

Non-GAAP Accounting Information

Status:	Approved
Policy Owner:	Chief Financial Officer
Policy Approver:	PGG Wrightson Audit Committee
Date of Last Approval:	15 February 2019

Non-GAAP Financial Information

Purpose	<p>To provide guidance on disclosure of non-GAAP information, so that consistency and credibility of market communications and transaction documents is maintained; to ensure compliance with the Financial Markets Authority (FMA) guidance note on disclosing non-GAAP financial information.</p> <p>This policy provides direction on when non-GAAP financial information should or should not be used. It sets out what additional disclosure should be made so that the information is not misleading and supports more informative communication of performance to current or potential stakeholders.</p>
Key Points	<p>Non-GAAP financial information (such as Operating EBITDA) is often used in company communications as it provides a useful perspective on how the company is performing.</p> <p>However where non-GAAP financial information is used additional disclosures are required in order to ensure compliance with FMA guidance. Specific disclosures that are required include:</p> <ul style="list-style-type: none">• Why the information is useful.• Appropriately labelled information.• A reconciliation back to GAAP information (unless self- evident) and any adjustments made to the GAAP information should be made to the non-GAAP information.• Whether the information is from audited or reviewed accounts. <p>In addition, the presentation of the information should:</p> <ul style="list-style-type: none">• Be unbiased.• Not be more prominent than GAAP information.• Be displayed consistently from one period to the next.• Not describe items as one-off if they have occurred before or could occur again.
Scope	<p>Applies to all external financial communications by all legal entities and operations of PGG Wrightson Limited in New Zealand.</p>
Date of issue	<p>23 February 2015</p>
File Retention	<p>TBA</p>
Review	<p>2 yearly, by GFC, approval by CFO (notified to Audit Committee if any changes), or earlier if required.</p>

Related Policies and Documents

Non-Operating Items Policy

Media & Communications Policy

FMA Guidance Note: Disclosing non-GAAP financial information

1. Policy Standards

1.1 Purpose

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

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

This policy focuses on the disclosure of the non-GAAP financial information in:

- Market communications, such as directors' or management commentary and other documents accompanying financial statements, market announcements, press releases, interviews and presentations to investors and briefings to analysts.
- Transaction documents, such as prospectuses, amalgamation proposal documents, disclosure statements and compromise proposal documents. In these circumstances pro-forma financial information may be provided using non-GAAP financial information. This disclosure of non-GAAP financial information may be necessary to meet disclosure obligations under the Securities Act 1978 and the Companies Act 1993.

Non-GAAP information can provide meaningful insights into the financial condition or performance of a business. The key issue is to ensure the information is not misleading, nor is it presented in a misleading manner.

1.2 Definitions

EBIT – Earnings before interest and tax and the results of discontinued operations.

Fair Value Adjustments – these are transactions representing unrealised gains or losses due to the application of fair value principles from a variety of NZ International Financial Report Standards (IFRS) requirements as at a particular reporting date. As an example, each reporting period PGW will complete a fair value assessment of Assets Held for Sale according to NZ IFRS 5 *Non-Current Assets Held for Sale*. The profit impact of such an adjustment is effectively an unrealised best estimate of a transaction that has not yet occurred in the ordinary course of business. Other examples could include a fair value adjustment on biological assets held at balance date pursuant to NZ IAS 41 *Agriculture*, reflecting the theoretical P&L impact that would occur if the biological assets were sold on the reporting date.

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

GAAP Profit measure – “Profit or loss” as defined in paragraph 7 of NZ IAS 1 *Presentation of Financial Statements* and presented by PGW as “Profit / (loss) for the period” in its financial statements.

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

Non-Operating Items – are given the meaning prescribed by the PGW Accounting Policy “3 Non-Operating Items”.

Operating EBITDA – EBIT stripped of depreciation and amortisation and items not considered part of the core operating activity of the business, such as non-operating items, fair value adjustments and discontinued operations.

1.3 Scope

This policy applies to all external financial communications by all legal entities and operations of PGG Wrightson Limited.

