

CORPORATE GOVERNANCE STATEMENT 2020

The objective of the Board is to enhance shareholder value, ensure that Allied Farmers' businesses are operated in a sustainable and ethical manner, and protect the health and safety of its staff. The Board considers there is a strong link between good corporate governance and the achievement of this objective.

The Board considers that its corporate governance framework complies with the 2019 NZX Corporate Governance Code (**NZSX Code**), except as stated within this report. The exceptions arise because aspects of the Code are either not relevant or appropriate for Allied Farmers given its size and that it is primarily a non-operational investment holding company.

Allied Farmer's key corporate governance documents referred to in this statement, including charters and policies, are available on Allied Farmers' website at www.alliedfarmers.co.nz. The Annual Report for the financial year ended 30 June 2020 may cross-reference this Corporate Governance Statement. This statement was approved by the Board on 31 August 2020, and was accurate as at that date.

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.

Allied Farmers is committed to maintaining the highest ethical standards by Directors, staff, suppliers and customers/clients. Allied Farmers has a Code of Ethics to guide executives, management and employees in carrying out their duties and responsibilities. A copy of this is available on Allied Farmers' website. The Code covers such matters as:

- Expected conduct;
- Confidentiality;
- Use of assets;
- Corporate social responsibility; and
- Acceptance of gifts

The Code of Ethics requires Directors and employees to promptly report material breaches of the Code. In addition, Allied Farmers has adopted a Whistle Blowing Policy that sets out the processes by which suspected serious wrongdoing can be reported, and the whistle blower is protected.

Allied Farmers has in place processes to enable all new and existing employees to be aware of and understand the Code.

Allied Farmers has a Securities Trading Policy to explain expectations and requirements for dealing in Allied Farmers securities, and to protect from the risk of breaching insider trading laws. A copy of this is available on Allied Farmers' website.

Details of Directors' share dealings are in the Shareholder Information section of the 2020 Annual Report.

Principle 2 – Board Composition and Performance

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

The business and affairs of Allied Farmers are managed directly by the Board of Directors. The Board:

- establishes long-term goals and strategic plans to achieve those goals;
- reviews and adopts the annual budgets for financial performance and monitors results monthly;
- ensures preparation of the annual and half-yearly financial statements;
- manages risk by ensuring that Allied Farmers has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and
- works with management to create shareholder value.

Allied Farmers' Board operates under a written Board Charter which sets out the structure of the Board; the procedures for the nomination, resignation and removal of Directors; outlines the responsibilities and roles of the Chairman and Directors; and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board. A copy of the Charter is available on Allied Farmers' website.

Management of Allied Farmers is undertaken by the executive team under the leadership of the Chief Executive, through a set of delegated authorities.

Directors have direct access to and may rely upon Allied Farmers' senior management and external advisers. Directors have the right, with the approval of the Chairman to seek independent legal or financial advice at the expense of Allied Farmers for the proper performance of their duties.

Board Composition and Appointment

The number of elected Directors and the procedure for their retirement and re-election at Annual Shareholders' Meetings are set out in the Constitution of the Company.

The Board reviews the criteria for selection of Directors to ensure the most appropriate balance of skills, qualifications, experience and background to effectively govern Allied Farmers.

All directors are required to retire (though may be re-elected) not later than the third annual meeting following appointment, or after three years, whichever is longer. Any Directors appointed since the previous annual meeting must also retire and are eligible for election.

The Board currently comprises of five Directors: a non-executive Chairman, three independent non-executive Directors, and one non-executive Director. The Chief Executive is not a member of the Board.

The Board supports the separation of the roles of Chairman and Chief Executive and the appointment of a non-executive Chairman. The Board has determined that the Chairman, Richard Perry, is not independent because, through a company he owns, he provides material advisory services to the Company. Protocols have been established to ensure, and the Board has determined, that the provision of these services do not compromise the ability for Mr Perry to act as Chairman in an independent manner. This includes the appointment of Marise James as Lead Independent Director. In this role, she has oversight of the relationship between the Chairperson and the Chief Executive. In addition, the fact that a majority of the other directors are independent, and have the power to replace the Chairman, ensures appropriate independent oversight is exercised.

In order for a Director to be independent, the Board has determined that he or she must not be an executive of Allied Farmers and must have no disqualifying relationships as defined by the NZX Listing Rules.

The 2020 Annual Report sets out the factors that the Board has considered in determining the independence of Directors. Information on each Director is available on the Allied Farmers website. Changes to Director's interests during FY20 are disclosed in the Shareholder Information section of the 2020 Annual Report.

