 31 May 2019	(997)	-	(310)	(632)	(1,200)	(41,800)	(44,939)

ASB loan

The Company has a facility agreement with ASB Bank Limited which provides bank facilities of up to \$46 million. The agreement contains various terms that are standard for facilities of this nature, including reporting obligations. The Company has granted a general security deed and mortgage over all its wholly-owned New Zealand assets. Interest is being charged at the Committed Cash Advance Facility rate prescribed by ASB Bank Limited and is reset every 90 days. Monthly repayments of \$100,000 principal commence in June 2019. Bank facilities include:

- A term debt facility of \$43 million.
- Overdraft facilities of \$3 million.

These facilities mature on 31 December 2020.

Fonterra Co-op support loan

During 2015 Fonterra Co-operative Group Limited provided a support loan on shared up milksolids produced between 1 June and 30 November 2015. The loan was fully repaid in September 2018.

Leases

The Group leases property adjoining its Canterbury properties and farms this land in conjunction with the owned land. The original lease expired on 13 December 2017, with the property under a monthly rental through to July 2018. The new lease is subject to an annual consumer price index adjustment. The lease term continues until May 2022 with a potential renewal period through to May 2027. Only the initial lease term has been included as a lease liability as it is not yet reasonably certain whether the lease will be renewed. The Group also leases an office in Templeton.

The Group early adopted IFRS 16 Leases in the 2018 financial year. In accordance with transitional practical expedients in the standard, the original Canterbury farm land lease and monthly rental payments to July 2018 (a remaining lease term of less than 12 months as at 1 June 2017), was accounted for as a short-term lease and expensed as part of net interest and finance costs per note 6.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments. Bank overdrafts form an integral part of the Group's cash management and are included as a component of cash and cash equivalents.

Leases

Where the Group is a lessee, lease liabilities are recognised at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate (3.325% at the time of lease commencement). The associated right of use assets are initially measured at the amount of the lease liability, are adjusted for CPI increases, and are amortised over the course of the lease. Associated operating costs such as maintenance are expensed as incurred.

10 Trade and Other Receivables

	2019 \$000	2018 \$000
Accounts receivable	482	493
Accrued income	1,534	1,721
Prepayments	59	99
Other receivables	96	120
	2,171	2,433

Accrued income includes amounts estimated as being receivable for milk supplied to Fonterra Co-operative Group Limited ("Fonterra") and Synlait Milk Limited ("Synlait") during the year but which are not able to be invoiced until after balance date.

There is no provision for bad debts at 31 May 2019 (2018: Nil) and no receivables have been written off during the year.

Trade and Other Receivables Accounting Policies

Trade and other receivables are stated at their amortised cost less impairment losses.

Determination of Fair Values

The carrying value of the trade and other receivables is a reasonable approximation of fair value.

Impairment of Trade Receivables

Trade receivables are considered past due when they have been operated outside of the normal key trade terms. When forming a view management considers the counterparty's ability to pay, the level of security and the risk of loss.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

11 Property, Plant and Equipment, including leased assets and other intangibles

	Land and Buildings \$000	Plant and equipment \$000	Capital work in progress \$000	Total Property, Plant and Equipment \$000	Right of use (leased) assets \$000	Other Intangible assets (website) \$000	Total \$000
Cost							
Balance at 1 June 2017	71,980	4,345	442	76,767	-	-	76,767
Additions	368	133	219	720	30	24	774
Disposals and transfers to other asset classes	457	(280)	(201)	(24)	-	-	(24)
Revaluation	245	-	-	245	-	-	245
Balance at 31 May 2018	73,050	4,198	460	77,708	30	24	77,762
Balance at 1 June 2018	73,050	4,198	460	77,708	30	24	77,762
Additions	391	467	1,068	1,926	1,174	-	3,100
Disposals and transfers to other asset classes	668	35	(1,104)	(401)	-	-	(401)
Revaluation	(3,816)	-	-	(3,816)	-	-	(3,816)
Balance at 31 May 2019	70,293	4,700	424	75,417	1,204	24	76,645
Depreciation and impairment losses							
Balance at 1 June 2017	-	760	-	760	-	-	760
Depreciation for the year	416	398	-	814	11	2	827
Disposals and transfers to other asset classes	-	(18)	-	(18)	-	-	(18)
Revaluation	(416)	-	-	(416)	-	-	(416)
Balance at 31 May 2018	-	1,140	-	1,140	11	2	1,153
Balance at 1 June 2018	-	1,140	-	1,140	11	2	1,153
Depreciation for the year	384	421	-	805	264	8	1,077
Disposals and transfers to other asset classes	(51)	-	-	(51)	-	-	(51)
Revaluation	(331)	-	-	(331)	-	-	(331)
Balance at 31 May 2019	2	1,561	-	1,563	275	10	1,848
Carrying amounts							
At 1 June 2017	71,980	3,585	442	76,007	-	-	76,007
At 31 May 2018	73,050	3,058	460	76,568	19	22	76,609
At 1 June 2018	73,050	3,058	460	76,568	19	22	76,609
At 31 May 2019	70,291	3,139	424	73,854	929	14	74,797

Near year end the freehold land & improvements and buildings were valued by an independent valuer, David Montgomery of Agribusiness Consultants & Valuers Limited. The valuations were performed on the basis of comparable market transactions with reference to the highest and best use and are Level 3 fair values. The valuation techniques have remained consistent and therefore there has been no transfer between fair value levels from the prior year.

Net losses on revaluation of \$592,844 were recognised in profit (2018: \$1,236,106 gain). Losses on revaluation totalling \$3,165,581 were recognised in other comprehensive income (2018: \$558,242 loss). The carrying amounts that would have been recognised had the assets been carried under the cost model are \$62,911,429 for freehold land and improvements (2018: \$61,811,747), and \$8,289,926 for buildings (2018: \$8,419,424).

The right of use (leased) assets consist of the leases of farm land in Canterbury and the office in Templeton following the adoption of *IFRS 16 Leases*.

Property, Plant & Equipment Accounting Policies

Land and buildings comprise farm properties. Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset

All other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are expensed as they are incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, buildings, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are between 2 and 40 years for plant and equipment and between 10 and 50 years for buildings. See note 9 regarding the lease term for right of use assets. Depreciation methods, useful lives and residual values are reassessed at reporting date.