This policy does not apply to information disclosed within statutory financial statements, as the disclosure requirements and obligations for the statutory financial statements are provided in the Financial Reporting Act 2013 and applicable New Zealand financial reporting standards.

It is noted that although additional line items or sub-totals included in the Statement of Profit or Loss and Statement of Other Comprehensive Income can comply with GAAP (such as “EBIT” and “Operating EBITDA”), if the same line items or sub-totals are included in documents other than financial statements and are presented as an alternative to the GAAP profit, then for the purposes of this policy they are considered to be non-GAAP financial information.

1.4 General rules

1.4.1 EBIT and Operating EBITDA Rationale

PGW uses Operating EBITDA, which is non-GAAP financial information, as a means of supplementing GAAP reporting for communicating profitability to the market and stakeholders. Operating EBITDA is the key measure used internally to evaluate and report on the operational profitability and performance of the business and individual operating segments. Additionally, Operating EBITDA includes earnings of equity accounted investees. Equity accounted investees are either jointly controlled entities or entities over which PGW has significant influence and management considers these investments as warranting direct internal review. Including the earnings from equity accounted investees within Operating EBITDA provides this direct internal review. Results exclude the volatility of one-off transactions (non-operating Items) and unrealised accounting adjustments (fair value Adjustments) together with discontinued operations. This allows PGW to measure and report underlying operating performance trends of the business. This facilitates meaningful comparisons from period to period.

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

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

No other non-GAAP financial information is currently presented by PGW. Should additional non-GAAP financial information be considered for future transaction documents and market

communications, the principles of this policy will apply. PGW may then amend this policy to ensure appropriate definitions are captured, and consideration is given to presentation.

1.4.2 Presenting non-GAAP financial information in investor communications other than financial statements and transaction documents

Due to the nature of PGW's business and industry, PGW Board and management considers the Operating EBITDA measure to promote more meaningful communication of financial information. This measure is also necessary information for certain stakeholders (eg. Banks), hence distribution of this information to the wider investing community ensures all stakeholders receive consistent financial information on the performance of the business.

Since Operating EBITDA financial measure is not part of financial reporting standards, there is a need to present it appropriately in order to ensure consistency and comparability.

Guidance on presenting information

Guidance	Explanation
Why information is useful	A statement should be included disclosing the reasons directors believe that the EBIT and Operating EBITDA financial measures provide useful information to stakeholders regarding the financial condition and results of operations. This statement should be clear and understandable and specific to these financial measures, the entity, the nature of the business and industry and explain how this information is used internally.
Prominence	<p>EBIT and Operating EBITDA should not be presented with undue prominence, emphasis or authority.</p> <p>When preparing and presenting financial information directors should exercise judgment when determining the appropriate level of prominence that is given to any non-GAAP financial information including EBIT and Operating EBITDA.</p>
Appropriate label	<p>EBIT and Operating EBITDA should be clearly labelled in a way that distinguishes the non-GAAP financial information from the corresponding GAAP financial information.</p> <p>If any other non-GAAP measures are used, any term used to describe the information should be appropriate having regard to the nature of the information. The term or label should not cause confusion with GAAP information. The term or label should accurately describe the measure.</p>
Calculation	<p>A clear narrative explanation about how the non-GAAP financial information is calculated should be provided, unless the label given to the information is so clear that it is obvious how the calculation is performed.</p> <p>For EBIT, PGW considers that the label is so clear that it is obvious how the calculation is performed; therefore it is optional to include a calculation description in the narrative.</p> <p>For Operating EBITDA, suggested narrative is:</p>

“EBIT, adjusted for non-operating items, fair value adjustments and depreciation and amortisation.” Further narrative may be added if required.

See tables in 2.1.1 below for calculation guidance.