Allied Farmers provides written agreements to new Directors in relation to their appointment.

The Company encourages all Directors to undertake appropriate training and education so that they may best perform their duties. This includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; visiting key operational saleyard facilities and attending presentations from industry experts and key advisers. In addition, updates are provided to the Board on relevant industry and Company issues.

At appropriate times the Board considers individual and collective performance, together with the skill sets, training and development and succession planning required to govern the business. The Board undertook a Board performance survey in November 2019. As a result of the survey, the Board agreed a number of actions to address key areas identified for improvement.

Diversity

Allied Farmers adopted a Diversity Policy in August 2020.

The Diversity Policy describes Allied Farmers' support for an inclusive culture where it is accepted that all forms of diversity add real value, and sets out the manner in which the Board will champion diversity. A copy can be found on Allied Farmers' website.

A quantitative breakdown as to the gender composition of Directors and Officers at 30 June 2020 and comparative data for the previous year can be found in the 2020 Annual Report.

Board Meetings and Attendance

The Board meets as often as it deems appropriate, including sessions to review the performance of the business versus plans, and to consider the strategic direction of Allied Farmers and its forward-looking business plans. Phone and video conferences are also used as required.

The table below sets out Director attendance at Board and committee meetings during FY20.

	Board	Audit and Risk
Total number of meetings	8	4
Andrew McDouall (resigned 26/11/19)	3	2
Philip Luscombe	8	-
Mark Benseman	8	2
Marise James	8	4
Richard Perry	8	2
Ross Verry (appointed 1/10/19)	7	2

Principle 3 – Committees

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

Audit and Risk Management Committee

The Board has delegated a number of its responsibilities to the Audit and Risk Committee to assist in the execution of the Board's responsibilities.

The Audit and Risk Committee reviews and analyses policies and strategies that are within its terms of reference. It examines proposals and, where appropriate, makes recommendations to the full Board. The Audit and Risk Committee does not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The Audit and Risk Committee meets as required and has a Charter which is approved and reviewed by the Board. A copy of the Audit and Risk Committee Charter is on the Allied Farmers website.

Minutes of each committee meeting are forwarded to all members of the Board, who are all entitled to attend any committee meeting.

The Audit and Risk Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The Audit and Risk Committee provides a forum for the effective communication between the Board and external auditors. The Committee reviews the annual and half-yearly financial statements prior to their approval by the Board, the effectiveness of internal control and management information systems and the efficiency and effectiveness of the audit function.

The Committee must be comprised solely of Directors of Allied Farmers, have a minimum of three members, have a majority of independent Directors and have at least one Director with an accounting or financial background. The makeup of the current members of this committee complies with this.

Members as at 30 June 2020 were Marise James (Chair), Richard Perry and Ross Verry. Ms James, the Audit and Risk Committee Chair, is both an independent and non-executive director.

Management may attend meetings only at the invitation of the Committee and the Committee has committee-only time with the external auditors without management present.

The membership and performance of the Audit and Risk Committee was evaluated as part of the Board performance survey.

Other Committees as Required

Due to the modest size of Allied Farmers, the desire to contain compliance costs, and the fact that Allied Farmers Group has only two senior executives (being the NZFL Chief Executive and Chief Financial Officer - neither of whom are members of the Board of Allied Farmers), the Board has determined that a separate Remuneration and/or Nominations Committee is not required. The Board considers that the purpose and roles performed by a separate Remuneration and/or Nomination Committee can be appropriately performed by the full Board without compromising the probity of its decision making. The Board has determined to review this decision from time to time, and in particular has agreed to form a Remuneration Committee and/or Nomination Committee if the Board considers that, for reasons such as ensuring independent and non-conflicted decision making, such a committee is necessary.

From time to time, other special purpose committees may be formed to review and monitor specific projects with senior management.

In the case of a takeover offer, Allied Farmers will form an Independent Takeover Committee to oversee disclosure and response and engage expert legal and financial advisors to provide advice on procedure. A Takeover Response Protocol has recently been adopted.

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.

Allied Farmers' Directors are committed to keeping investors and the market informed of all material information about the Company and its performance, in a timely manner. Allied Farmers has adopted a Continuous Disclosure Policy to ensure that material information is identified, reported, assessed and, where required, disclosed to the market in a timely manner. A copy of the Continuous Disclosure Policy is available on Allied Farmers' website.

In addition to all information required by law, Allied Farmers also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed, including financial and non-financial information.

Financial Information

Senior Management are responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations, including relevant tax legislation.