Fair value movements

Fair value movements are determined on an individual farm level and split by land and buildings. Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against reserves directly in equity; all other decreases are recognised in profit or loss. Similarly, gains recognised in profit or loss reverse accumulated losses previously recognised in profit or loss. When revalued assets are disposed of, the amounts included in reserves are transferred to retained earnings.

Impairment

The carrying amounts of the Group's property, plant & equipment assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds the recoverable amount.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
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12 Group entities

Significant Subsidiaries

Dairy Farms NZ No 2 Limited
Kowhai Dairies (Otapiri) Limited
Lowcliffe Dairies Limited
Matai Dairies (Otapiri) Limited
Miro Dairies (Otapiri) Limited
Rata Dairies (Otapiri) Limited
Totara Dairies (Otapiri) Limited

Activity

Non - trading
Farm investor and operator
Farm investor and operator
Farm investor and operator
Farm investor and operator
Farm investor and operator
Farm investor and operator

Ownership interest

2019	2018
%	%
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%
100%	100%

13 Fonterra shares and other investments

Equity instruments at fair value:

Fonterra Co-operative Group Limited

Supplier shares:

Ballance Agri-Nutrients Limited
Farmlands Co-operative Society Limited

Note	2019 \$000	2018 \$000
15	7,616	9,471
15	107	64
15	1	1
	7,724	9,536

Fonterra shares

The Fonterra shares are classified as financial assets at fair value through Other Comprehensive Income. The fair value of the Fonterra shares at balance date as quoted on the New Zealand Exchange was \$4.00 per share (2018: \$5.17). Additional shares were purchased in 2 tranches during the year, at an average cost of \$4.98 per share. The total decrease in value between opening value, acquisition cost and fair value at balance date of \$2,214,576 has been recognised in other comprehensive income. The Group owned 1,904,184 shares at 31 May 2019 (2018: 1,832,184).

Supplier shares

Investments in co-operative suppliers are required in order to access preferential purchasing rights, and are held at nominal value as co-operative shares are most likely to be redeemed at this price.

Investments Accounting Policies

Determination of Fair Values

The fair value of financial assets at fair value and equity instruments that are not held for trading is determined by reference to the market price, unless other objective reliable evidence suggests a different value. Other investments where no active market exists are held at nominal value.

14 Trade and Other Payables

Trade creditors
Accruals and other liabilities
GST payable
Employee entitlements

2019	2018
\$000	\$000
514	451
207	410
122	98
81	72
924	1,031

Trade and Other Payables Accounting Policies

Trade and other payables are stated at amortised cost.

15 Financial Instruments

The Group is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore, takes on controlled amounts of risk.

The primary risks are those of liquidity, market (price and interest rate), funding and credit risk.

The Board of Directors is responsible for the review and ratification of the Group's systems of risk management, internal compliance and control, code of conduct and legal compliance.

The Board maintains a set of delegated authorities, that defines the responsibilities delegated to management and those retained by the Board. The Board approves these delegated authorities and reviews them as required.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. The Group monitors its liquidity daily, weekly and monthly and maintains appropriate liquid assets and committed bank funding facilities to meet all obligations in a timely and cost efficient manner. Management of liquidity risk is designed to ensure that the Group has the ability to meet financial obligations as they fall due.

The objectives of the Group's funding and liquidity policy is to ensure all financial obligations are met when due, provide adequate protection, even under crisis scenarios, and achieve competitive funding within the limitations of liquidity requirements.

The Group manages this risk by forecasting daily cash requirements, forecasting future funding requirements and maintaining an adequate liquidity buffer.

Market Risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities, both on and off balance sheet. Market risk includes price and interest rate risk. Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market rates. Interest rate risk is the risk that the interest margin will fluctuate with changes in market interest rates. The interest rate risk is managed by operating within approved policy limits using an interest rate duration approach.

Floating rate borrowings are used for general funding activities. Interest rate swaps, interest rate options and forward rate agreements are used to hedge the floating rate exposure when deemed appropriate. The Group had Nil interest rate derivatives at balance date (2018: Nil).

Funding Risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Group does not have a policy of funding diversification but aims to reduce debt via increased equity. The funding policy augments the Group's liquidity policy with it's aim to ensure the Group has a stable diversified funding base without over-reliance on any one market sector.

Credit Risk

Credit risk is the potential for loss that could occur as a result of a counterparty failing to discharge its obligations. This may be due to adverse weather events, bio-security issues or volatility in commodity prices. The Group has two key customers, being Fonterra and Synlait. The Group remains vigilant to any risks of these customers presenting a credit risk. No loss allowance provision was made at 31 May 2019 as the probability of a lifetime loss on the trade receivables was considered remote.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

15 Financial Instruments (continued)

Capital Management

The capital of the Group consists of share capital, reserves, and retained earnings.

The policy of the Group is to maintain a strong capital base in order to balance volatility and manage cash flow, maintain investor, creditor and market confidence while providing the ability to develop future business initiatives. In order to maintain or adjust the capital structure the Group has, from time to time, issued new shares. This policy is reviewed regularly by the Board and has not been changed during the period.

Sensitivity Analysis

The Treasury policy of the Group is being developed to partially insulate earnings from the effect of short-term fluctuations in milk prices. Hedges are not currently taken but are regularly considered based on expectations for the farm-gate milk price. The Group intends to achieve a low debt ratio to minimise risks of interest rate increases, however has taken on debt as required to fund farm purchases in advance of equity raises. Over the longer term however, permanent changes in milk prices or interest rates would have an impact on profit. The Group is also exposed to movements in the market price of the Fonterra shares, which are required to be owned as a condition of supply.

The sensitivity of net profit after tax for the period to 31 May 2019, and shareholders equity at that date, to reasonably possible changes in conditions is as follows:

	Interest rates change by 1%		Milk prices change by \$0.50		Fonterra share price changes by \$0.50	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Impact on net profit after tax	301	306	599	593	-	-
Impact on equity	301	306	599	593	952	916

Other market risks such as foreign exchange are not considered likely to lead to material change over the next reporting period. For this reason sensitivity analysis of these market risks is not included.