Reconciliation	<p>A reconciliation between the non-GAAP financial information (Operating EBITDA) and GAAP financial information should be provided, separately itemising and explaining each significant adjustment. Where reconciling items are components of GAAP information, they should be able to be identified in the financial statements. Where a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how the number is calculated. Where the comparative non-GAAP financial information (Operating EBITDA) is presented for a previous period, reconciliation to the corresponding GAAP financial information should be provided for that previous period.</p> <p>This information should be clearly labelled and provided at least once in each document where Operating EBITDA is disclosed. Where Operating EBITDA is presented, clear reference should be made to where in the document this information is located.</p>
Consistency	<p>A consistent approach should be adopted from period to period. If there has been a change in approach from the previous period, an explanation about the nature of the change, the reasons for the change, and the financial impact of the change should be provided.</p>
Adjustments	<p>For each adjustment made to GAAP financial information, corresponding items should be adjusted in any comparative information.</p>
Unbiased	<p>Operating EBITDA should be unbiased and not used to avoid presenting “bad news” to the market, or to over-emphasise “good news”.</p>
One-off items	<p>Items that have occurred in the past or are likely to occur in a future period should not be described as “one-off” or “non-recurring”.</p>
Audited or reviewed	<p>If aspects of the non-GAAP financial information have been extracted from audited or reviewed financial statements then a clear statement should be made to that effect.</p>

An example of this disclosure is contained at [Appendix 1](#). This disclosure is required at Group level. Should a non-GAAP financial measure be used at a level lower than Group (e.g. when discussing individual business unit performance at Operating EBITDA level), then sufficient information should be provided in the document to enable the user of the information to reach the Group Operating EBITDA total disclosed per the reconciliation at Appendix 1. This may take the form of a table, or continued narrative which the reader could add-up to reach the Group Operating EBITDA.

1.4.3 Presenting non-GAAP financial information in financial statements

The Accounting Policies set out in the Annual Report shall include a brief explanation of why EBIT and Operating EBITDA are used and how they are calculated in regard to their calculation and presentation in the financial statements. The following is an example of this disclosure:

Non-GAAP reporting measures have been presented in the income statement 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:

EBIT (a non-GAAP measure) represents earnings before net interest and finance costs, income tax and the results from discontinued operations.

Operating EBITDA (a non-GAAP measure) represents earnings before net interest and finance costs, income tax, depreciation, amortisation, the results of discontinued operations, fair value adjustments and non-operating items.

For a more comprehensive discussion on the Group's use of non-GAAP reporting measures, please refer to the policy "Non-GAAP Financial Information" available on our website (www.pggwrightson.co.nz).

1.4.4 Presenting non-GAAP financial information in transaction documents

To fulfil disclosure obligations, it is often necessary or appropriate to include non-GAAP financial information in the form of pro forma financial information in transaction documents such as prospectuses, investment statements, and other similar documents.

Guidance on presenting information

Guidance	Explanation
Assumptions	Disclosure of pro forma financial information should be accompanied by full details of the assumptions used to prepare the information.
Explanation	Disclosure of pro forma financial information should include an explanation of how financial information was calculated and the reasons for any departures from GAAP.
Reconciliation	The amount and nature of all material adjustments that have been made to the statutory financial information to derive the pro forma financial information should be disclosed by way of reconciliation, together with the reasons for those adjustments.
Statement of Profit or Loss	Management should decide what level of information needs to be incorporated for stakeholder decision making. This will include consideration of whether it is appropriate to stop a pro forma statement of profit of loss before net profit after tax.
Disclosure of a range	When a range of pro forma financial information is disclosed, a more favourable figure or fact within that range should not be given greater prominence.
Whole transaction	Where pro forma financial information is provided to reflect a particular transaction such as an acquisition or sale of an entity or operation, the information should reflect the full transaction and not selected aspects of it.
Overseas entities	A "convenience translation" into New Zealand currency may be acceptable with adequate disclosure, if the actual translation is impractical. The financial information of overseas entities should not materially depart from NZ GAAP.

Inclusion of historical financial information	Where presentation of historical statements of comprehensive income is required to be presented under regulatory requirements, consideration should be given to presenting historical pro forma financial information in the form of a statement of comprehensive income for the same period.
Hypothetical information	Pro forma financial information could potentially be misleading to stakeholders if it is based on a hypothetical scenario that does not reflect actual historical performance without prominent and adequate explanation of the basis adopted.
Audited or reviewed	If aspects of the non-GAAP financial information have been extracted from audited or reviewed financial statements then a clear statement should be made to that effect.

