

Stepping it up.

The a2 Milk Company Limited

2019 Annual Report



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FY19 highlights

6.4% infant nutrition value share in China and market leading brand in Australia

No.1 premium milk brand in Australia at 11.2% value share

13% of 2nd half revenue invested in marketing; over \$135m (~10.4%) invested in FY19

64% increase in store distribution in China; ranging in approximately 16k stores at year end

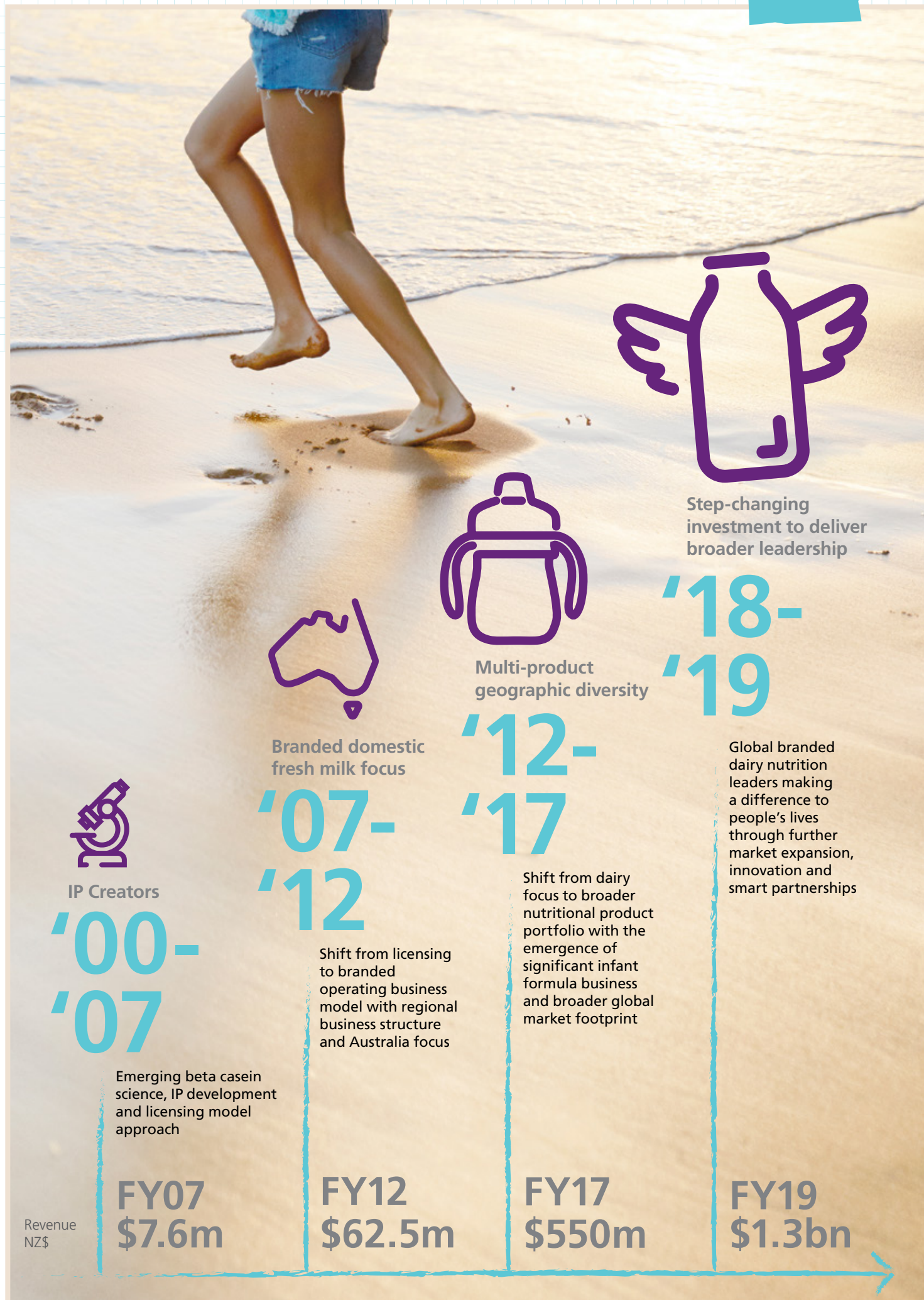
161% increase in US revenue coupled with 118% increase in store distribution; ranging reaching 13k stores as at year end



\$1.3bn
Revenue ↑ 41%

\$414m
EBITDA ↑ 46%

39c
Basic earnings per share ↑ 45%



Our Chair

Dear Shareholder, I am delighted to present to you another year of outstanding achievement by your company, a year characterised by using our financial strength to invest significantly for the future.



In delivering its FY19 result, the company has sustained its strong growth trajectory with an impressive result that reflects the strength of our brand, a highly disciplined focus on growth, and the talent and commitment of our people. The company's strong financial performance has enabled us to progress our objective of building a world-class dairy nutrition company, centred on a unique and compelling brand proposition.

Not only are we larger and more financially robust, we are now clearer on our strategic priorities. However, it is only natural given how young we are as a business that we still have more to do.

The senior management team led by our Managing Director and CEO, Jayne Hrdlicka, has put considerable effort during the year into ensuring that we maintain our momentum in the marketplace, in particular within our focus regions of China and the US; whilst also strengthening our strategic foundations as we continue to realise the great potential of your company. Of focus were the following strategically important initiatives:

- a major new in-depth research and analysis programme to understand our consumers, channels and customers both in China and the US;
- sharpening our future strategic plans by completing a comprehensive blueprint for further growth;
- commencing an acceleration of significant investment in our brand and organisational capability to better prepare us for future growth; and
- advancing our strategic, environmental, sustainability and governance agenda to keep pace with our growing opportunities and impact.

These four areas not only create a stronger base for our business as we work to deliver our long-term potential, but also clarify our intent to make a broader impact in the wider world we operate in.

The year also marks the retirement of Peter Hinton from the Board as foreshadowed at the company's 2018 Annual Meeting. We would like to thank Peter for his exceptional and longstanding commitment to The a2 Milk Company, originally as advisor to and partner of Dr Corrie McLachlan, the company's founder, and subsequently as an adviser and director of the company. We wish Peter all the best as he pursues interests outside of The a2 Milk Company and corporate governance roles.

The company was pleased to welcome Pip Greenwood as an independent non-executive director of the company with effect from 1 July 2019, following Peter's retirement. We are delighted to have a person of Pip's considerable talent and experience join the Board. A resolution to elect Ms Greenwood will be put to you, our shareholders, at the company's next Annual Meeting in November 2019.

I also wish to acknowledge how well Jayne has transitioned into her role as Managing Director and CEO over the course of the year. She has done an excellent job in steering the business to continued commercial success, and at the same time has led the company in investing for the next wave of sustainable growth.

The company enjoys a robust balance sheet which, combined with its continued strong cash generation, gives us the flexibility to support our growth potential in the future.

The Board and management continue to evaluate a broad range of investment options designed to support our future growth aspirations. As a consequence, we do not anticipate paying dividends in the near-term.

Jayne has completed a comprehensive *Year in Review* that outlines our operational and financial performance for the year. A further update on our performance will be provided at the Annual Meeting, on 19 November 2019 in Auckland.

On behalf of the Board, I would like to thank our management and staff across all regions for their continued hard work and dedication to the company during the year and the outstanding results they have achieved.

In summary, the Board enters the next financial year mindful of the challenges of continued growth and excited about the significant opportunities that lie ahead of us.

David Hearn
Chair
20 August 2019



CEO'S YEAR IN REVIEW

A record year.

We have delivered strong financial results and record market shares in our core markets.

The year saw the company step-change its investments in consumer understanding, brand and capability.



Results highlights for the year ended 30 June 2019¹

Total revenue of
\$1.3 billion

↑ 41.4%²

EBITDA³ of
\$413.6 million

↑ 46.1%

Net profit after tax of
\$287.7 million

↑ 47.0%

Basic earnings per share (EPS) of
39.25 cents

↑ 45.4%

EBITDA to sales margin of
31.7%

Operating cash flow of
\$289.1 million

and a closing cash balance of
\$464.8 million

Step-changing marketing investment of
\$135.3 million

representing 10.4% of sales and an increase of 83.7%

Infant nutrition market share strengthened to
6.4%⁴ in China

with Group infant formula revenue of **\$1.1 billion** ↑ 46.9%

US milk revenue more than doubled and distribution expanded to
13,100 stores

Australian fresh milk revenue growth of 10.7%⁵ and record market share of
11.2%⁶

Significant investment in organisational depth and breadth to support continued
growth and resilience

¹ All figures are in New Zealand Dollars (NZ\$) unless otherwise stated. ² All comparisons are with the 12 months ended 30 June 2018 (FY18), unless otherwise stated. ³ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on page 104. ⁴ Kantar infant formula market tracking of Tier 1 and Key A, B, C and D cities for 12 months ending 14 July 2019 by value. ⁵ Local currency (AUD). ⁶ Aztec Australian Grocery Weighted Scan 12 months ending 30 June 2019.

I have really enjoyed my first year as CEO. We are proud of all we have achieved as a team this year but also conscious of how much there is yet to be done, as we continue to build our business.

This year we focused on playing to our strengths and sharpening our strategic thinking. This enabled us to begin step-changing investment to support our considerable growth ambition.

The company delivered record financial and market share results for 2019. This was enabled by strong revenue growth across our key product segments of liquid milk, infant nutrition and other nutritional milk products, and across each of our key regions. Pleasingly, our results were underpinned by growing brand awareness, expanding product distribution and strengthening in-market execution in our two most important regions of Greater China and the US.

We have focused on really getting to know our consumers and sales channels in our core markets of China and the US. The a2 Milk Company's unique brand proposition intrinsically leverages macro consumer factors, which include a growing consumer demand for health and wellness products; a growing focus on food safety, naturalness and provenance; the growing middle class in Asia; and the rapid pace of digitalisation. While in each of our markets our consumers are quite different, our global brand proposition resonates strongly with our consumers and is unique relative to the competition.