Quantitative disclosures

(a) Liquidity Risk - Contractual Maturity Analysis

The following tables analyse the Group financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date (reported on an undiscounted basis).

	2019	Within 12 months	1 to 5 years	Beyond 5 years	Contractual cash flow	
					2019 \$000	2018 \$000
Liabilities						
Bank facilities		1,200	41,800	-	47,567	43,000
Lease liabilities		310	632	-	988	942
Trade and other payables		924	-	-	924	924
		2,434	42,432	-	49,479	44,866
2018						
Liabilities						
Bank facilities		-	42,455	-	45,186	42,455
Lease liabilities		9	10	-	20	19
Fonterra Co-op support loan		78	-	-	79	78
Trade and other payables		1,031	-	-	1,031	1,031
		1,118	42,465	-	46,316	43,583

(b) Accounting classifications and fair values

The tables below set out the Group's classification of each class of financial assets and liabilities, and their fair values.

	2019	Designated at fair value through other comprehensive income		Total carrying amount	Fair value
		comprehensive income \$000	Other amortised cost \$000		
Assets					
Cash and cash equivalents		-	1	1	1
Trade and other receivables		-	2,171	2,171	2,171
Other investments		7,616	108	7,724	7,724
		7,616	2,280	9,896	9,896
Liabilities					
Trade and other payables (excl GST)		-	802	802	802
Bank facilities		-	41,800	41,800	41,800
		-	42,602	42,602	42,602
2018					
Assets					
Cash and cash equivalents		-	680	680	680
Trade and other receivables		-	2,433	2,433	2,433
Other investments		9,471	64	9,535	9,535
		9,471	3,177	12,648	12,648
Liabilities					
Trade and other payables (excl GST)		-	933	933	933
Fonterra Co-op support loan		-	78	78	78
Bank facilities		-	42,455	42,455	42,455
		-	43,466	43,466	43,466

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

15 Financial Instruments (continued)

The Group's banking facilities are based on floating interest rates. Therefore the fair value of the banking facilities equals the carrying value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no material movements between the fair value hierarchy during the year ended 31 May 2019.

	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
2019					
Assets					
Investments - Fonterra shares	13	7,616	-	-	7,616
		-	108	-	108
		7,616	108	-	7,724
Liabilities					
		-	-	-	-
2018					
Assets					
Investments - Fonterra shares	13	9,471	-	-	9,471
Supplier shares	13	-	65	-	65
		9,471	65	-	9,536
Liabilities					
		-	-	-	-

(c) Credit Risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

Financial instruments which potentially subject the Group to concentrations of credit risk principally consist of bank balances and trade debtors. The Group places its cash and short term investments with ASB Bank. Concentrations of credit risk with respect to trade debtors are limited to receivables due from Fonterra and Synlait.

Financial Instruments Accounting Policies

(i) Non-derivative Financial Assets

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents. The Group early adopted NZ IFRS 9 Financial Instruments from 1 June 2016. NZ IFRS 9 requires that an entity classifies its financial assets at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at fair value through profit and loss, the initial investment includes transaction costs that are directly attributable to the asset's acquisition or origination. The Group subsequently measures financial assets at either fair value or amortised cost.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

- the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes recognised in profit or loss.

However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses through other comprehensive income. For instruments measured at fair value through other comprehensive income gains and losses are never reclassified to profit and loss and no impairments are recognised in profit and loss. Dividends earned from such investments are recognised in profit and loss unless the dividends clearly represent a repayment of part of the cost of investment.

(ii) Non-derivative Financial Liabilities

Interest-bearing Borrowings

Interest-bearing borrowings are classified as other financial liabilities and are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest rate method.

16 Seasonality of Operations

The Group is subject to seasonal and cyclical fluctuations. Milk production peaks from September to March following seasonal grass growth. Cash income relating to this milk includes a deferred element which is accrued for. Farm input costs are generally weighted towards the winter and spring seasons, relating to cow winter grazing costs and spring supplements. Following purchase of farms there is typically a 12-24 month cycle of capital development expenditure to bring farms up to full productivity. The Group recognises that these seasonal and cyclical activities are the nature of the industry and plans and manages its business accordingly.

Dairy Farms NZ Limited
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For the year ended 31 May 2019

17 Commitments

There are commitments with respect to:

Capital expenditure not provided for
OIO investment obligations

	2019 \$000	2018 \$000
Capital expenditure not provided for	440	131
OIO investment obligations	507	1,087
	947	1,218

Overseas Investment Office (OIO)

The Group has approval from the OIO to own land in Otapiri and lease land in Canterbury subject to a requirement to invest \$5.465m in various agreed improvements. At 31 May 2019 \$507k investment remains to be completed, to be funded from operating activities. At 31 May 2019 substantially all of these projects were in progress.

18 Contingent Liabilities

There are contingent liabilities with respect to:

Fonterra share purchases

	2019 \$000	2018 \$000
Fonterra share purchases	362	381
	362	381

Fonterra share purchases

The Group has an obligation to purchase Fonterra shares based on annual production. Measurements statements received from Fonterra indicate that 90,484 shares are required to be purchased by 20 April 2020. At an estimated purchase price of \$4.00 these shares will likely be received via the dividend reinvestment plan. Since balance date no shares have been purchased prior to these accounts being authorised.

19 Related Parties

Parent and ultimate controlling party

The parent and ultimate controlling party of the Group is Dairy Farms NZ Limited.
The controlling shareholder with more than 50% of voting rights in the Group at 31 May 2019 is EGI-NZ Dairy LLC.

Transactions with key management personnel

Key management personnel compensation comprised:
Short-term employee benefits
Post-employment benefits
Termination benefits

	2019 \$000	2018 \$000
Short-term employee benefits	508	509
Post-employment benefits	-	-
Termination benefits	-	-
	508	509

The key management personnel comprise the Chief Executive Officer, Craig McBeth, and the Chief Financial Officer, Fiona James.

Other Transactions with Key Management Personnel

A number of Directors, senior executives or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. Some of these entities transacted with the Group during the reporting period.