The Board's Audit and Risk Management Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews Allied Farmers' full and half year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange, legal and tax requirements, and the results of the external audit.

For the financial year ended 30 June 2020, the Directors believe that proper accounting records have been kept that enable the determination of the Company's financial position with reasonable accuracy, and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive Officer and Chief Financial Officer have confirmed in writing to the Board that Allied Farmers' external financial reports present a true and fair view in all material aspects.

Allied Farmers' full and half year financial statements are available on the Company's website.

Non-financial information

The Board recognises the importance of non-financial disclosure. The Company monitors progress in business sustainability as it seeks to actively improve the social and environmental characteristics of the business. This is a goal to which the Company is strategically committed and which it incorporates in its day to day operations. In addition, NZ Farmers Livestock invests in a range of social responsibility initiatives that support staff, customers and the communities in which it operates.

In July 2020, the Board adopted a Sustainability Statement that describes what sustainability specifically means for Allied Farmers and how sustainability will be actioned across its people, communities and the environment. A copy of the Sustainability Statement can be found on Allied Farmers' website.

The Company considers that shareholders, and the investment market generally, should be promptly informed of all major business events that influence the company, and to ensure compliance with NZX Continuous Disclosure requirements.

The Company aims to manage its businesses in a way that will produce positive outcomes for all stakeholders including the public, customers, team members, suppliers and shareholders.

Allied Farmers discusses its strategic objectives, and its progress against these, in the Chair and Executive commentary in shareholder reports, and at the Annual Shareholders Meeting. Allied Farmers supports NZ Farmers Livestock's commitment to using its resources responsibly, and identification of opportunities to reduce any negative environmental risk or impact from business operations, products and services.

NZ Farmers Livestock is also committed to providing fair and responsible products and services that includes adherence to the Responsible Lending Code, the Responsible Credit-Related Insurance Code, Insurance (Prudential Supervision) Act 2010 and various other Acts. Compliance is monitored through periodic auditing and legal review, and senior management oversight of practices.

Principle 5 – Remuneration

The remuneration of Directors and executives should be transparent, fair and reasonable.

Remuneration of Directors and senior executives is the Board's responsibility. The Board takes account of external market factors and internal factors in determining the remuneration of senior executives. Allied Farmers has recently adopted a Remuneration Policy.

Director Remuneration

The total remuneration pool available for Directors has been fixed by shareholders at a maximum of \$332,000 per annum for all non-executive Directors. The Board determines the level of remuneration paid to Directors from that pool. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

Allied Farmers may appoint additional non-executive directors in due course. The Directors' potential fee pool includes future directors' fees and has been fixed.

Any proposed increases in non-executive Director fees and remuneration will be put to shareholders for approval. If independent advice is sought by the Board, it will be disclosed to shareholders as part of the approval process.

Board Role Approved Remuneration

Directors' fees are currently allocated by the Directors per annum as follows:

- Allied Farmers Ltd Chair - \$60,000;
- NZ Farmers Livestock Ltd Chair - \$45,000
- Audit and Risk Committee Chair - \$40,000
- Other Directors appointed prior to 1 October 2015 - \$33,000 plus retirement allowance after seven years of service; and
- Other Directors appointed after 1 October 2015 - \$35,000 with no retirement allowance.

Details of individual Directors' remuneration are detailed in the Shareholder Information section of the 2020 Annual Report.

Executive Remuneration

In general, executive remuneration comprises a fixed base salary and an at-risk short-term incentive payable annually. At-risk incentives are paid against targets agreed with executives and are based on financial measures including earnings targets and progress against objectives related to the strategic plan and other personal objectives.

CEO Remuneration

The review and approval of the Chief Executive's remuneration is the responsibility of the Board. Details of the Chief Executive's remuneration are set out in Allied Farmers' 2020 Annual Report.

Principle 6 – Risk Management

Directors should have a sound 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.

The Board has overall responsibility for the Company's system of risk management and internal control. The Board delegates day to date management of the risk to the Chief Executive. The Audit and Risk Management Committee provides an additional and more specialised oversight of Company

risks in addition to the oversight provided by the Board. The Audit and Risk Management Committee's Charter details the specific responsibilities of the Committee in regard to risk assurance.