We have also invested heavily in increasing our capability and capacity to support the development and delivery of comprehensive growth plans for our most important strategic priorities.

In effect much of our effort in FY19 was spent balancing our dual priorities of sustaining our growth momentum in the year while at the same time deepening our local consumer and market knowledge, investing to build capability and creating detailed blueprints to deliver future growth.

Our business results were driven by strong performance across our portfolio. The continued growth of our infant nutrition products was a strong contributor to the results with sales totalling \$1.1 billion for the year – an increase of 46.9% on the prior year. This was driven by share gains in China and Australia. We achieved pleasing growth in our liquid milk businesses in particular within Australia and the USA – with total fresh milk growth of 22.9% and revenue of \$174.9 million across the Group. We grew sales of other nutritional milk products by 17.3%, delivering total sales of \$65.8 million. This was driven by milk powders and supported by new products launched towards the end of FY18 and in the fourth quarter of FY19.

Our gross margin remains strong and has improved to 54.7%. The improvement was driven by a price increase partially offset by currency movements – most notably a weaker Australian dollar.

Our balance sheet is strong with no debt and a substantial cash balance. The closing cash position reflects growth in revenue and earnings, partially offset by increased working capital, and our increased equity investment in Synlait Milk in August 2018.

Net operating cash flow for the year was \$289.1 million, with cash on hand at 30 June 2019 of \$464.8 million. Our balance sheet continues to strengthen, which is important as we work our way through the delivery requirements of our long-term strategy. We continue to consider the appropriate use of available capital in the context of supporting our very significant growth ambitions.

We have enhanced our approach to inventory management, enabling us to adjust more quickly to demand changes by increasing our inventory cover. We finished the year with \$108.5 million of inventory, up 69.2% from the prior corresponding period and 49.0% from the first half.

Strategic progress

We have made significant progress refining our blueprint for growth and prioritised the strategic growth opportunities as follows:

1. maximise growth from existing products in core markets;
2. broaden our product portfolio in core markets; and
3. expand in other targeted markets.

To enable the successful delivery of these strategic priorities we have made significant investments during the year. Comprehensive work has been undertaken to ensure we fully understand our consumer and sales channels and better define the growth opportunities emanating from these. Following on from this we are step-changing our marketing investment, with clarity on opportunities to drive efficiencies within the path to purchase; and we are building capability to execute more broadly on our strategic growth blueprints.

Our core markets – Australia and New Zealand (ANZ), Greater China and the US represent our most significant growth opportunities in the medium term. The growth will come from both our existing product ranges and innovation within these markets. For example, the launch of a2 *Smart Nutrition*TM – a fortified milk drink targeting children 4-12 years of age – enables us to migrate consumers when they grow out of infant nutrition in China.

In addition, we continued to selectively explore new market opportunities. As a part of this we undertook increased consumer research and in-market activity in Vietnam, Korea and the city of Hong Kong. Alongside the ongoing work we are doing with Fonterra, the focus continues to be milk powder products in Vietnam, testing a fresh milk presence in Singapore and Korea, and infant formula in the city of Hong Kong.



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Building sustainable brand leadership via step-changing marketing investment and continued investment in intellectual property and research and development

We have significantly increased our investment in building brand value with a goal to accelerate brand awareness and trial in both China and the US. Our investment in marketing for the full year increased by 83.7% to \$135.3 million, primarily as a result of increases in advertising spend in China and the US.

During the year we also invested in better understanding both Chinese and US consumer archetypes, channel dynamics and ways of improving brand awareness. Using these insights, we stepped up the rate and quantum of marketing investment in the second half in activities to drive awareness and encourage trial of our products. These activities are an important part of delivering on our growth ambition.

Research and development programmes continue to be a priority, including independent clinical studies. A clinical trial amongst 5 to 6-year-old children in China was published in July 2019. The study analysed results from 75 Chinese children with mild to moderate milk discomfort or lactose intolerance (confirmed via a urinary galactose test) and reported that replacing

conventional milk with a2 Milk™ “reduced gastrointestinal symptoms associated with milk intolerance” in many subjects and led to “corresponding improvements in aspects of cognitive performance” as measured using the Subtle Cognitive Impairment Test (SCIT)¹. The study was independently peer reviewed and published in the US based Journal of Pediatric Gastroenterology and Nutrition. Further company sponsored clinical research has progressed during the year.

Significant investment in capability development

During the year we invested strongly in both internal and external capability.

In April we welcomed Xiao Li as Chief Executive of Greater China who is building the capability and executional capacity of our team in China to support our growth momentum. In addition to Xiao Li, the China based team continues to grow and now represents over 20% of our global team.

We made a number of other senior appointments, including new roles, with the addition of Lisa Burquest as Chief People Officer, Melanie Kansil as Chief Commercial Officer and Phil Rybinski as Chief Technical Officer. We also further increased our capability in the second half with pivotal resourcing in the marketing, new product development, innovation and people capability functions.

1 Xiaoyang S, Zailing L. Effects of Conventional Milk Versus Milk Containing Only A2 β-Casein on Digestion in Chinese Children. J Pediatr Gastroenterol Nutr. 2019 Jul 9.

These roles build upon the existing strong and experienced group of executives in the organisation, just as the other new starters to the company have added to our growing global team capability.

We also made additional external resource investments to broaden our in-market and technical capabilities and augment our capacity as an organisation. This has helped sustain our momentum by giving us quick access to much needed skills and capacity.

Strategic partnerships

Key strategic partnerships are a critical element of our business model. There were a number of major developments in this area during the year.

Synlait: In July 2018 we reaffirmed our supply agreement with Synlait for infant formula and other nutritional products. We continue to be very well supported by Synlait in meeting increased demand and our teams continue to work closely together to grow our respective businesses.

In August 2018, we also announced increasing our total shareholding in Synlait to approximately 17.4%. This investment enables us to further protect our relationship with an important supply chain partner.

Fonterra: In August 2018, the a2 Milk™ brand, under licence to Fonterra, was launched in New Zealand with national advertising and distribution and is performing well relative to plan. We have also begun sourcing direct ingredients from Fonterra with increased supply during the second half of calendar 2019. The relationship with Fonterra remains strong. Our joint teams are actively working together to commercialise the next wave of opportunities which will come from our partnership; and we continue to be encouraged by the potential.

China State Farm: In August 2018, we renewed our strategic arrangements with China State Farm Holding Shanghai Co., Ltd. (CSF), extending our arrangements for a further three-year period from 6 December 2018. CSF is our exclusive import agent for our China label products and has been a strong partner for our infant nutrition products into mainland China since launch in 2013. In addition to importation services it has provided local market regulation consulting and product traceability quality control for our business.

Regional performance

Australia and New Zealand segment goes from strength to strength

ANZ business revenue was \$842.7 million, up 28.3%, and EBITDA of \$388.2 million represented an increase of 48.1%.

The Australian fresh milk business continues to strengthen with 10.7%² revenue growth and a record 11.2% market share³, up from 9.8% for the same period a year ago, and 10.8% at the end of 1H19.

a2 Milk™ was the fastest growing major fresh milk brand in Australian supermarkets and remains the leading premium milk brand and the only brand ranged in all major Australian supermarkets. Our second half performance was especially strong, driven by effective and consistent marketing investment.

a2 Platinum® infant nutrition revenue grew 35.3% and remains the market brand leader in grocery and pharmacy channels.

We remain the highest brand advertiser within both the milk and infant formula categories, which continues to drive growth in brand awareness and consumer loyalty.



2 In constant currency.

3 Aztec Australian Grocery Weighted Scan 12 months ending 30 June 2019 vs prior year. Note, the latest market share reporting database was updated in 1H19 and for prior year to include Costco, Aldi (SA and WA) sales.

China business momentum continues to build

China segment business revenues rose to \$405.7 million, up 73.6%, with EBITDA of \$123.9 million, up 52.4% resulting from increased distribution, higher like-for-like sales velocity and continued market share gains.

Our Kantar infant formula consumption value share increased to 6.4%⁴ in the latest 12-month data for Tier 1 and Key A, B, C and D cities, up from 4.8% in the same period prior year, and up from 5.4% at the end of the first half⁵.

During the year we invested in expanded Kantar market share coverage to include city tiers B, C and D and are pleased to report considerable momentum in lower tier cities. Our multi-channel strategy remains important to our success in building household penetration amongst different types of consumers and across different city tiers. Through the eyes of the consumer each channel plays an important role and the combined effect is synergistic. Pleasing progress was made across all channels this year.

The cross border e-commerce channel (CBEC) remains a strong pathway to the Chinese consumer for the infant formula category, enabling consumers across all regions (including those in lower tier cities) to more easily access international brands. We performed well during the online seasonal events and continue to perform strongly across all CBEC platforms.

Mother and Baby Stores (MBS) provide Chinese parents with a more interactive shopping experience to view brands on offer and receive information about selected products. This channel continues to be an important priority in expanding our brand accessibility and consumer trial. Consequently significant investment was made in-store to drive education and visibility to shoppers. During the year, we focused on improving in-store productivity within the channel with strong results. Sales velocity growth within existing stores was a stronger contributor than growth coming from new store additions. During the year sales of China label infant nutrition approximately doubled and the number of MBS stores was ~16,400 as at the end of June, representing a 64% increase in stores from end of FY18. Improving in-store productivity and increasing store distribution will both continue to be important focuses in the coming year.

Modern supermarkets and Chinese label e-commerce retail channels are lesser contributors to our position at this stage relative to CBEC and MBS but also play important roles for target consumer segments.

The deep consumer and sales channel insights developed during the year give us confidence that we will benefit from accelerated investment in brand building and marketing in FY20 and beyond. The business is well positioned with strong offline and online distribution in place to benefit from step-changing marketing investment, which is expected to build further brand awareness and trial within the China market. This was a priority investment focus in FY19 and will continue to be a priority in FY20.

China regulatory dynamic

A number of important regulatory changes were introduced during the year with respect to e-commerce and cross border trade in general. This included new e-commerce law and a new CBEC policy framework containing implementation guidance for future CBEC trade.