The aggregate value of transactions and outstanding balances relating to Directors, senior executives and entities over which they have control or significant influence were as follows:

Key Management Personnel / Director / Shareholder	Transaction	Transaction Value	Balance Outstanding	Transaction Value	Balance Outstanding
		2019 \$000	2019 \$000	2018 \$000	2018 \$000
David Belcher and John Brabazon	Promoter's fees, Brokerage, Administration fees via Clavell Capital Ltd and Snooks Investments No. 1 Ltd	34	2	34	2
E Rattray, R G Townshend	Share based payment amortised	-	-	21	-

Clavell Capital Limited and Snooks Investments No. 1 Limited

Promoter's fees and brokerage fees are payable to these two entities related to David Belcher and John Brabazon. In addition, an office administration fee of \$24,000 per annum is payable to Clavell Capital Limited, for certain administration activities, particularly maintenance of the share register and Board administrative support.

Share based payments

The Group previously operated an equity-settled, share-based compensation plan under which services were received from independent farmer directors as consideration for options to purchase shares of the Company. The plan has now expired and previously expensed option costs have been transferred to retained earnings.

Shares held and share dealings by directors

Shares owned by directors or parties associated with Directors:

	Ordinary shares		Ordinary share options		Subordinated ordinary shares		Farming director options	
	2019	2018	2019	2018	2019	2018	2019	2018
D B Belcher	50	50	-	-	775,222	775,222	-	-
J A Brabazon	-	-	-	-	419,969	419,969	-	-
E Rattray (Independent)	-	-	-	-	-	-	-	136,411
R G Townshend (Independent)	-	-	-	-	-	-	-	136,411
A Moody (Independent)	-	-	-	-	-	-	-	-
	50	50	-	-	1,195,191	1,195,191	-	272,822

No shares were purchased by or issued to directors or parties associated with directors during the year.

Various disclosures of interests were made by directors during the year as set out in the Statutory Disclosures section of this report.

Directors fees incurred during the year are disclosed in Note 4 Corporate Farm Management and Administration.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
For the year ended 31 May 2019

20 Events Subsequent to Balance Date

Farm acquisitions and equity raise

The Group has continued to negotiate with potential new equity partners and farm vendors, both over the course of the year and subsequent to balance date. No material agreements have been reached prior to the date these accounts were authorised. Management and Directors are continuing these activities and will update shareholders at an appropriate time.

21 Reporting Entity

Dairy Farms NZ Limited (the "Company") is a company domiciled in New Zealand, registered under the Companies Act 1993. It intends to become listed on the New Zealand Exchange subject to market conditions. The Company is not an FMC Entity in terms of the Financial Markets Conduct Act 2013.

Financial statements of Dairy Farms NZ Limited for the year ended 31 May 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). Financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013.

The Group is primarily involved in dairy farm investment in the South Island of New Zealand, with farms being operated under the herd owning share-milker model.

22 Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as applicable to for-profit entities. The financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

These statements were approved by the Board of Directors on 31 July 2019.

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- equity instruments and investments are measured at fair value
- land, land improvements and buildings are measured at fair value

Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Use of Estimates and Judgements

The preparation of the consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note	Judgement
15	Classification and valuation of financial assets and instruments

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note	Assumption or estimation uncertainty
1	Estimation of the average price receivable for milk production over the season
10	Resulting revenue accrual at year end
11	Valuation of land and buildings based on external valuations

Certain comparative amounts have been reclassified to conform with the current period's presentation.

23 Other Significant Accounting Policies

The accounting policies set out in these financial statements have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The Group early adopted *IFRS 15 Revenue* and *IFRS 16 Leases* in the 2018 comparative year, with the application of transitional provisions (modified retrospective approach) resulting in no restatement of comparatives. *IFRS 9 Financial Instruments* was also adopted in full in the 2017 financial year.

(a) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists 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 to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions Eliminated on Consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Impairment

The carrying value of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairment losses directly reduce the carrying value of assets and are recognised in profit or loss unless the asset is carried at a revalued amount in accordance with another standard.

Impairment of Equity Instruments

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of assets is impaired. In the case of equity instruments that are not held for trading, the Group may elect to present gains and losses through other comprehensive income. If no election is made fair value gains and losses are recognised in profit or loss.

Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated.

An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it relates, exceeds the recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss.

Dairy Farms NZ Limited
Additional financial disclosures including notes to the financial statements continued
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23 Other Significant Accounting Policies (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or unit.

In determining the fair value using value in use, regard is given to external market evidence.

(c) Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods outlined in the respective notes for the assets and liabilities. Refer to Use of Estimates and Judgements in note 22 for further detail.

(d) Disclosure of non-GAAP financial information

Non-GAAP reporting measures have been presented in the Statement of Profit or Loss or referenced to in the notes to the financial statements. The following non-GAAP measures are relevant to the understanding of the Group financial performance:

- EBITDA (a non-GAAP measure) represents earnings before net interest and finance costs, income tax, depreciation and amortisation.
- Operating profit (a non-GAAP measure) represents earnings before net interest and finance costs, income tax, depreciation, amortisation and revaluation/disposal of assets.
- Farm margin (a non-GAAP measure) represents earnings before net interest and finance costs, income tax, depreciation, amortisation, revaluation/disposal of assets, corporate farm management and administration and other income.

The Board and management consider the Farm Margin and Operating Profit measures in particular promote meaningful communication of useful financial information. These measures are also the required information for certain stakeholders and for internal management reporting and review.

(e) Standards and Interpretations That Have Been Issued or Amended But Are Not Yet Effective

There are no relevant new standards and interpretations that have not yet been adopted by Dairy Farms NZ Limited.

24 Capital and Reserves

Fully paid ordinary shares
Fully paid sub-ordinated ordinary shares
Equity raise costs
Share capital on issue at 31 May

	No. of shares 2019 000	No. of shares 2018 000	2019 \$000	2018 \$000
Fully paid ordinary shares	44,566	44,458	44,562	44,457
Fully paid sub-ordinated ordinary shares	1,495	1,495	1,143	1,143
Equity raise costs	-	-	(2,654)	(2,654)
Share capital on issue at 31 May	46,061	45,953	43,051	42,946

All fully paid ordinary shares have no par value, carry equal voting rights and share equally in any profit on the winding up of the Group.

