



September 2016

## Corporate Governance Statement

Australian Dairy Farms Group is a stapled security comprised of Australian Dairy Farms Limited (**ADFL**) and the Australian Dairy Farms Trust (**ADFT**). As an ASX listed entity, the Group is required to meet the ASX Corporate Governance Council's (**CGC**) Corporate Governance Principles and Recommendations. The responsible entity for ADFT is Trustees Australia Limited (**TAU**). This Corporate Governance Statement is reported against the 3<sup>rd</sup> edition of the Corporate Governance Principles and Recommendations and has been approved by the boards of directors of ADFL and TAU (**Boards**).

### 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### 1.1 A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

The Group's Board Charter sets out the specific responsibilities of the Boards, matters expressly reserved to the Boards and those delegated to management.

The Board Charter is available on the Group's website.

#### 1.2 A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Prior to appointing any new directors, the Group will undertake appropriate checks which may include checks such as the person's character, experience, education, criminal record and bankruptcy history.

A profile of each director is included in the annual report of the Group and on the Group's website. Any notice of meeting where a director is standing for election or re-election will include material information in the Group's possession relevant to a decision on whether or not to elect or re-elect a director.

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- 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.
- 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.
- 1.5 A listed entity should:
- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
  - (b) disclose that policy or a summary of it; and
  - (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
    - (i) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity

The Group is in the process of completing written agreements with each director setting out the terms of their appointment. Once in place, any material variations to written agreements will be disclosed to the ASX.

The Company Secretary of the Group has a direct line of communication with the Chairman and all directors, and is responsible for supporting the proper functioning of the Boards which includes, but is not limited to, providing advice on governance and procedural issues, and the preparation of detailed Board papers and minutes.

In view of the size of the Group and the nature of its activities, the Boards have not established a diversity policy. However, the Group supports diversity and aims to employ both women and people from diverse cultural and ethnic backgrounds particularly in management roles. The Group will develop a diversity policy and measurable objectives when its size and activities warrant such a structure.

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has defined “senior executive” for these purposes); or

- (ii) if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act.

### 1.6 A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Chairman is responsible for evaluation of the performance of the Boards, its committees (if applicable) and individual directors. The Chairman and the Board regularly discuss the performance and composition of the Board, considering issues or concerns as they arise. This ongoing process will remain in-house and informal and be completed throughout the year, relying on regular discussions.

A formal performance review of the Chairman will not be undertaken.

### 1.7 A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Chairman is responsible for evaluation of the performance of senior executives. This ongoing process will remain in-house and informal and be completed throughout the year, relying on regular discussions.

2 STRUCTURE THE BOARD TO ADD VALUE

2.1 The board of a listed entity should:

- (a) have a nomination committee which:
  - (i) has at least three members, a majority of whom are independent directors; and
  - (ii) is chaired by an independent director;and disclose:
  - (iii) the charter of the committee;
  - (iv) the members of the committee; and
  - (v) as at the end of the reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose the fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Boards consider that the selection and appointment of directors is an important task that should be the responsibility of the entire board to consider the nomination process. As each of ADFL's and TAU's Boards consists of only four directors, this is considered best practice at this stage in the Group's development.

The Boards employ the following processes to address board succession issues and to ensure that the board has the appropriate skill, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively:

- The Board will periodically review and consider the structure and balance of the Board regarding appointments, retirements and terms of office of Directors.
- Where appropriate, the Board will engage independent consultants to identify possible new candidates for the Board.
- Board members will identify and recommend to the Board candidates for the Board after considering the necessary and desirable competencies of new Board members to ensure the appropriate mix of skills and experience and after assessment of how the candidates can contribute to the strategic direction of the Group.

- The Board will assess and consider the time required to be committed by a non-executive Director to properly fulfil their duty to the Group and advise the Board.
- The Board will consider and recommend candidates for election or re-election to the Board at each annual security holders' meeting.
- The Board will review directorships in other public companies held by or offered to Directors and senior executives of the Group.
- The Board will review succession plans for the Board with a view to maintaining an appropriate balance of skills and experience on the Board.
- The Board will make recommendations on the appropriate size and composition of the Board.
- The Board will make recommendations on the terms and conditions of appointment to the Board.

2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Boards have identified that the appropriate mix of skills and diversity required of its members on the Boards to operate effectively and efficiently is achieved by personnel having a combination of skills and experience in one or more of business management and when available agricultural business management, marketing, legal, finance and equity markets.

An outline of the skills and experience of each existing Director are set out on the Group's website.

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- 2.3 A listed entity should disclose:
- (a) the names of the directors considered by the board to be independent directors;
  - (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
  - (c) the length of service of each director.

- 2.4 A majority of the board of a listed entity should be independent directors.