These regulatory changes initially resulted in some orders being pulled forward into the third quarter. However, the overall impact has been minimal.

A number of announcements relating to regulation in China were made towards the end of the second half, including from China's State Administration for Market Regulation ("SAMR") and other ministries and bureaus, outlining measures to ensure successful implementation of the e-commerce legislation which, following a three-month grace period, became effective from April 2019.

We welcome measures that protect the rights and safety of consumers and the overall integrity of e-commerce channels and will continue to work closely with our partners through this process.



United States business building scale

US segment business revenues rose to \$34.6 million, up 160.7%, with an EBITDA loss of \$44.0 million resulting from increased investment in distribution growth and brand awareness.

US revenue has grown by over 100% during each of the last three years via a focused effort to increase brand awareness, driving in-store velocity increases and expanded distribution. While distribution continues to grow at pace, we are also focused on improving in-store productivity.

By the end of the year, our distribution exceeded 13,100 stores. This 118% increase was driven by gaining national distribution within the Kroger supermarket chain, adding three new regions within Costco, the successful addition of Vons (Southern California) and other Albertson's/Safeway divisions, and further Walmart distribution expansion. We also experienced a significant increase in the rate of distribution growth in January 2019, driven by building brand awareness and new store planogram reset timings within the respective retail chains.

Pleasingly, recent research data indicates the US brand development is progressing well. The a2 Milk™ brand is successfully growing category consumption, sourcing volume across multiple product segments and trading up consumers from conventional milk. The brand is also experiencing high levels of consumer loyalty.

We increased levels of marketing investment in the second half to support continued velocity growth. We also delivered on our commitment to deploy approximately US\$27 million of planned investment in the year.

The company remains confident of the opportunity for continued growth in the US given the high consumer propensity for premium wellness products and strong retailer support.

Growth of UK liquid milk remains challenging

UK segment revenues grew to \$21.6 million, up 12.7%, with EBITDA of \$4.4 million, driven by increased wholesale sales of infant formula.

The UK liquid milk business commenced in 2012 and has grown in volume and revenue every year. Since then, our company has evolved considerably, and the UK opportunity is not of sufficient scale when compared to the significant growth potential in Greater China and the US.

Subsequent to year end the Board has therefore decided to exit UK liquid milk operations during 1H20, to focus instead on strengthening our position in our core regions. UK infant nutrition customers have been transferred to our China and other Asia segment from FY20.

It is important to note that this decision does not preclude us from pursuing UK or European markets at some stage in the future for liquid milk or other nutritional products.



Outlook

We anticipate continued growth in revenue across our key regions supported by increasing brand and marketing investment in China and the US.

Full year FY20 EBITDA as a percentage of sales is expected to be broadly consistent with 2H19 EBITDA margin (28.2%) reflecting:

- increased full year marketing investment to ~12 per cent of sales;
- continued investment in organisational capability to support future growth; and
- gross margin percentage expected to be broadly consistent with FY19.

Jayne Hrdlicka
Managing Director and CEO

20 August 2019

⁴ Kantar Infant Formula market tracking of Tier 1 and Key A, B, C and D cities for 12 months ending 14 July 2019 by value, vs 12 months ending 14 July 2018.

⁵ Kantar Infant Formula market tracking of Tier 1 and Key A, B, C and D cities for 12 months ending 30 December 2018 by value.

Regional and product financial summary*

Australia and New Zealand



FY19 REVENUE '000s **\$842,695** % change **+28.3%**

Liquid milk:	133,704	Liquid milk:	+8.2
Infant nutrition:	652,864	Infant nutrition:	+35.3
Other nutritional:	56,127	Other nutritional:	+10.9

Greater China and other Asia



FY19 REVENUE '000s **\$405,667** % change **+73.6%**

Liquid milk:	2,906	Liquid milk:	+90.8
Infant nutrition:	393,124	Infant nutrition:	+73.4
Other nutritional:	9,637	Other nutritional:	+76.2

Total Group

FY19 REVENUE '000s **\$1,304,496**

Liquid milk:	174,916
Infant nutrition:	1,063,816
Other nutritional:	65,764

% change **+41.4%**

Liquid milk:	+22.9
Infant nutrition:	+46.9
Other nutritional:	+17.3

United States



FY19 REVENUE '000s **\$34,560** % change **+160.7%**

Liquid milk:	34,560	Liquid milk:	+160.7
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UK



FY19 REVENUE '000s **\$21,574** % change **+12.7%**

Liquid milk:	3,746	Liquid milk:	-6.7
Infant nutrition:	17,828	Infant nutrition:	+17.9



* NZ\$



BUILDING A
SUSTAINABLE FUTURE

Towards an integrated approach.

We are taking a strategic approach to ensure sustainability is an integrated part of our business strategy and operations, consistent with the guiding principles of integrated reporting; rather than adopting a prescriptive framework.



Our world

Macro factors shaping consumer demand and creating new opportunity.

There are several macro factors at play in the global consumer economy which are changing historical purchase behaviour patterns and disrupting the traditional food industry.

Our brand proposition is well positioned in this changing landscape and we believe we are well placed to continue to grow and evolve in a fast-paced world, where the consumer is more educated and discerning.

We see four distinct and interconnected macro factors most relevant to us in the consumer economy globally: growing consumer demand for health and wellness products; growing focus on food safety, naturalness and provenance; rise of the middle class in Asia; and rapid pace of digitalisation.

As a company we set out every day to make a fundamental difference in people's lives by enhancing their wellness and enjoyment. Our core values and purpose underpin our unique brand proposition, that stands for something special in the eyes of our consumers. We are seeing these inter-connected macro factors at play in the biggest and fastest economies in the world, our priority markets of China and the US; and believe this strengthens the appeal of our brand proposition.

MACRO CONSUMER FACTORS



Growing consumer demand for health and wellness products

A growing awareness of the link between food and overall health – many consumers believe what they eat has a direct effect on how they feel. Coupled with rising disposable incomes, and increased demand for both protein and gut health, this trend is propelling the global demand for premium products that provide high quality nutrition.

Global digestive health products market to reach US\$57 billion by 2025.



Growing focus on food safety, naturalness and provenance

Consumers are increasingly conscious of food safety and product origins – demanding more transparency on where and how their food is produced. This is driving significant demand for naturally healthy, premium quality and sustainable food choices. There is strong trust in the quality and safety of Australian and New Zealand products and innovation globally, particularly in Asia.

More than one in three Chinese consumers buy Australian or New Zealand products online.



Rise of the middle class in Asia

Asia's unprecedented growth is creating large-scale opportunities for individuals, businesses and nations. The emerging middle class will continue to desire higher quality, value added, safe and nutritious foods – and view imported brands as aspirational.

By 2030, more than half of the world's food will be consumed in the Asia region.



Rapid pace of digitalisation

The rise of digital connectivity and innovation, and e-commerce generally, has been called the fourth industrial revolution. It is quickly transforming the shopping experience; fusing information, access, and convenience. This is opening new direct-to-consumer channels and an interesting mix of traditional and digital channel innovation. All of which ultimately brings consumers greater access and choice.

E-commerce is expected to grow 20% globally in 2019.

Our business

Defines who we are and what we do in order to create value for our consumers, people, commercial stakeholders and the community in which we operate.



WHO WE ARE

Our purpose:

We enrich lives by harnessing the nutritional wonders of nature.

Our values:

Bold passion

Driven to realise our amazing potential as a company and as individuals.

Humility

We're never done growing, discovering; and have a willingness to continually iterate and learn.

Pioneering spirit

Unconventional open-minded thinking that re-imagines the possibilities; outcome driven.

Respect

Seek to understand and appreciate difference in all its forms.

Integrity

We do the right thing for our consumers, partners, people ...and our cows.

WHAT WE DO



Pure and natural a2 Milk™

The foundation of our company and our products



Infant's and children's nutritional products

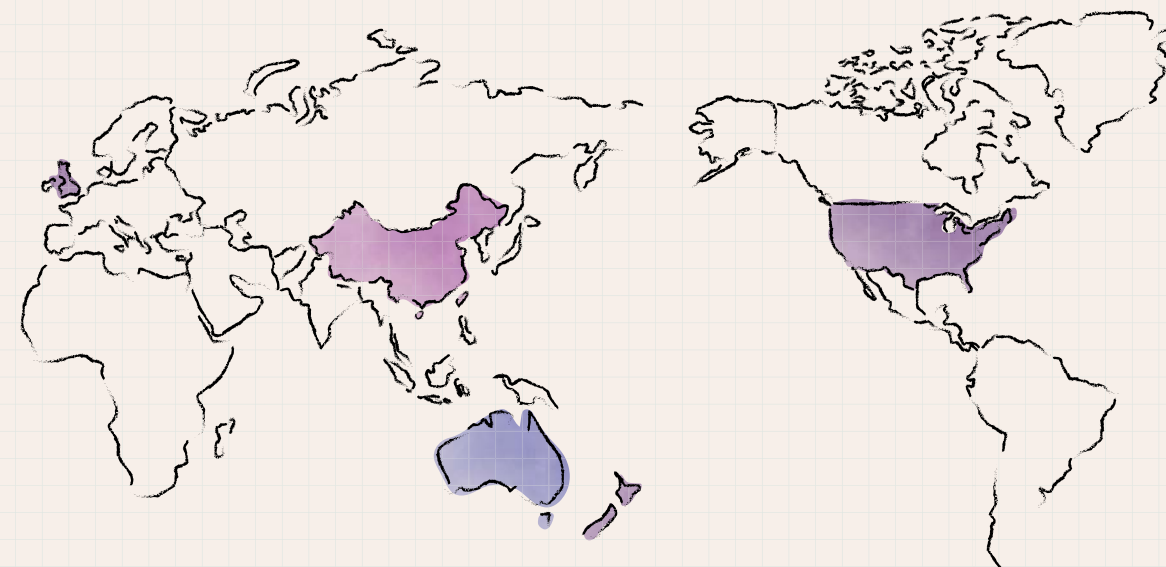
Delivering our proposition where it matters most

Watch this space

Other unique products

Identify new ways of delivering naturally inspired wellness

WHERE WE PLAY



Australia and New Zealand

Our home ground – quality, trust and channel pathways into China

Greater China

Our highest, proven opportunity for future growth

US

Our chance to build a second growth engine

Other markets

Developing other select markets

HOW WE CREATE VALUE

There are six core elements, or sources of capital, embedded in our value creation model. Our strategy depends on success across each given the inter-connected nature of our business model.