All sub-ordinated shares are non-voting, do not participate in dividends and rank behind ordinary shares in the event of a winding up. The sub-ordinated shares automatically and irrevocably convert into Ordinary Shares after the earlier of an IPO or two years after the commencement of payment of dividends by the Company. They are expected to convert in October 2019.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Ordinary share options

Certain ordinary shareholders subscribed for options at the date of subscription for ordinary shares whereby one option was issued for every five ordinary shares, to be exercisable at a price of \$1.00 each for a period ending not later than 2 years after the date of any allotment of shares under an initial public offering. Share options issued total 6,000,000 (2018: 6,000,000). No share options were converted to ordinary shares during the year (2018: Nil). The options are considered to have no financial value requiring recognition.

Independent/Farming Director share options reserve

The share option reserve has been transferred to Retained Earnings following the closure of the scheme. No options were exercised. Alternative remuneration structures for future recognition of Board subcommittee commitments are being considered.

Revaluation reserve

The revaluation reserve relates to revaluations of farm land, improvements and buildings where the revalued amount is above the historic cost of the assets.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments elected at fair value through other comprehensive income until the investments are derecognised or impaired - specifically the Fonterra shares.

Retained earnings

Retained earnings equals accumulated undistributed profit.

Dividends

Dividends of 2 cents per share totalling \$889,159 were paid by the Company in relation to the 2018 year during the year ended 31 May 2019 (2018: 1 cent per share totalling \$444,233 paid in relation to the 2017 year). Eligible investors were entitled to participate in a dividend reinvestment plan, purchasing shares at the discounted price of \$0.975. A total of 108,385 (2018: 34,699) new shares were issued to investors who chose to participate in the dividend reinvestment plan.



Independent auditor's report

To the directors of Dairy Farms NZ Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 May 2019;
- the statement of profit or loss for the year then ended;
- the statement of other 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 additional financial disclosures including notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Dairy Farms NZ Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 May 2019, 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 opinion

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 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 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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. We have nothing to report in this regard.



Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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-7/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's directors, 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 directors, 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 Robert Harris.

For and on behalf of:

A handwritten signature in blue ink, appearing to read 'Robert Harris', is written over a light blue horizontal line.

Chartered Accountants
31 July 2019

Christchurch

Dairy Farms NZ Limited

Statutory Disclosures

Interests Register

The following particulars of notices were given by Directors of the Company pursuant to section 140(2) of the Companies Act 1993 for the year 1 June 2018 to 31 May 2019. [R] denotes resigned or ceased during the year.

D B Belcher	Executive Chair	Clavell Capital Limited
	Chair	Rocpac International Limited
		The Parenting Place [R]
	Director	Clavell Business Sales Limited
		Snooks Investments No. 1 Limited
		Rocpac Bonus Share Scheme Limited
		Rocpac LS Limited
	Director and Shareholder	Snooks Investments No. 2 Limited
		Snooks Investments No. 3 Limited
		Clavell Investments No. 1 Limited
		Davann Nominees Limited
	Shareholder / Trustee	White Swan Nominees Limited
		Clevedon Hills Estate Limited
	Shareholder	Leighton Smith Productions Limited
		PQR Limited
	Trustee	Indusco, North Carolina
		Snooks Trust
J A Brabazon	Director	Clavell Business Sales Limited
		Clavell Capital Limited
		Home Safety Limited
		Raizor New Zealand Limited [R]
		Accident Compensation Corporation
	Director and member of investment committee	
	Director and Shareholder	Brabazon Petroleum Limited
		Clavell Investments No. 1 Limited
		Kaiwhata Forests Limited
		PQR Limited [R]
	Shareholder	Raizor Global Limited
		EDIS International Limited
		IndusCo, North Carolina
A D Moody	Director	McNab Ventures NZ Limited
		Mataura Valley Properties Limited
		Valley Enterprises Limited
		Ballast Holdings Limited
	Director and Shareholder	Moody & Moody Limited
		Mataura Valley Milk Limited
	Mersey Street Limited	
		M2 Trustees Limited
		M3 Trustees Limited
	Trustee and beneficiary	ARM Trust
	Board member	Tennis Southland
	Personal relationship	Ian Tulloch (shareholder)
E S Rattray	Chair	Maclon Limited
		Animal Breeding Services (2007) Limited
	Chair and Shareholder	Binsar Farms Private Limited (India)
	Director	Inframax Construction Limited
		Quantec Limited
		New Zealand Food Innovation (Waikato) Limited
	Board member	India - New Zealand Business Council
	Director and Shareholder	Central Capital Investment (1) Limited
		Dairy Link Limited
	Honikiwi Pastoral Limited	
	Kiwi Pac Limited	
Shareholder	Pascaro Investments Limited	
	Canterbury Grasslands Limited	
Personal relationship	Deutsche Craigs Limited	

Dairy Farms NZ Limited

Statutory Disclosures

Interests Register (continued)

R G Townshend	Chair Director	Milktest GP Limited
		Lirich Limited
	Shareholder	Mamaku South Limited
		Maxwell Farms Limited
		Maxwell Farms (Developments) Limited
		Maxwell Farms (Maroa) Limited
		Maxwell Farms (Poihipi) Limited
		Maxwell Farms (Te Kopia) Limited
		Maxwell Farms (Tutukau) Limited
		Professional Farm Leasing (PFL) Limited
		Pascaro Investments Limited [R]
		Canterbury Grasslands Limited [R]
	Director and Shareholder	Tihaka Farms Limited
		Allenby Ventures Limited
		TLM Properties Limited
		Rimu S.A.
Personal relationship	Dairy Direct Limited	
	White Pine Dairies Limited	
	TSL Trustee Company Limited	
	DDL (Townshend) Limited	
		Eltorito & Associates Limited

Aaron Moody, Earl Rattray and Richard Townshend have also notified the Company of various minor, often indirect, shareholdings in various entities (often co-operatives), including:

Fonterra Co-operative Group Limited
 Ballance Agri-Nutrients Limited
 Ravensdown Limited
 Farmlands Co-operative Society Limited
 Livestock Improvements Corporation Limited

Dairy Farms NZ Limited

Statutory Disclosures

Directors' Remuneration

The following persons held office, or ceased to hold office, as a Director during the year to 31 May 2019 and received the following total remuneration (including the value of any benefits). Figures are gross and exclude GST (if any). In addition to these amounts, DFNZ meets costs incurred by directors that are incidental to the performance of their duties. This includes paying the costs of directors' travel. As these costs are incurred to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of this table.