The Board is satisfied that major risks are reviewed including through a Risk Management Framework to identify areas of significant business risk, and implement procedures to effectively manage those risks. The Risk Management Framework covers the following aspects relating to risk management:

- Creating an operating risk compliance culture and accountability;
- Monitoring of operating risk and compliance policies;
- Training and support; and
- Reporting and review of risk matrices for each of the following risk areas:
 - Human Resources (including Health and Safety)
 - Allied Farmers Governance
 - NZFL Business
 - Finance Business
 - Farmers Meat Export Business

Where appropriate, the Board obtains advice directly from external advisers. Once a significant business risk is identified, the Board is advised and action is taken promptly to mitigate and monitor or, if there are benefits to be obtained, take advantage of these in addressing the risks.

Allied Farmers maintains insurance policies that it considers adequate to meet its insurable risks. More details of Allied Farmers' financial risk management are available in the FY20 Financial Statements.

Health and Safety

Allied Farmers is a holding company and does not undertake any operations in the context of a health and safety environment. Allied Farmers' majority owned subsidiary, NZ Farmers Livestock Limited, and its wholly owned subsidiaries are operational businesses, and the Board of Directors of NZ Farmers Livestock is responsible for ensuring that the systems used to identify and manage health and safety risks are fit for purpose, effectively implemented, regularly reviewed and continuously improved. The NZ Farmers Livestock Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors and customers.

NZ Farmers Livestock has adopted a Health and Safety Policy and a Health and Safety Handbook and Policy Manual, continues to drive increasing focus on health and safety objectives, and holds regular health and safety meetings for each saleyard at which it operates. Minutes of these meetings, health and safety audits and all significant injuries are reported to the NZ Farmers Livestock and Allied Farmers' Boards.

Principle 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

The Allied Farmers Board is committed to ensuring audit independence, both in fact and appearance, so that Allied Farmers' external financial reporting is viewed as being highly objective and without bias.

The Audit and Risk Management Committee reviews the quality and cost of the audit undertaken by the Company's external auditors and provides a formal channel of communication between the Board, senior management and external auditors.

The Audit and Risk Management Committee approves the auditor's terms of engagement, audit partner rotation (at least every five years) and audit fee, and reviews and provides feedback in respect of the annual audit plan. The Committee periodically has time with the external auditor without

management present. The Audit and Risk Management Committee also assesses the auditor's independence on an annual basis.

An External Auditor Independence Policy has been adopted and sets out the services that may or may not be performed by the external auditor.

KPMG was appointed as the external auditor for Allied Farmers Limited in February 2020, replacing PriceWaterhouseCoopers (PWC). KPMG has conducted the statutory audit for the financial year ended 30 June 2020.

All audit work at Allied Farmers is fully separated from non-audit services, to ensure that appropriate independence is maintained. The only non-audit services provided by KPMG subsequent to its appointment was for tax advice totalling \$23,000. The amount of fees paid to PWC and KPMG for audit work in FY20 are identified in note E2 of the consolidated financial statements. At the 2019 Annual Meeting shareholders authorised the Directors to fix the auditor's fees and expenses for the ensuing year.

KPMG has provided the Audit and Risk Management Committee with written confirmation that, in its view, it was able to operate independently during the year.

Given the cost, PWC did not attend the 2019 Annual Shareholders' Meeting, but were available to do so if requested. PWC were also available by telephone during the meeting to answer any questions if required. In recent years, there have not been any questions asked at the Annual Shareholders' Meeting that have not satisfactorily been answered or addressed by management or the Chairman.

Allied Farmers has a number of internal controls overseen by the Audit and Risk Management Committee and/or the Board of either Allied Farmers or NZ Farmers Livestock (as appropriate). These include controls for computerised information systems, cyber risk and information security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud. The Company does not have an internal audit function.

Principle 8 – Shareholder Rights and Relations

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

The Board is committed to open and regular dialogue and engagement with shareholders. Allied Farmers seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information.

Allied Farmers has a calendar of communications and events for shareholders, including but not limited to:

- Annual and Interim Reports
- Market announcements
- Annual Shareholders' Meeting
- Easy access to information through the Allied Farmers website www.alliedfarmers.co.nz
- Access to management and the Board via the "Contact Us" facility on the Allied Farmers website

Shareholders are actively encouraged to attend the Annual Shareholders' Meeting and may raise matters for discussion at this event, and may vote on major decisions that affect Allied Farmers. Voting is by poll.

In accordance with the Companies Act 1993, Allied Farmers' Constitution and the NZX Main Board Listing Rules, Allied Farmers refers major decisions that may change the nature of the Company to shareholders for approval.

All shareholders are given the option to elect to receive electronic communications from the Company.

Exercise of disciplinary powers

No disciplinary action has been taken by either the NZX or the FMA against the Company during the financial year ended 30 June 2020