Unique, premium brand and IP Intellectual capital

Our trusted brand, our proprietary know-how and A2 protein expertise are our most valuable assets. We're committed to maintaining and growing these assets with ongoing investment.

Through ongoing science and research and development programmes, we're deepening our expertise and advancing global understanding of the potential health benefits of a2 Milk™.

Our premium brand is growing in awareness, has loyal consumer followings and is a trusted brand of varying scale in our key markets across the world.

We invest significantly behind our brand trade mark development and protection across all products and markets as well as focused investment in building brand awareness to deepen loyalty and increase the equity in our brand.

82.4% increase in investment in marketing, R&D and IP
\$142.3 million in FY19, representing 10.9% of sales



Passionate and thriving team Human capital

Through a purpose driven culture underpinned by our values, we aim to create an environment that provides our people with opportunities to thrive. Our success is the result of our diverse, skilled and engaged workforce, aligned and focused to deliver on our purpose and strategy. Through our diversity comes creativity and thinking that goes beyond the conventional. This is how we overcome challenges and unlock extraordinary opportunity.

Our team must continue to represent diversity in all its forms, reflecting the markets in which we operate and the consumers we serve today and tomorrow. To achieve this, we're bringing in the right people to enhance culture and build strength in what we stand for. We equip our people leaders with the tools to foster a safe and fair workplace, with equal opportunity for all.

Our Diversity Policy empowers and equips our people leaders to foster a diverse and competent workplace. We are particularly focused on enhancing gender balance in our workforce, having set a target of a minimum of 40% women and men in leadership positions.

Achieved our target of minimum 40% of women across all leadership levels by 1 July 2019



Capital smart approach Financial capital

Our business model is built on deep and long-term strategic partnerships both commercially and operationally. Our farms and processing partners are some of our longest-standing relationships. Together we have built a very successful community of businesses – big and small. This ecosystem underpins our "capital smart" business model and has given us the ability to grow rapidly, while also building a strong balance sheet for continued growth.

The company's robust balance sheet position and unique proposition provide a strong platform for continued growth. We make considered decisions about the use of our capital, making decisions to invest where it is strategic to do so.

Our significant growth ambition is enabled by our capacity to make step-changing investment in consumer insights, brand development and organisational capability. We are directing significant investment to deliver continued strong revenue growth while deepening our brand engagement and consumer loyalty.

Revenue increased 41% to \$1.3 billion in FY19



Innovative and ethical supply chain Manufacturing capital

Complementing our own fresh milk production capability, we have worked closely with our suppliers to develop a reliable and responsible sourcing and manufacturing supply chain over time. We believe this is critical to our long-term success. Our framework for building a resilient supply chain includes:

- strategic partnerships aligned to our values;
- an unwavering commitment to safety and quality;
- a sustainable approach to energy and packaging;
- direct investment where important in core strategic partners; and
- ethical sourcing of our products, which includes our commitment towards best practice standards in animal welfare on our farms.

Our strategic supply chain partners share our ambition on quality, environmental and ethical values. This includes food safety and quality management programmes audited by accredited third party agencies.

It is important to recognise the unique role that farmers play in our supply chain and our business' success, and we pay a premium to all farmers for our milk, recognising their hard work to maintain our very high herd management and quality standards.

Premium paid to all our farmers over and above farm gate pricing



Responsible use of natural resources Natural capital

Access to natural resources and a thriving agricultural sector is fundamental to our business. We recognise that climate change and pressures on agricultural and food systems present a systemic challenge for our world – and we're committed to finding unique and high impact solutions across our value chain to help address these challenges.

Globally, food production systems are facing a transformational challenge to meet the demands of a growing population within environmental limits. Appropriately meeting this challenge will enable us to continue providing premium a2 Milk™ based products to our consumers and long-term value to our shareholders.

Through our own actions and in partnership with our supply chain, we are mapping our environmental impact, starting with a high level analysis of greenhouse gas ('GHG') emissions from our direct operations, third party processing and on-farm activities. We are working with our supply chain to understand our impact in more detail. Based on early insights, we're focusing our efforts on greenhouse gas emissions, water and soil quality, energy, waste and biodiversity.

We support the global ambition of the Paris Agreement and a 2050 net zero emissions target, as do Synlait and Fonterra. We are already taking steps to limit our environmental footprint where we can, set targets for our supply chain impacts and will be offsetting the GHG emissions from our direct, third party processing and on-farm operations from FY19.

100% carbon neutral across our supply chain

Direct and indirect emissions in FY19 to be offset with carbon credits sourced from projects in our key local markets (ANZ, US and China)



Enriching community wellbeing Social capital

We take our responsibility to the communities we serve very seriously. We play an important role in supporting the healthy development of some of the world's youngest and most vulnerable people. We support and promote that breastfeeding is better for infant nutrition but that our products have a legitimate role to play in circumstances where this is not possible. Our communications strategy supports not only brand development but educating parents and adults about the benefits of our products and our support of breastfeeding as the primary form of infant nutrition.

We recognise our responsibility to support the resilience of our farming communities, including through events such as the drought in Australia. We have worked with our strategic partners to deliver drought support payments directly to farms to provide some financial relief during the recent drought.

As we continue to grow, we are committed to doing more to support people and our farmers across each of our key communities. An example of this is our partnership with Landcare Australia. We intend to be involved with similar community initiatives across all our key regions going forward.

We are also working on new metrics and targets to measure our impact over time.

Landcare Australia partnership with over \$350k committed to on-farm grants since 2017

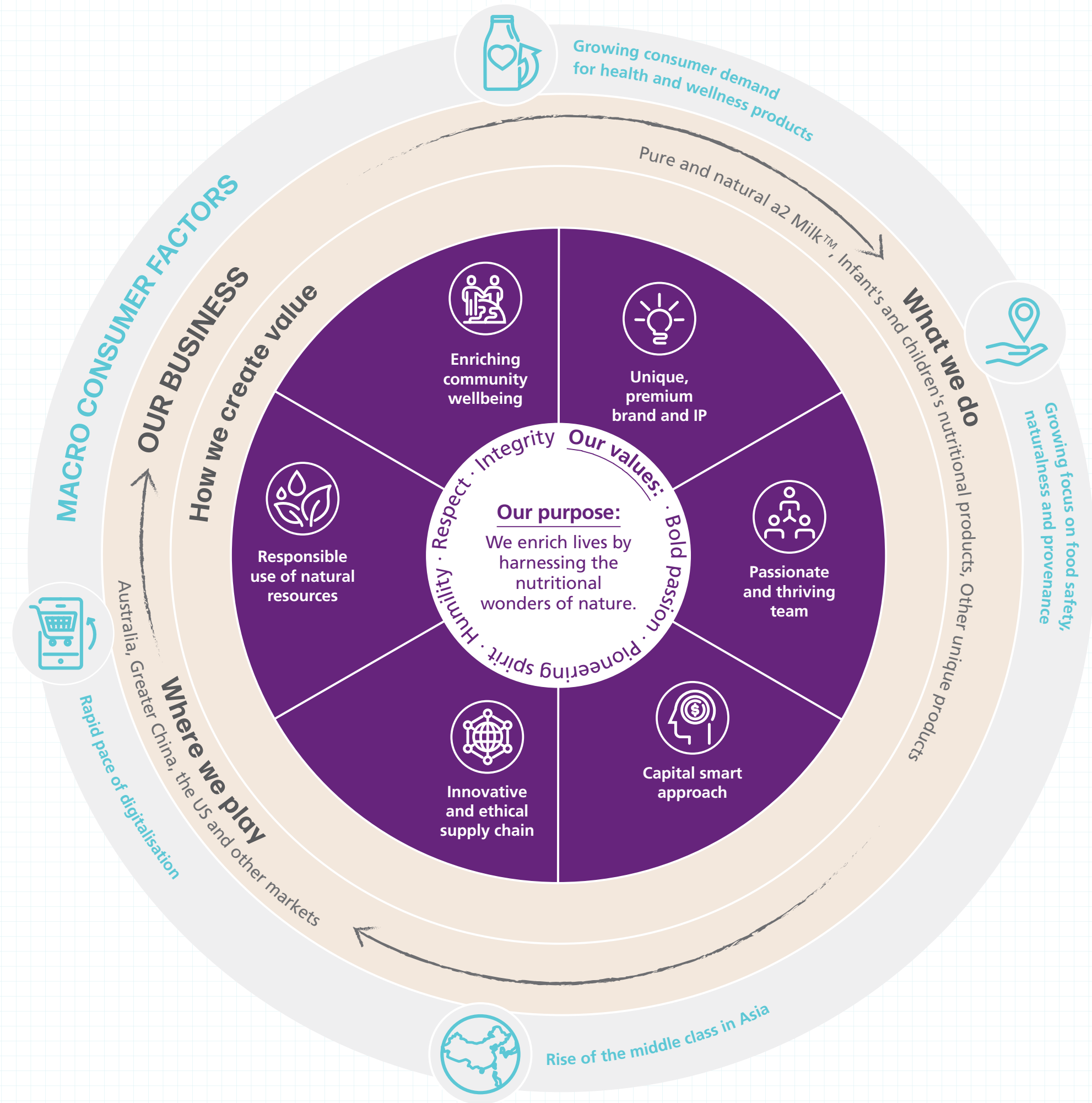
Our impact

Our integrated approach to being a responsible company in the wider world we operate in.

The interrelationship between our world and our business determines our ability to create and sustain value. As we grow, we are focused on having a positive impact on the world in which we operate, recognising that with scale comes greater responsibility.

We are committed to providing our stakeholders with credible, transparent and timely information on our material issues and sustainability performance; where we have made significant accomplishments and where we have room to improve.