Director	Total Remuneration \$
D B Belcher	30,000
J A Brabazon	20,000
A D Moody	20,000
E S Rattray	20,000
R G Townshend	20,000

Committee Membership

Three Board committees assist in the execution of the Board's responsibilities: the Production Committee, the Audit & Risk Committee and the Remuneration & Appointments Committee. Each Board committee has a charter summarising the role, rights, responsibilities and membership requirements for that committee.

Committee membership as at 31 May 2019 was as follows:

Production Committee (PC)	Audit & Risk Committee (ARC)	Remuneration & Appointments Committee (RAC)
R G Townshend (Chair)	A D Moody (Chair)	Full Board
E S Rattray	E S Rattray	
	J A Brabazon	

Board and committee meeting attendance for FY19

The Board held seven formal meetings during FY19, plus a number of shorter conference calls to discuss potential transaction options. In addition to the Production Committee meetings represented below, members of the Production Committee committed further time to viewing potential farm acquisitions. The table below shows director attendance at the formal Board meetings and committee member attendance at committee meetings. Sub-committees of the Board also met regularly throughout the year to consider matters of special importance.

Director	Board	PC	ARC	RAC
Total number of meetings held	7	6	4	2
D B Belcher	7	-	-	2
J A Brabazon	7	-	4	2
A D Moody	7	-	4	2
E S Rattray	7	6	4	2
R G Townshend	5	6	-	2

Directors' Shareholdings

Refer to note 19 for details of directors' share holdings.

Directors' Share Transactions

During the year to 31 May 2019, no shares were issued to directors of the Company.

Dairy Farms NZ Limited

Statutory Disclosures

Directors' Independence

The Board has determined that at 31 May 2019, as defined under the NZSX Listing Rules and based on information provided by directors:

- The following Directors are Independent Directors: E S Rattray, R G Townshend, A D Moody
- The following Directors are not Independent Directors by virtue of their association with a substantial security holder and their association with Clavell Capital Limited, assisting with promotion of Dairy Farms NZ Limited: David Belcher, John Brabazon.

Directors' Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the Constitution of the Company, the Company has insured Directors and Officers against liabilities to other parties that may arise from their positions as Directors and Officers of the Company and its Subsidiaries. This insurance does not cover liabilities arising from criminal actions and deliberate and reckless acts or omissions.

Use of Company Information by Directors

Directors have unfettered access to the Group's records and information as required for the performance of their duties. No requests for information made by individual directors were withheld from other directors. No requests were received from Directors to use Group information that they obtained in their capacity as Directors that would not otherwise have been available to them. The Board receives regular briefings on the Group's operations from senior management, and tour the Group's farms to keep abreast of developments.

Employee Remuneration

Set out below are the numbers of employees of the Company and its subsidiaries who received remuneration and other benefits of \$100,000 or more during the year, in their capacity as employees. The schedule includes:

- all monetary payments actually made during the year, including redundancies and the face value of any at-risk long-term incentives granted, where applicable;
- the employer's contributions to superannuation funds, retiring entitlements, health insurance schemes and payments such as long service leave;

The schedule excludes:

- amounts paid post 31 May 2019 that related to services provided in the 2019 financial year;
- any benefits received by employees that do not have an attributable value.

Remuneration Range	Number of Employees
\$280,000 - \$290,000	1
\$220,000 - \$230,000	1

The Board approves the Group's remuneration policy for its employees.

Dairy Farms NZ Limited

General Disclosures

Subsidiary Company Directors

The following persons held the office of Director of the respective subsidiaries (as defined in the Companies Act 1993) during the year on behalf of the Group. Directors appointed (A) or who resigned (R) during the year are indicated. Appointments do not receive Director fees or other benefits as a Director. Group ownership is 100%.

Legal Company Name	Dairy Farms NZ Limited Directors
Dairy Farms NZ No 2 Limited	D B Belcher
Lowcliffe Dairies Limited	D B Belcher, J A Brabazon
Kowhai Dairies (Otapiri) Limited	D B Belcher, J A Brabazon
Matai Dairies (Otapiri) Limited	D B Belcher, J A Brabazon
Miro Dairies (Otapiri) Limited	D B Belcher, J A Brabazon
Rata Dairies (Otapiri) Limited	D B Belcher, J A Brabazon
Totara Dairies (Otapiri) Limited	D B Belcher, J A Brabazon

Shareholder Information

Dairy Farms NZ Limited is a registered NZ Limited Company, with an extensive shareholding. It is not quoted on the New Zealand Stock Market of NZX Limited.

As at 31 May 2019, Dairy Farms NZ Limited had 44,566,344 ordinary shares on issue.

Substantial Security Holders

If Dairy Farms NZ Limited were listed on the NZX, the following security holders would be required to give notice in accordance with the Securities Markets Act 1988 that they were a substantial security holder in the Company.

Shareholder	Number of Shares
EGI-NZ Dairy LLC	22,981,777
Mana Trust - Trustees: N Abplanalp, M Abplanalp, Pertetual Trust Limited	3,333,333

Analysis of Shareholdings

Distribution of ordinary shares and shareholdings at 31 May 2019 was:

Size of Holding	Number of Shareholders	Number of Shares	% of Shares
1 - 99,999	3	104,507	0.2%
100,000 - 499,999	31	8,005,804	18.0%
500,000 - 999,999	8	4,915,495	11.0%
1,000,000 - 4,999,999	4	8,558,761	19.2%
5,000,000 and above	1	22,981,777	51.6%
Total	47	44,566,344	100.0%

Registered addresses of shareholders at 31 May 2019 were:

Address	Number of Shareholders	% of Shareholders	Number of Shares	% of Shares
United States	1	2.1%	22,981,777	51.6%
New Zealand	42	89.4%	18,525,839	41.6%
Australia	4	8.5%	3,058,728	6.8%
Other	-	0.0%	-	0.0%
Total	47	100.0%	44,566,344	100.0%