Details of the Group's independent directors, details of why a director is not considered independent and the length of service of each director, are set out on in the periodic financial reports.

At the date of this statement, two of the four directors of ADFL (Adrian Rowley and Keith Jackson) are independent according to the ASX Corporate Governance Council's discussion of independence. Michael Hackett as chairman of both Boards is considered to be not independent given that TAU is currently the largest securityholder and also holds convertible notes of a material size. Additionally, TAU is responsible entity of ADFT which owns all farm property.

Peter Skene, appointed as Chief Executive Officer / Director on 01 July 2016, is considered not to be an-independent director on the board given he is an executive and CEO.

In view of the size of the Group and the nature of its activities the Boards consider that the current board is a practical method of directing and managing the Group.

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- 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.
- At the date of this statement, the chairman of the Group is Michael Hackett who is considered not independent under the ASX Corporate Governance Council's discussion of independence. However his mix of skills and corporate experience at board level is considered valuable to the Group in this role.
- 2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.
- The Boards have an informal program for inducting new directors and will provide appropriate professional development opportunities to develop and maintain the skills and knowledge needed for the directors to perform their role effectively.

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### 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

- 3.1 A listed entity should:
- (a) have a code of conduct for its directors, senior executives and employees; and
  - (b) disclose that code or a summary of it.
- The Board has a code of conduct which is disclosed on its website.

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### 4 SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

- 4.1 The board of a listed entity should:
- (a) have an audit committee which:
    - (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
- The role of the audit committee has been assumed by the Boards. The size and nature of the Group's activities does not justify the establishment of such a committee at this time. The audit committee will be established as and when the need for such a committee arises and when established, will be structured in accordance with the ASX Corporate

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- (ii) is chaired by an independent director, who is not chair of the board,
- and disclose:
- (iii) the charter of the committee;
- (iv) the relevant qualifications and experience of the members of the committee; and
- (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.
- Governance Recommendations and will have a formal charter.
- To independently verify and safeguard the integrity of its corporate reporting the Board will:
- Manage the selection and appointment of the external auditor and for the rotation of external audit engagement partners through the Group's service contract obligations and in-house compliance program.
  - Review the appropriateness of the accounting principles adopted by management in the financial reports and the integrity of the Group's financial reporting.
  - Oversee the financial reports and the results of the external audits of those reports.
  - Assess whether external reporting is adequate for security holder needs.
  - Assess management processes supporting external reporting.
  - Establish procedures for treatment of accounting complaints.
  - Review the impact of any proposed changes in accounting policies on the financial statements.
  - Review the quarterly, half yearly and annual results.

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4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Group's Chairman and CFO will provide the Board with the appropriate assurances in relation to full year and half-year statutory financial reports.

4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Group's external auditor will be invited to attend, each annual general meeting and will be available to answer questions from security holders relevant to the audit.

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## 5 MAKE TIMELY AND BALANCED DISCLOSURE

5.1 A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that policy or a summary of it.

The Group's each have a continuous disclosure policy to ensure compliance with ASX Listing Rules disclosure requirements and the corporate governance standards applied by the Group in its market communications.

The continuous disclosure policy is available on the Group's website.

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## 6 RESPECT THE RIGHTS OF SECURITY HOLDERS

6.1 A listed entity should provide information about itself and its governance to investors via its website.

The Group's website provides information on the Group including its background, objectives, projects and contact details. The Corporate Governance page provides access to key policies, procedures and charters of the Group, securities

trading policy and the latest Corporate Governance Statement.

ASX announcements, Group reports and presentations will be uploaded to the website following release to the ASX and editorial content is updated as required.

6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Boards aim to ensure that the security holders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated to security holders through:

- the annual report which is distributed to those security holders who request a copy;
- the annual general meeting and other meetings called to obtain approval for board action as appropriate;
- the appointment of a contact for security holder liaison to respond to telephone and written security holder enquiries; and
- the Group's website.

6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Group maintains a strategy to promote communication with security holders and encourage effective participation at general meetings on an issue to issue basis, which is considered appropriate to the size of the group and the scale of its operations. This communication policy is available on the Group's website.

6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security register electronically.

The Group's give security holders the option to receive communications from, and send communications to, the Group and its security registry electronically.

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## 7 RECOGNISE AND MANAGE RISK

7.1 The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
  - (i) has at least three members, a majority of whom are independent directors; and
  - (ii) is chaired by an independent director;and disclose:
  - (iii) the charter of the committee;
  - (iv) the members of the committee; and
  - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

In view of the size of the Group and the nature of its activities, the Boards have considered that establishing a formally constituted risk oversight and management committee would contribute little to its effective management.

The Boards as a whole consider the major risks affecting the business.