We are working to set targets and measure our performance across the six sources of capital that we have identified that affect our ability to create and sustain value. The following case studies are intended to provide an indication of our sustainability progress against our promises, how far along the journey we are and the value this adds to our business.



Putting people first

Our company roots are embedded in a pioneering spirit that sought to make a fundamental difference in people's lives – putting both our consumers and our team first in all we do.

For our team we are working to ensure that as we increase our capability and head count to support our growth, we protect our company culture, increase our diversity and maintain our agility. Our team journey in the last year has included:

- appointing our first Chief People Officer to drive our people strategy;
- investing significantly in both capability and capacity in our core markets and head office;
- defining our core purpose, values and behaviours to assist in recruiting and onboarding new employees to better understand our culture;
- building basic cloud based support systems and tools to enhance our people experience; and
- implementing regular pulse checks across multiple dimensions of employee satisfaction and we will use this data to continue to improve the experience of our people, which in turn will enhance the delivery of our strategy.

In the process we have also made a marked improvement in the gender balance of our Board and Senior Leadership Team. This coupled with our ethnic diversity has increased the richness of our debate and discussions; however we recognise there is more work to do in this area.

We have articulated and refined our purpose and values through the input of our teams around the world. We all share a deep passion to remain a purpose-driven and values-based company. We seek to enrich lives by harnessing the nutritional wonders of nature with bold passion, pioneering spirit; and always operating with humility, respect and integrity. The power of aligned purpose and values cannot be overstated. It provides a unifying energy that brings our people and strategic partners together as we scale at speed; and positions our business for success in the long term.

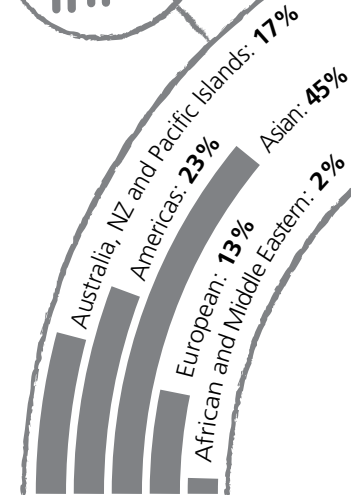
We are mindful that our world is characterised by rapid change and disruption and that good governance and compliance are essential. Our success depends on being agile and more innovative than ever before and we must always strike the right balance between speed and taking the time to properly assess and mitigate our risks.

Building strength through our people

Unlocking our potential and capacity through capability building

To enable our strategy, we continue to focus on ensuring the right operating model and organisational design. This has allowed us to most effectively deploy the skilled talent we have today and has informed our investment strategy for new talent and capability. Our workforce grew by 27% in FY19, to deliver the capability needed in our growth markets but also to enhance the development of key corporate areas including new product development, marketing, legal, commercial and people teams.

Heritage

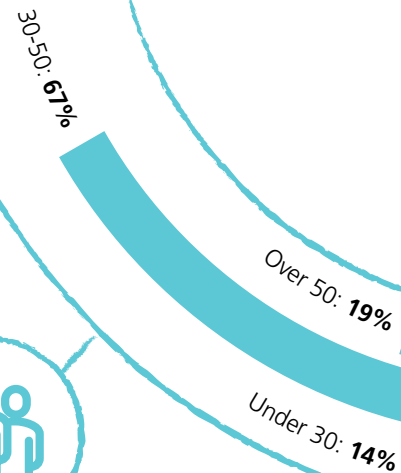


Female composition



Our people: composition and diversity

Age group



Length of service



45%
females in senior leadership

41%
increase in China workforce; over 20% of the global team now located in Greater China

27%
increase in total workforce for expanded capability and capacity

While we are committed to enhancing all aspects of diversity as we build our capability and capacity, we are particularly focused on delivering on our gender diversity goals. In FY19 we achieved our targets of at least 40% females and males in senior executive and manager roles. From 1 July 2019 we have achieved the target across all leadership levels of the company with Pip Greenwood joining the board and bringing the board composition to 50/50 female/male. We are proud to have achieved these targets three years ahead of schedule. We are now focused on maintaining them and working on further areas of diversity improvement.

As at 30 June 2019¹

	Female	Female (%)	Male	Male (%)
Directors ²	2	33%	4	67%
Senior Executives ³	5	42%	7	58%
Managers	18	49%	19	51%
Sub-total for senior leaders⁴	25	45%	30	55%
Other staff	98	57%	75	43%
Total	123	54%	105	46%

We will continue to build a diverse and inclusive community of great people throughout The a2 Milk Company, at all levels of the organisation. Our Diversity Policy is available on our website at www.thea2milkcompany.com/about-us/corporate-governance.

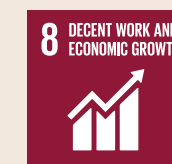
Embedding global ethical and compliance systems

Doing the right thing for our customers, people and partners

Across our value chain, we intend to operate ethically, including with respect for human rights and in compliance with all local requirements, including anti-bribery and corruption.

We are investing in our people and systems to continue to build capability to meet our strict product quality and food safety standards and embed monitoring and compliance systems specific to the regulatory environments in each market in which we operate.

In FY20 we will be undertaking an assessment of human rights and other ethical risks in our value chain and ensuring alignment of our supply chain management approach with our fundamental values of respect and integrity.



¹ All these figures include permanent full-time, permanent part-time and fixed term employees, but exclude independent contractors.
² Includes executive director Jayne Hrdlicka (CEO) and excludes Pip Greenwood, who commenced on 1 July 2019.
³ Defined as the CEO and Senior Leadership Team.
⁴ Senior leaders is the total of Directors, Senior Executives and Managers. Please note that the CEO appears in both Directors and Senior Executives.

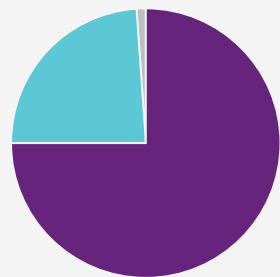


Carbon neutral across our supply chain

As a modern company with deep strategic relationships across our supply chain, we recognise that our environmental responsibility must include our end-to-end activity. For the reporting period we will be offsetting the estimated share of our farming community, manufacturing and transport providers. We will achieve this by purchasing verified carbon offsets sourced from projects in our key local markets in which we operate (ANZ, US, China). In FY20 our goal is to have our offset investments tie back to our environmental farming programmes. This will be designed to ensure we are not only helping our farmers reduce their greenhouse gas emissions but also to seek to add value in others ways – such as identifying new revenue streams and opportunities for community engagement.

Our direct operations comprise only 1% of the emissions of our extended supply chain family but we will continue to find ways to reduce our own impact while we work with our partners to help reduce theirs.

Greenhouse gas emissions footprint of our supply chain



Includes Scope 1, 2 and 3 emissions and further notes on page 31.



What's next?

Our commitment demonstrates new demand for carbon farming projects. We intend to work with farmers and communities in our markets to support the development of new and innovative projects that deliver emissions reductions, along with other on-farm benefits and new revenue streams for our farming communities.



Sustainability right from the farm gate

Our responsibility to the natural environment, our communities and a resilient supply chain starts at the farm gate. We're investing in developing new programmes to improve soil health, water quality, GHG emissions, biodiversity and animal welfare; and working alongside farmers to innovate on-farm.

We take our animal welfare responsibilities seriously and have continued to work with our farmers to meet globally recognised standards set by the World Organisation for Animal Health and eliminate practices that contravene the Five Freedoms. In 2019 we are elevating our animal welfare programme to a Five Provisions based globally certified programme.

To support the economic and environmental sustainability of our farms, since 2017 we have been awarding grants to farmers to contribute to investments in solar power generation, soil quality and waste-water recycling projects, through our partnership with Landcare. In 2019, one of our grants enabled the family-run Cleary Farm to install new systems for reusing dairy wastewater for irrigation. The project has reduced reliance on chemical fertilisers, minimised water, improved pasture growth and soil quality, and reduced operating costs.

In 2019, one of our key farms, Moxey Farms in New South Wales implemented new technology that converts cow manure into electricity and natural fertiliser, utilising a bio-digestion process which generates methane to be used for power generation.

Our US farms are creating new economic streams and diverting waste from landfill by combining solid waste from their dairy processes with food waste from local schools, garden waste from the community and leftovers from local arenas; which is then treated and converted into saleable compost.

Animal welfare programme in place across all farms

and aligned to the World Organisation for Animal Health's Five Freedoms

78% of current farms with an environmental plan



What's next?

By 2021, all farms supporting and supplying The a2 Milk Company will be governed by a third party certified framework for animal welfare globally, and have environmental plans covering the four material issues of GHG emissions, soil quality, water quality and biodiversity.



Smarter packaging

Packaging is a key issue for consumer food companies. We know that we can and must reduce our packaging footprint, whilst maintaining our premium product quality and integrity.

One of the first steps in tackling packaging waste has been establishing baselines in FY18, so that we can track our progress against our global packaging targets. Already, over 95% of our product packaging globally is recyclable. We're also expanding our use of recycled content in our packaging, and removing unnecessary single-use plastic.

In the UK our new fresh milk cartons are carbon neutral and use over 80% less plastic than the previous design. At least 80% of the carton material is sourced from sustainable forests certified by the Forestry Stewardship Council and the International Sustainability & Carbon Certification.

Importantly, changes to our packaging are being made with an acute focus on product safety and integrity. We are also maintaining our focus on the strict labeling and branding requirements in the markets within which we operate. In FY19 we successfully completed the transition to updated packaging, incorporating a new global brand logo for a2 Platinum® infant formula and the transition of the newly registered China label packaging, in compliance with China's labelling and branding requirements.

We have also introduced unique QR codes on packaging for all infant formula products and we continue to undertake product verification audits by food traceability experts Oritain.

> 95% of product packaging is recyclable

100% of infant formula has a unique QR code



What's next?

We're working to set global packaging targets. Meanwhile, we are conducting a full life cycle analysis of the environmental impact of our Stage 3 infant formula with our partner Synlait in New Zealand. Elsewhere, we are engaging with our packaging suppliers to develop high quality and lower impact alternatives.