Dairy Farms NZ Limited

Shareholder Information

Registered Shareholders

The ordinary shareholders in Dairy Farms NZ Limited at 31 May 2019 were:

Shareholder	No. shares	Country	% shares held
1. EGI-NZ Dairy LLC	22,981,777	USA	51.57%
2. Mana Trust - Trustees: N Abplanalp, M Abplanalp, Perpetual Trust Ltd	3,333,333	NZ	7.48%
3. Augustine Finance Limited	2,000,000	NZ	4.49%
4. The Siddle Family Trust - Woolwich Investments Pty Limited	2,058,728	Australia	4.62%
5. G&D Brown Trust - Trustees G Brown, W Brown, Diprose Miller Trustees Limited	1,166,700	NZ	2.62%
6. Andark Business Limited	770,618	NZ	1.73%
7. A P Willis	769,542	NZ	1.73%
8. J Dutton & M Fong	750,000	NZ	1.68%
9. Alliance Equities Limited	612,308	NZ	1.37%
10. I Tulloch	513,027	NZ	1.15%
11. Compass Foundation (Australia) Limited	500,000	Australia	1.12%
12. Brent Trust - Trustees: G Paull & O Ennor	500,000	NZ	1.12%
13. Mikima Investments Limited	500,000	NZ	1.12%
14. Pacific Channel Nominees Ltd	450,000	NZ	1.01%
15. Luberon Investments Limited	400,000	NZ	0.90%
16. T & D Anselmi Family Trust - Trustees: A Anselmi & R Alleman	333,468	NZ	0.75%
17. G R Faber Trust - Trustees: B Coyte, G Faber, R Faber	291,700	NZ	0.65%
18. Jan Taylor Family Trust - Trustees: L Taylor & N Smith	291,700	NZ	0.65%
19. The Wallace Family Trust - Trustees: G Wallace, H Wallace, T Wallace	254,772	NZ	0.57%
20. Forsyth Barr Custodians Limited - Snijders Family Trust	250,000	NZ	0.56%
21. Reubencar Holdings Limited	250,000	NZ	0.56%
22. P Van Dorp No. 3 Family Trust - Trustees: P Van Dorp, C Challinor	250,000	NZ	0.56%
23. Fancourt Trust - Trustees: G Miller, R Miller & A Calvert	250,000	NZ	0.56%
24. Axon Holdings Limited	250,000	NZ	0.56%
25. Pluteus (No 154) Pty Ltd	250,000	Australia	0.56%
26. B Johnson	250,000	Australia	0.56%
27. James Bremner Trust Nominees Limited	250,000	NZ	0.56%
28. O Waddle	250,000	NZ	0.56%
29. T&A Wallace Family Trust - Trustees: A Wallace, G Wallace, T Wallace	250,000	NZ	0.56%
30. Falcon Advances Limited	250,000	NZ	0.56%
31. SIL Long Term Holdings Limited	250,000	NZ	0.56%
32. Hayphil Investments Limited	250,000	NZ	0.56%
33. CAJ Holdings Limited	250,000	NZ	0.56%
34. Bridgewater Trust - Trustees: B Shaw, D Spicer, M Spicer	250,000	NZ	0.56%
35. Madison Star Investments Limited	250,000	NZ	0.56%
36. GD & JE Brown Trust - Trustees: B McNiece, G Brown, J Brown	250,000	NZ	0.56%
37. Fawnloch Trust - Trustees: A Fisher, P Fisher, S.E.T. Trustees Limited	250,000	NZ	0.56%
38. I & R Devereux	250,000	NZ	0.56%
39. Tony Heron Trust - Trustees: M Hoogwerf & T Heron	250,000	NZ	0.56%
40. D Hayward	250,000	NZ	0.56%
41. Corkdale Family Trust - Trustees: F & R Riordan	250,000	NZ	0.56%
42. J & R Veitch	200,000	NZ	0.45%
43. MDF Dairy Limited Partnership	155,907	NZ	0.35%
44. J Billington	128,257	NZ	0.29%
45. MDF No. 1 Limited	54,457	NZ	0.12%
46. J F Gehring	50,000	NZ	0.11%
47. Snooks Trust - Trustees: B Keene, C Belcher, D Belcher	50	NZ	0.00%
	44,566,344		100.00%

Note: four shareholders amalgamated into one nominee company during 2019

Dairy Farms NZ Limited

Shareholder Information

Holders of other shares and options

Holders of subordinated shares and options in Dairy Farms NZ Limited at 31 May 2019 were:

Subordinated Shares	No. of Subordinated Shares	No. of Options
Brabazon Petroleum Limited	419,969	-
Snooks Investments No. 1 Limited	417,775	-
Mansill Trustee Limited	275,821	-
Davann Nominees Limited	207,783	-
Chemma Equity Investments Limited	149,664	-
O Mansill	24,076	-
EGI-NZ Dairy LLC	-	3,600,000
Mana Trust - Trustees: N Abplanalp, M Abplanalp, Perpetual Trust Ltd	-	666,667
Andark Business Limited	-	150,000
Mikima Investments Limited	-	150,000
Alliance Equities Limited	-	120,000
Augustine Finance Limited	-	118,733
Compass Foundation (Australia) Limited	-	100,000
Brent Trust - Trustees: G Paull & O Ennor	-	100,000
I Tulloch	-	100,000
Luberon Investments Limited	-	80,000
A P Willis	-	50,000
J Dutton & M Fong	-	50,000
T & D Anselmi Family Trust - Trustees: A Anselmi & R Alleman	-	50,000
G R Faber Trust - Trustees: B Coyte, G Faber, R Faber	-	50,000
Forsyth Barr Custodians Limited - Snijders Family Trust	-	50,000
Reubencar Holdings Limited	-	50,000
P Van Dorp No. 3 Family Trust - Trustees: P Van Dorp, C Challinor	-	50,000
Fancourt Trust - Trustees: G Miller, R Miller & A Calvert	-	50,000
Axon Holdings Limited	-	50,000
Pluteus (No 154) Pty Ltd	-	50,000
B Johnson	-	50,000
James Bremner Trust Nominees Limited	-	50,000
Falcon Advances Limited	-	50,000
SIL Long Term Holdings Limited	-	50,000
J & R Veitch	-	50,000
MDF Dairy Limited Partnership	-	31,000
J Billington	-	25,000
MDF No. 1 Limited	-	8,600
	1,495,088	6,000,000

Corporate Governance Code

Status:	Final
Version:	1.0
Policy Owner:	Chief Financial Officer
Policy Approver:	Board of Directors
Date Approved:	31/07/2019

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 an IPO, neither Dairy Farms NZ Limited or the board make any assurances or representations that such an IPO and 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). DFNZ plans to make the code accessible on its website. In the meantime, a summary policy statement dated 21 October 2015 sets out the key principles and is available to staff electronically. Regular performance reviews and progress discussions refer to key principles in the document.