The risks to which the Group are exposed are set out in the Offer Document of the Group dated 20 August 2014 announced to ASX on that date. A copy is available on the Group's website.

The Group has developed a risk management system to evaluate and control risks effectively to try within the limits of reasonably available resources to ensure opportunities are not lost, competitive advantage is enhanced, and management time is not spent unduly in reacting to issues or events. It is not intended to eliminate risk. This risk management system encompasses all financial, operational and compliance controls and risk management, and is subject to regular review.

It is currently the responsibility of the Chairman to create, maintain and implement risk management and internal

control policies for the Group, subject to review by the Board.

The Chairman must report to the Board on a half-yearly basis regarding the design, implementation and progress of the risk management policies and internal control systems.

- 7.2 The board or a committee of the board should:
- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
  - (b) disclose, in relation to each reporting period, whether such a review has taken place.

The board will review its risk management system at least annually. It will disclose, in relation to each reporting period, whether such a review has taken place. A review is in progress following the acquisition of Camperdown Dairy Company in April 2016 which brings a range of new risks in food production and distribution.

- 7.3 A listed entity should disclose:
- (a) if it has an internal audit function, how the function is structured and what role it performs; or
  - (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

The Group does not currently have a formal internal audit function however the Board oversees the effectiveness of risk management and internal control processes.

Management are charged with resourcing, operating and monitoring the system of internal control, incorporating risk responses in the form of controls into its management systems, and reporting results on balanced assessments regarding the effectiveness of internal controls to the Board.

- 7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The material risks to which the Group is exposed, including the economic, environmental and social sustainability risk are set out the Offer Document of the Group dated 1 August 2014. These risks are currently being reviewed as mentioned in section 7.2. The Group will manage these risks in accordance

with its risk management policy which is on the Group's website.

## 8 REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1 The board of a listed entity should:

- (a) have a remuneration committee which:
  - (i) has at least three members, a majority of whom are independent directors; and
  - (ii) is chaired by an independent director;and disclose:
  - (iii) the charter of the committee;
  - (iv) the members of the committee; and
  - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Boards monitor and review the performance of the CEO (if applicable) as well as the performance of other management. The Boards receive regular updates of the performance of the Group as a whole. The Boards also have responsibility for ensuring that the Group:

- has coherent remuneration policies and practices to attract and retain executives and directors who will create value to security holders;
- observes those remuneration policies and practices; and
- fairly and responsibly rewards executives having regard to the performance of the Group, the performance of the executives and the general pay environment.

The Boards employ the following processes for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive:

- No director is involved in setting his own remuneration (excluding directors' fees) or terms and conditions and in such a case relevant directors are required to be absent from the full Board discussion.

- The Board may receive external assistance and advice to assist it in determining appropriate levels of remuneration for the directors of the Group.
- The Group has structured its remuneration policy for the purpose of motivating senior executives to pursue the long-term growth and success of the Group; and demonstrate a clear relationship between senior executives' performance and remuneration.
- The Board will balance the Group's competing interests of attracting and retaining senior executives and directors; and not paying excessive remuneration.
- Executive directors' remuneration will be structured to reflect short and long-term performance objectives appropriate to the Group's circumstances and goals.
- Executive directors' and senior executives' remuneration packages will involve a balance between fixed and incentive-based pay, reflecting short and long-term performance objectives appropriate to the Group's circumstances and goals. Non-executive directors' remuneration will be formulated with regard to the following guidelines non-executive directors should normally be remunerated by way of fees, in the form of cash, non-cash benefits, superannuation contributions or equity, usually without participating in schemes designed for the remuneration of executives; and non-executive directors should not be provided with retirement benefits other than superannuation except when approved by

8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

8.3 A listed entity which has an equity-based remuneration scheme should:

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of

securityholders by resolutions in which any relevant director (in the context of this paragraph) does not vote.

Non-executive directors' remuneration should be formulated with regard to the following guidelines:

- non-executive directors should normally be remunerated by way of fees, in the form of cash, non-cash benefits, superannuation contributions or equity, usually without participating in schemes designed for the remuneration of executives; and
- non-executive directors should not be provided with retirement benefits other than superannuation.

Executive directors' and senior executives' remuneration packages should involve a balance between fixed and incentive-based pay, reflecting short and long-term performance objectives appropriate to the Group's circumstances and goals.

Directors' fees will be paid separately to all directors. The different types of remuneration including fringe benefits, superannuation, consulting fees and director fees are clearly outlined in the annual report.

The Group has a long term incentive plan which is summarised in its Meeting Booklet dated 1 August 2014 lodged with ASX on 1 September 2014. Participants cannot enter into transactions which limit the economic risk of participating in the scheme.

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derivatives or otherwise) which limit the economic risk of participating in the scheme; and

- (b) disclose that policy or a summary of it.