Innovation and efficiency in our processing

An exciting feature of our industry is the capacity for advances in technology that allow us to continuously improve and innovate our product processing. We're improving efficiency and minimising our environmental impact, with an uncompromising focus on quality.

We are implementing a circular economy approach at our own fresh milk processing facility in New South Wales and have achieved over 95% of waste diversion from our production process. Liquid waste products are sent back to farms for beneficial use as organic fertiliser following treatment on-site by our 80kL waste-water treatment system. We have optimised lighting through LED installation and have achieved, what we believe to be, best in class water efficiency with 0.5L of water per litre of milk produced.

We are working alongside our strategic partners to drive rapid innovation in their processing operations too. Synlait, who processes our infant formula products in New Zealand, has installed the first large-scale electric boiler in the country as part of its commitment to reduce off-farm greenhouse gas emissions by 50% by 2028. Our third party Australian warehouses are utilising rooftop solar power generation, electric forklifts and rainwater harvesting for freight vehicle washing and maintenance.

Our commitment to quality is also demonstrated by our industry certification within our supply chain – ISO 9001 for our infant nutrition products and Safe Food Quality Programme (Global Food Safety Initiative) for our own fresh milk processing facility.

Best in class water efficiency

at our own fresh milk production facility in New South Wales

95% diversion of waste

from landfill at our own fresh milk production facility in New South Wales



What's next?

Although we have made small steps there is much more to do. We are working to identify renewable energy generation options for our direct operations and within our supply chain.

Our metrics



Unique, premium brand and IP Intellectual capital

Metric	FY19	FY18	YoY variance
% revenue invested in marketing/R&D/IP	10.9%	8.5%	+2.4pts
China consumption – % value market share	6.4%	4.8%	+1.6pts
US consumption – revenue	\$34.6m	\$13.3m	+160.7%



Passionate and thriving team Human capital

Metric	FY19	FY18	YoY variance
Female			
Directors¹	2	1	+100%
% of total	33%	17%	
Senior Executives²	5	1	+400%
% of total	42%	10%	
Managers	18	18	0%
% of total	49%	49%	
Sub-total for senior leaders³	25	20	+25%
% of total	45%	38%	
Other staff	98	79	+24%
% of total	57%	62%	
Total	123	99	+24%
% of total	54%	55%	
Heritage			
Australia, NZ and Pacific Islands	17%	24%	-7pts
Asian	45%	46%	-1pt
Americas	23%	13%	+10pts
European	13%	15%	-2pts
Africa and Middle East	2%	2%	-



Capital smart approach Financial capital

Metric	FY19	FY18	YoY variance
Revenue	\$1,304.5m	\$922.7m	+41.4%
Return on capital employed ⁴	61.2%	70.4%	-9.2pts
Operating cash flow	\$289.1m	\$231.1m	+25.1%



Responsible use of natural resources Natural capital

Metric	FY19	FY18	YoY variance
% recyclability of packaging ⁵	95.5%	94.6%	+0.9pt
GHG Emissions⁶			
Total	519,068	409,464	+26.8%
Scope 1 ⁷	198	187	+5.9%
Scope 2 ⁸	1,507	1,502	+0.3%
Scope 3 ⁹	517,362	407,775	+26.9%
Direct operations ¹⁰ (Scope 1, 2 and 3)	5,095	3,930	+29.6%
Third party processing and freight	122,976	103,869	+18.4%
On-farm ¹¹	390,997	301,665	+29.6%
Water efficiency ¹²	0.5L/L milk	-	-
Waste diversion ¹³	95%	-	-

1 Includes executive director Jayne Hrdlicka (CEO) and excludes Pip Greenwood, who commenced on 1 July 2019.

2 Senior executives are defined as the CEO and Senior Leadership Team.

3 Sub-total for Senior Leaders is the total of Directors, Senior Executives and Managers.

4 Calculated using average capital employed, including cash and investment in Synlait Milk Limited.

5 Based on recyclability of end use product, calculated on unit sales volumes in relevant year. Rates are based on the potential to recycle rather than actual recyclability rates in end use markets. All material in our packaging is technically recyclable, however we have accounted for lack of infrastructure to recycle aluminium in particular markets.

6 Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO₂e), have been estimated using the approach recommended by The GHG Protocol. Emissions and conversions factors were sourced from the National Greenhouse Accounts Factors for Australia, the UK DEFRA GHG conversion factors and a range of other country-specific sources. Where required, non-direct emissions sources have been estimated using default and/or extrapolated emissions intensity rates to provide a more complete picture of our Scope 1, 2 and 3 carbon footprint. Total emissions calculations exclude packaging for FY19. We expect data quality to improve over time as we continue to work with our partners.

7 Includes FY18 natural gas estimations for the US office, based on FY19 GJ/month averages.

8 Includes FY18 electricity estimations for the US office, based on FY19 kWh/month averages.

9 Due to the nature of Scope 3 emissions occurring outside of areas of our direct control, this represents a conservative estimate of our Scope 3 emissions.

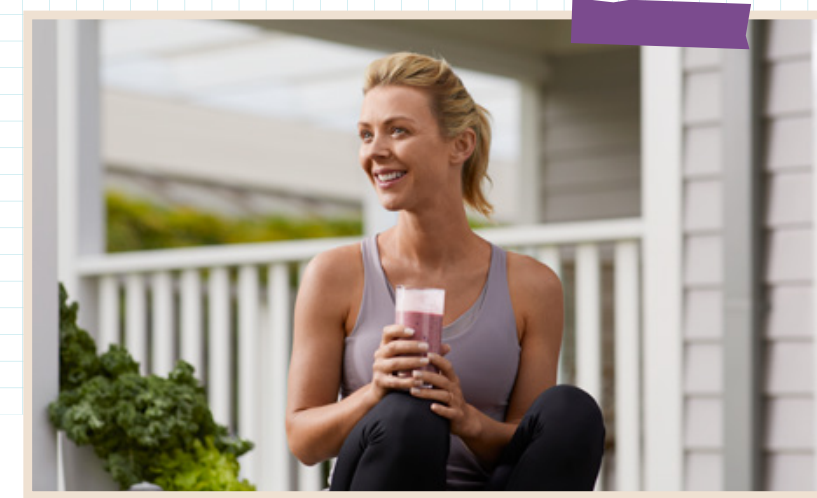
Key emissions sources include: on-farm emissions, energy consumed within third party processing and warehouse facilities, fuel consumed in freight logistics and business travel, as well as emissions associated with waste, recycling and water consumption. Where required, estimations have been made where data was not able to be directly sourced. This includes assumptions and extrapolations from available data. Moving forward, we will endeavour to source as much actual data as possible to improve data quality.

10 Includes our own fresh milk processing facility and corporate operations.

11 Calculated using actuals and industry estimations based on milk unit sales for all farms in Australia, NZ, the US and the UK, excluding Synlait for which emissions are calculated based on our proportion of total output.

12 Water efficiency per litre of milk produced at our operated Smeaton Grange fresh milk processing facility.

13 Waste diversion from landfill at our operated Smeaton Grange fresh milk processing facility.



Risk management

Effective risk management is an essential part of actively growing and developing a successful business.

Effective risk management anticipates risk and develops strategies to manage risk to drive informed and consistent decision making and the effective and efficient allocation of capital and resources. Our risk management programme assists us in identifying, assessing, monitoring and managing our business risk, and recognising material changes to our risk profile.

Our Risk Management Policy outlines the programme we have implemented to ensure appropriate risk management within our systems and culture. A copy of the Risk Management Policy is available at www.thea2milkcompany.com/about-us/corporate-governance.

Identifying and responding to risk

Our risk assessment process begins with the identification of key sources of risk relevant to the activities of the business. This approach facilitates a comprehensive assessment of potential risk to the business and allows appropriate management strategies to be subsequently employed.

The following table identifies significant sources of risk for the business, including key economic, environmental and social sustainability risks with the potential to materially impact our ability to achieve our objectives; and also how we are responding to those risks.

Sources of risk

Sale of nutritional food products

We supply food products for human consumption, including complex nutritional products for consumption by infants and children. As a result, the business is inherently exposed to potential product quality, food safety and/or food integrity events (including counterfeiting or tampering) that may cause injury to consumers, and disruption to business activities, and could result in overall damage to our brand and reputation.

High growth business in competitive markets

Our business has experienced significant growth in recent years, driven predominately by the success of our liquid milk and infant formula businesses in Australia, China and the US. Our strategic growth priorities seek to ensure we continue to deliver long-term growth in existing and new markets. As a result, we are inherently exposed to:

- increasing competitive intensity, which could lead to an erosion of our market share positions in core markets; and
- potential infringements of our IP rights resulting from third party conduct or claims against such IP, which may lead to protracted litigation and/or erosion of our brand assets.

Doing business in international markets

Due to our expanding footprint, our business is exposed to various risks associated with conducting business in international markets including in Australia, China and the US. As a result, we are inherently exposed to:

- dynamic political and regulatory environments in which government actions influence or restrict international trade in products. This can occur through the use of tariffs, quotas, price controls, taxes and non-tariff barriers such as product registrations, competition and consumer laws; and
- litigious environments that could result in claims against the company from consumers and other market participants.

Reliance on strategic partnerships

Our success is underpinned by key relationships with strategic partners, including key supply and distribution partners. As a result, the business is inherently exposed to the operations of key partners changing in a material and adverse way, or as the result of one or more partners reducing their support for us. This could impact our ability to maintain supply to our customers, and to maintain our position in existing markets or enter new markets.

How we are responding

We have a range of product quality and food safety systems, protocols and technologies in place to minimise risk in this area, including:

- food safety and quality management systems;
- high quality third party manufacturing partners;
- positive release protocols (comprehensive testing of product quality and protein integrity prior to the release of every batch of finished product);
- testing of distributed products in selected markets;
- employment of product innovation and technology to improve product security;
- product recall and crisis management systems; and
- consumer support systems.