The updated Code of Ethics is expected to contain an outline of internal reporting procedures for any breach of ethics, and describe DFNZ’s expectations about behaviour, namely that every director, employee and sharemilker:

- a. acts honestly and with personal integrity in all actions;
- b. declares conflicts of interest and proactively advises of any potential conflicts according to the Conflicts of Interest Policy;
- 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;
- g. adheres to policy and procedures about whistle blowing as set out in the Whistleblower Policy;
and
- h. manages breaches of the code of ethics.

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 IPO.

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 now established 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 planned Code of Ethics (and interim summary policy) 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 7 years (following an IPO it would be intended that 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. As DFNZ works towards listing, it expects to initiate a remuneration and appointments committee with a written charter. 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 an IPO.

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 does not yet have a detailed remuneration 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. Any future remuneration policy developed for DFNZ would be expected to ensure fair and equal pay based on the value of the services performed within the context of a competitive market and having regard to the employee's experience, skills and performance. Any future remuneration policy would be expected to be 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 sets out limited circumstances in which the external auditor may provide non-audit services to DFNZ. Any non-audit services require prior approval from the Audit and Risk Committee and are generally limited to the provision of technical advice, with a limit on the total amount of non-audit fees in any financial year.

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;
- links to annual reports and interim financial statements, beginning from May 2017;
- 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. At present DFNZ also has non-voting subordinated shares, which will convert to ordinary shares in October 2019.

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.

Dairy Farms NZ Limited

Trend Statement



		2015	2016	2017	2018	2019
Farms						
Farms owned		2	4	7	7	7
Farm land	total	435	1,003	1,825	1,825	1,897
Farm land (owned and leased)	effective ha	425	950	1,711	1,711	1,774
Farm land (owned)	effective ha	425	795	1,556	1,556	1,544
Peak milking herd	cows	1,800	3,150	5,552	5,937	6,187
Milk produced	000 kgMS	716.9	926.9	2,252.7	2,372.4	2,398.0
Revenue						
Current year milk sales (excl PY retro)	\$000	1,585	1,873	6,968	7,807	7,683
Effective milk price shared with sharemilker	\$/kgMS	4.42	4.04	6.19	6.58	6.41
Profit						
Farm Working Expenses (FWE)	\$000	938	1,205	2,897	3,098	3,180
	\$/kgMS	1.31	1.30	1.29	1.31	1.33
Operating profit	\$000	(313)	(81)	3,335	4,290	3,405
	\$/kgMS	(0.44)	(0.09)	1.48	1.81	1.42
Net Profit After Tax	\$000	(1,064)	(1,475)	604	2,526	(131)
	\$/kgMS	(1.48)	(1.59)	0.27	1.06	(0.05)
Assets						
Fonterra shares owned	'000	252	332	1,132	1,832	1,904
Fonterra share price	\$	4.83	5.85	6.00	5.17	4.00
Houses		7	12	21	21	21
Land & buildings independent valuation (owned)	\$m	21	38	72	73	70
	\$/eff ha	50,000	47,830	46,409	46,947	45,525
Capex spend	\$000	875	1,504	2,905	744	1,926
R&M spend	\$000	146	201	497	521	405
Total capex/R&M spend	\$000	1,021	1,705	3,403	1,266	2,331
Group						
Net operating cash flows	\$000	216	(244)	264	2,389	1,257
Total assets	\$000	33,150	78,748	88,664	89,393	84,833
Interest bearing debt	\$000	-	(11,321)	(42,586)	(42,533)	(43,998)
Number of shareholders		38	40	47	50	47
Ordinary shares on issue	000	35,106	40,923	44,423	44,458	44,566
Group shareholders' equity	\$000	32,792	39,757	44,988	45,132	38,906
Interest bearing debt to debt plus equity ratio		-	0.22	0.49	0.49	0.53
Dividend declared per share	cps	-	-	1	2	-
Dividends paid for prior year	\$000	-	-	-	444	889
Net tangible assets per share	\$	0.93	0.97	1.01	1.02	0.85

Dairy Farms NZ Limited

Corporate Directory

For the year ended 31 May 2019

Company number: 4801399

NZBN: 9429040979496

DIRECTORS

D B Belcher

Chairman

J A Brabazon

E S Rattray

R G Townshend

A D Moody

EXECUTIVE

C A McBeth

Chief Executive Officer

F K James

Chief Financial Officer

REGISTERED OFFICE

c/- Clavell Capital Limited
Level 4, 139 Quay Street, Princes Wharf, Auckland, 1010
PO Box 1917, Auckland, 1140

SOUTH ISLAND OFFICE

Dairy Farms NZ Limited
Innovation Park, 185 Kirk Road, Templeton, 7678
PO Box 86085, Rolleston West, Canterbury, 7658

BANKERS

ASB Bank Limited
12 Jellicoe Street, Auckland, 1010
PO Box 35, Auckland, 1140

SOLICITORS

Russell McVeagh, Auckland
Vero Centre, 48 Shortland Street, Auckland, 1010
PO Box 8, Auckland 1140, DX CX10085

AUDITORS

PricewaterhouseCoopers New Zealand
60 Cashel Street, Christchurch Central, 8013
PO Box 13 244, Christchurch, 8141

SHARE REGISTER

For enquiries about share transactions or changes of address please contact:

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Email info@clavellcapital.com