1.4.5 Undue prominence, emphasis or authority

Directors and preparers of financial information should exercise judgement in determining whether undue prominence, emphasis or authority is given to the Operating EBITDA performance measures in transaction documents and market communications. Consideration should be given to the overall document or commentary and the nature and performance of the specific business or group of business units.

Specific factors to consider include:

- the order and manner in which the GAAP and non-GAAP figures are presented; and
- providing a similar level of attention to reconciling items, as to components of non-GAAP figures, having regard to their relevance and materiality.

2. Clarification and Breaches

2.1 Clarification

Clarification of details of this policy may be sought from the Group Financial Controller, the CFO and the Audit Committee.

2.1.1 Calculation of Non-GAAP Financial Measures

EBIT

EBIT shall be calculated as follows:

Profit / (loss) for the year – GAAP

add Loss from discontinued operations or *deduct* Profit from discontinued operations

add Income tax expense or *deduct* Income tax benefit

add Net interest and finance costs

Operating EBITDA

Operating EBITDA shall be calculated as follows:

Profit / (loss) for the year – GAAP

add Loss from discontinued operations or *deduct* Profit from discontinued operations

add Income tax expense or *deduct* Income tax benefit

add Net interest and finance costs

add Depreciation and amortisation expense

add Fair value adjustments expense or *deduct* Fair value adjustments income

add Non-operating items expense or *deduct* Non-operating items income

2.2 Breaches of policy

Breach of policy occurs whenever non-GAAP financial information is used in transaction documents or market communications, without meeting the presentation standards outlined in this policy. Breaches of policy will be notified to the CFO and Audit Committee.

There are a number of legislative provisions that deal with misleading information including:

- Section 1 of the Securities Markets Act 1988 (false or misleading statement or information)
- Section 13 of the Securities Markets Act 1988 (misleading or deceptive conduct)
- Section 58 of the Securities Market Act 1988 (misstatement in an advertisement or registered prospectus)
- Section 377 of the Companies Act 1993 (false statements).

The FMA have indicated that they will assess disclosures and take actions as they see fit. It is expected that follow up work to answer any FMA queries could be very time consuming. Adhering to this policy is expected to result in avoiding unnecessary FMA attention.

2.3 Exceptions

In the event of an exception to this policy being anticipated, sign-off by the Chairman of the PGW Board, the PGW Chief Executive Officer and the Chief Financial Officer is required.

Appendix 1: Non-GAAP financial reporting measures

PGW's standard profit measure prepared under New Zealand GAAP is "Profit/(loss) for the period". PGW has used non-GAAP financial measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. They also represent some of the performance measures required by PGW's debt providers. For a more comprehensive discussion on the use of non-GAAP financial measures, please refer to the policy "Non-GAAP Financial Information" available on our website (www.pggwrightson.co.nz).

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

PGW's definition of non-GAAP profit measures used in this document:

EBIT: Earnings before net interest and finance costs, income tax and the results from discontinued operations.

Operating EBITDA: Earnings before net interest and finance costs, income tax, depreciation, amortisation, the results from discontinued operations, fair value adjustments and non-operating items.

GAAP to non-GAAP reconciliation:

	20XX	20XX
	\$000	\$000
Profit / (loss) for the year – GAAP	xx,xxx	xx,xxx
Add back: (Profit) / Loss from discontinued operations (net of income tax)	xxx	xxx
Add back: Income tax expense / (income)	x,xxx	x,xxx
Add back: Net interest and finance costs	xx,xxx	xx,xxx
Add back: Depreciation and amortisation expense	x,xxx	x,xxx
EBIT	xx,xxx	xx,xxx
Add back: Fair value adjustments expense / (income)	x,xxx	x,xxx
Add back: Non-operating items expense / (income)	x,xxx	x,xxx
Operating EBITDA	xx,xxx	xx,xxx