Our strategic growth priorities are aided by:

- significant and ongoing investment in brand building activities globally;
- new and unique product offerings in selected markets;
- continued investment in developing and further broadening our trademark and patent portfolio including building exclusivity in trademarks in existing and future markets and expansion of the company's suite of patent families;
- monitoring of third party applications and activity;
- monitoring infringement of our IP and taking necessary action to protect it; and
- documenting and embedding proprietary know-how across quality systems and processes.

Our efforts to effectively navigate the complexities of international markets are supported by:

- strong and experienced local management teams in our core markets of ANZ, China and the US;
- sophisticated expert monitoring of evolving regulatory requirements in all markets in which we operate;
- a multi-product, multi-channel route to market strategy for the sale of infant formula into China;
- close partnership with our infant formula manufacturer, Synlait Milk, which holds:
 - SAMR product registration¹ for the importation of the company's China label infant formula through to September 2022; and
 - GACC² registration for its Dunsandel manufacturing facility, allowing canned infant formula to be exported to China.

Potential exposures are mitigated through the proactive management of partner relationships centred on shared long-term value creation, which includes:

- a focus on developing strong, long-term commercial relationships with multiple supply chain partners;
- due diligence on supply chain partners before entering commercial agreements;
- a long-term partnership with dairy nutritionals manufacturer, Synlait Milk, governed by a formal manufacturing agreement, and complemented by the company's equity interest in Synlait Milk;
- a strategic relationship with Fonterra Co-operative Group Limited, providing multi-site and geographic diversification for our growing nutritionals business;
- contracts providing access to milk pools that exceed our current usage requirements; and
- multiple milk processors contracted in Australia and the US, mitigating reliance on a single processor in these regions.

¹ Registration achieved by Synlait Milk and given by China's State Administration for Market Regulation (SAMR) in September 2017 for the company's China label infant formula. SAMR requires registration to be held in the name of the manufacturer as opposed to the brand owner.

² General Administration of Customs of the People's Republic of China.

Risk management continued



Sources of risk

Climate change and reliance on natural resources

The business is exposed to short-term and long-term climate and environment related risks. These risks are inherent in the dairy industry and consumer marketplace and include:

- physical climate-related risks such as increased frequency and severity of extreme weather events, including the impacts of droughts on milk supply and input costs for farmers, as well as supply chain disruptions;
- transitional climate-related risks such as future regulatory obligations and carbon price exposure in our supply chain;
- environmental concerns regarding agricultural practices, including GHG emissions; water, soil and air quality; and biodiversity impacts; and animal welfare; and
- changing consumer preferences and calls for greater transparency and responsibility regarding the environmental impact of consumer products.

Such risks could negatively affect our brand reputation; result in greater regulation, consent or licensing requirements; or result in other restrictions or disruptions being imposed on our operations.

Reliance on talent and culture

We rely on the talent of our people and the effectiveness of our culture for success. Therefore, keeping our people safe is a top priority. The competitive nature of the job market and our positioning as a high-growth business also contribute to risks associated with managing our talent and culture:

- actual or potential harm to all workers and other persons at the workplace (including from non-compliance with applicable laws and regulations). In addition to any harm itself, this could also result in financial penalties, drop in staff morale and productivity, increased insurance costs and damage to our reputation;
- loss of key management personnel, in addition to the loss itself, could also have a material effect on our operating and financial performance; and
- resource constraints resulting from business growth out-pacing talent acquisition.

Rapid change in information technology (IT)

The rapid change in IT provides both opportunities and risks. Incidents of cyber-attack and the release of data have become an increasing threat for all companies. The cyber security and data environment is continuously evolving and, as a result, we are inherently exposed to inadequate IT security leading to a compromise of our IT system and potential data theft, data loss or corruption. Such a compromise could result in economic or reputational loss.

How we are responding

We are responding to increased demand for transparency on the identification and management of climate-related risks by moving towards alignment of our 2018/19 corporate disclosures with the Taskforce on Climate-Related Financial Disclosures (TCFD), with the intention of adopting the full TCFD recommendations over the next three years.

We are managing our exposure to natural resource reliance by:

- setting baselines, annual reporting and short-term and long-term reduction targets for GHG emissions (aligned with the Paris Agreement), energy and water consumption, waste-to-landfill and product packaging within our direct operations and our supply chain;
- building long-term supply arrangements with partners promoting positive environmental and social sustainability activities and initiatives and implementing environmental plans on all farms by 2021;
- sourcing milk from diversified milk pools across and within New Zealand, Australia, the USA and the UK;
- sourcing milk from farms in close proximity to our processing facilities, reducing the need to transport milk over long distances from other areas; and
- implementing a best practice globally certified animal welfare standard across our operations, aligned to the Five Provisions and Animal Welfare Aims.

We are committed to the safety of our people and have established systems and processes to identify, control, report, investigate and monitor health and safety risks across the business.

Believing that well managed, engaged and effective teams create long-term business success, our efforts are aided by:

- an effective employee retention strategy, combining both short-term and long-term financial incentives with career development opportunities to motivate and engage key personnel;
- increasing the depth and capability of the senior management pool to support future growth; and
- succession planning to ensure continuity of knowledge, skills and experience.

We remain focused on further strengthening our governance, processes and technology controls to continue to protect the integrity and privacy of data and maintain compliance with regulatory requirements. We continue to invest in increased cyber security systems and protections, including restricted and segregated access to sensitive company and stakeholder data, implementation of regional specific cyber security audits and cyber security insurance.



CORPORATE GOVERNANCE

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Our directors



David Hearn
Chair and non-executive Director
Master of Arts
Director since February 2014

David has been a director of the company since 5 February 2014, and Chair since 30 March 2015. He is also a member of the Nomination Committee.

David has experience and skills in executive management, sales and marketing and strategy development in fast moving consumer goods (FMCG) in international markets. He has held senior executive roles including Chief Executive Officer or Managing Director roles for FMCG companies including Goodman Fielder Limited, UB Snack Foods Europe/Asia, Del Monte UK and Smith's Crisps and for the marketing services group, Cordiant Communications Group.

In addition to his Company directorship, David is also a director of Lovat Partners Limited, Robin Partington & Partners Limited and Committed Capital Limited.

David resides in the United Kingdom.



Julia Hoare
Deputy Chair and Independent, non-executive Director
Bachelor of Commerce, FCA, Chartered Member of the Institute of Directors (NZ)
Director since November 2013

Julia has been a director of the company since 19 November 2013, and Deputy Chair since 30 March 2015. She is also Chair of the Audit and Risk Management Committee and a member of the Nomination Committee.

Prior to joining the Board, Julia had extensive chartered accounting experience in Australia, the UK and NZ and was a partner with PwC NZ for 20 years. She is also a member of the New Zealand External Reporting Advisory Panel (XRAP), a body designed to support the standard setting process of the New Zealand External Reporting Board (XRB), and the New Zealand Institute of Directors National Council.

In addition to her Company directorship, Julia is Deputy Chair of Watercare Services Limited, and a director of Port of Tauranga Limited, AWF Madison Group Limited and Auckland International Airport Limited.

She is also a member of The New Zealand Sustainable Finance Forum Leadership Group, the aim of which is to identify genuine, practical ways to ensure the financial system is supporting and not hindering the economic transition required for New Zealand to meet its international commitments under the Paris Agreement Sustainable Development Goals.

Julia resides in New Zealand.



Jayne Hrdlicka
Managing Director and Chief Executive Officer
Bachelor of Arts (Hons) Economics and Mathematics; Master of Business Administration (Dartmouth)
Director since July 2018

Jayne commenced as Managing Director and CEO of the company on 16 July 2018.

Jayne is a senior executive with extensive experience in strategy formulation and execution, insight into customer-centricity and innovation and, importantly, an understanding of operating in a disruptive environment.

Prior to joining the company, Jayne was most recently employed for five years in the role of CEO of the Jetstar Group, a wholly owned subsidiary of Qantas Limited, having previously led the business transformation of Qantas Airlines from 2010 to 2012. Jayne also served as a Non-Executive Director of Woolworths Limited from 2010 to 2016. In her earlier career, Jayne was a partner at Bain & Company, where she was focused on consumer orientated businesses. Jayne is also the current non-executive President of Tennis Australia Limited.

Jayne resides in Australia.

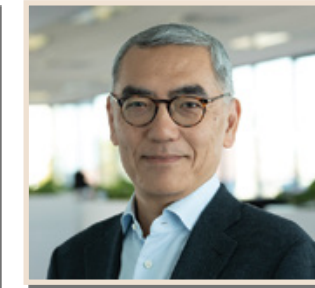


Warwick Every-Burns
Independent, non-executive Director
Advanced Management Program (Harvard)
Director since August 2016

Warwick has been a director of the company since 23 August 2016. He is also Chair of the Remuneration Committee and a member of the Audit and Risk Management Committee.

Warwick has been a career Consumer Packaged Goods (CPG) executive of global scale. His executive roles have included a successful career with The Clorox Company of the USA as Senior Vice President, International, based in the USA and prior to that as VP Asia Pacific. His earlier roles included Managing Director of NationalPak Limited (the Glad Products Company ultimately acquired by Clorox) and a long career with Unilever PLC where he was based in Australia. Warwick is a Non-Executive Director of one of the leading international wine companies, the ASX listed Treasury Wine Estates Limited.

Warwick brings a combination of international CPG Executive and non-executive director experience in markets of particular relevance to the company in China, North America and Europe. His strong skills and interest in business development in new and emerging markets, brand management and human resource management are of significant value to the company. Warwick resides in Australia.



Jesse Wu
Independent, non-executive Director
Master of Business Administration (Duke)
Director since May 2017

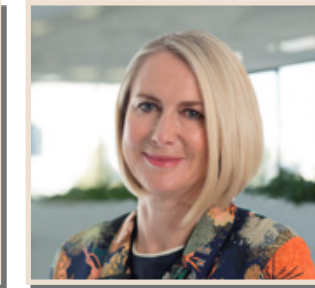
Jesse has been a director of the company since 16 May 2017. He is also a member of the Audit and Risk Management Committee and the Remuneration Committee.

Jesse began his career with Procter & Gamble and PepsiCo, before joining Johnson & Johnson's consumer business. He was appointed International Vice President, Asia/Pacific in 2003 and Company Group Chair, Global Markets in 2008. Prior to his last executive position, he was Worldwide Chair of the Johnson & Johnson Consumer Group (which had annual revenues of US\$14bn).

Jesse serves on the Board of Visitors at Duke University's Fuqua School of Business. He is a two-time recipient of the Magnolia Award from the Shanghai Municipal Government, given in recognition of his contributions to Shanghai's economic development. In addition, Jesse serves on the board of Aptar Group Inc, a leader in global dispensing systems, as well as Shanghai Kehua Bio-Engineering co., Ltd.

Over his career Jesse has managed significant scale and complexity in the areas of manufacturing, distribution, sales and marketing, in both developed and emerging markets.

Jesse resides in China.



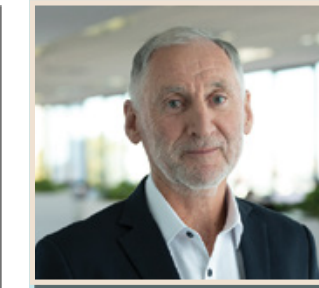
Pip Greenwood
Independent, non-executive Director
Bachelor of Laws (LL.B.), University of Canterbury (NZ)
Director since July 2019

Pip has been a director of the company from 1 July 2019. She is also Chair of the Nomination Committee and a member of the Remuneration Committee.

Currently Pip is also a director on the boards of Westpac New Zealand, Spark New Zealand and Fisher & Paykel Healthcare. She was previously a senior partner at law firm Russell McVeagh, where she spent over 10 years on the firm's board including acting as the firm's board Chair and interim CEO.

Pip brings extensive commercial and board experience to The a2 Milk Company board. A leader in the field of corporate law and in the New Zealand business community, Pip is also known for her work promoting greater diversity in the workplace. She is the recipient of numerous industry awards including being named New Zealand "Dealmaker of the Year" at the Australasian Law Awards 2018, an accolade she has won five times; and she has twice been recognised as a finalist at the Women of Influence Awards.

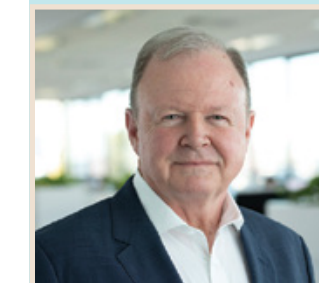
Pip resides in New Zealand.



Peter Hinton
Independent, non-executive Director
Bachelor of Commerce; Bachelor of Laws (Hons); Master of Laws (Harvard)

Peter was a director of the company from 16 February 2016 until his retirement on 30 June 2019.

Peter was a partner at law firm Simpson Grierson in New Zealand until December 2016 and is a highly regarded commercial lawyer, investor and businessman with substantial experience in New Zealand and international markets.



Geoffrey Babidge
Former Managing Director and Chief Executive Officer
Bachelor of Economics

Geoffrey was a Director of the company from 22 July 2010 until his retirement as Managing Director and CEO effective from 16 July 2018.

Geoffrey has over 30 years senior management experience working in the Australian FMCG industry. Prior to this he was a practising chartered accountant and partner at Price Waterhouse.

Our executive leadership team

Jayne Hrdlicka
Managing Director and Chief Executive Officer (CEO)

Bachelor of Arts (Hons) Economics and Mathematics (Colorado College)
Master of Business Administration (Dartmouth)

Peter Nathan
Chief Executive Asia Pacific

Bachelor of Business (Marketing)

Xiao Li
Chief Executive Greater China

Bachelor of Arts in Business Admin, English (Heilongjiang University)
Master, EMBA (China Europe International Business School)

Blake Waltrip
Chief Executive USA

BA Economics (University of California at San Diego)
Masters of Business Administration (Anderson Graduate School of Management, UCLA)

Craig Louttit
Chief Financial Officer

Bachelor of Commerce, CA

Jaron McVicar
General Counsel and Company Secretary

Bachelor of Laws

Susan Massasso
Chief Marketing Officer

Bachelor of Commerce – Accounting and Marketing (University of Sydney)

Lisa Burquest
Chief People Officer

Bachelor of Business, Logistics, Materials and Supply Chain Management

Melanie Kansil
Chief Commercial Officer

AB, Physics (Harvard University, USA)
Masters of Business Administration (Stanford University Graduate School of Business, USA)

Shareef Khan
Chief Operations Officer

Bachelor of Science, CSCP, APICS

Phil Rybinski
Chief Technical Officer

BASc, Food Science and Technology (University of Melbourne)
Masters of Business Administration (Southern Cross)

Eleanor Khor
Head of Strategy

Bachelor of Commerce/Bachelor of Laws (Hons)
University of Melbourne

Detailed profiles for the executive leadership team are available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

Governance

We are committed to maintaining the highest standards of corporate governance. Our corporate governance framework has been established to ensure that directors, officers and employees fulfil their functions responsibly, whilst protecting and enhancing the interests of shareholders.

We believe that good corporate governance adds to the performance of the Company, creates shareholder value and engenders the confidence of the investment market.

Our corporate governance framework has been developed with regard to:

- the NZX Corporate Governance Code; and
- the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) (third Edition). The ASX Principles (fourth Edition) have been finalised and take effect for the Company from 1 July 2020. However, the Board intends to progressively adopt the ASX Principles (fourth Edition) during the financial year ending 30 June 2020.

For the financial year ended 30 June 2019 our corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles (third Edition), except where noted below.

ASX Principles

Recommendation 2.5 of the ASX Principles states that the Chair of the Board should be an independent director and, in particular, should not be the same person as the CEO (recommendation 2.9 of the NZX Corporate Governance Code recommends that where the Chair of the Board is not independent, the Chair and CEO should be different people).

The roles of Chair and CEO are not exercised by the same individual. During the financial year from 16 July 2018, the role of CEO was held by the Managing Director, Jayne Hrdlicka.

However, the Board does not consider the Company's Chair, David Hearn, to be an independent director in this financial year for the purposes of the ASX Principles. This is because the CEO previously had the capacity to call on David from time to time to support the Company's business in Europe and the UK in a limited executive role. This executive role ceased in December 2018.

Considering his limited executive role during the first half of this financial year, the Board considers it appropriate that David should retain his non-independent status for now.

David brings to the Board invaluable perspective on the development of consumer products markets globally. The Board is confident that he exercises an independent view and judgement in his role as Chair and that the CEO has full executive control and accountability in the organisation.

The Board considers there is an appropriate level of independent view and judgement exercised by directors, including by Julia Hoare as Deputy Chair, who is the lead independent director.

Director independence

The Board Charter provides that the Board will, where practicable, comprise a majority of independent directors.

Director independence is initially assessed upon each director's appointment and reviewed each year, or as required when a new personal interest or conflict of interest is disclosed. For this purpose, each director is required to bring an independent view and judgement to the Board and to declare all actual or potential conflicts of interest on an ongoing basis.

Any issue concerning a director's ability to properly act as a director must be discussed at a Board meeting as soon as practicable, and a director may not participate in discussions or resolutions pertaining to any matter in which the director has a material personal interest.

In determining the independence of its directors, the Board considers guidance for independence, set out in the ASX Principles, the NZX Listing Rules and the NZX Corporate Governance Code. Based on those rules and recommendations, a director is considered to be independent by the Board if he or she is a non-executive director and free of any interest, position, association or relationship that could reasonably influence, or could reasonably be perceived to influence, in a material respect his or her capacity to bring an independent view to decisions in relation to the Company, act in the best interests of the Company and represent the interests of the Company's security holders generally.

Based on these measures, the Board considers that the non-executive directors, Julia Hoare, Warwick Every-Burns, Jesse Wu and Pip Greenwood are independent directors, and Peter Hinton was an independent director.

Corporate Governance Statement

Our Corporate Governance Statement, approved by the Board, can be found on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

Our Board

Role of the Board and delegation of authority

The Board is responsible for the overall governance and operations of the Company, guiding the Company's strategic direction, monitoring risk, and overseeing the activities of management. All issues of substance affecting the Company are considered by the Board, with advice from external advisers as required.

The role and responsibilities of the Board are set out in the Board Charter, available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, Remuneration Committee and Nomination Committee). The diagram below illustrates our corporate governance framework:

Audit and Risk Management Committee (ARMC)

The principal purpose of this committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Group's risk management and internal control systems, accounting policies and practices, internal and external audit functions and corporate reporting.

Remuneration Committee (REM)

Assists the Board in establishing appropriate policies for remuneration across the Group and reviews the remuneration of the Chief Executive Officer and other senior executives as the Board may determine.

Nomination Committee (NOM)

Assists the Board by considering nominations to the Board to provide an appropriate mix of expertise, diversity, skills and experience on the Board, and reports to the Board on progress on the implementation of the Company's diversity policy.

These Board committees are governed by charters detailing their specific functions and responsibilities. The charter for each committee is reviewed by the Board annually. Copies of the committee charters are available at www.thea2milkcompany.com/about-us/corporate-governance.

Board size, skills and structure

During the reporting period, the Board comprised six directors (four independent non-executive directors and two executive directors, one of whom (the Chair) ceased to be an executive during the period). The Company's constitution provides for a minimum of four directors and a maximum of eight, of which at least two must be New Zealand residents to comply with the NZX Listing Rules.

The Board has developed a board skills matrix which sets out the diversity of skills and experience that it has. The matrix, set out in its collective form reflecting current Board composition, is as follows:

Skills and experience	Board representation (out of six directors)
Executive leadership – experience as a senior executive in one or more substantial commercial businesses	83% (5)
Non-executive board membership – experience as a non-executive director of a number of listed or other widely-held companies	83% (5)
Governance – experience in setting and implementing corporate governance policies, practices and standards	67% (4)
Consumer products and nutritional industries – experience as a senior executive in, or as a professional advisor to, consumer products or nutritional industry businesses	67% (4)
E-commerce – experience as a senior executive in, or as a professional advisor to, businesses engaged in e-commerce activities	83% (5)
Food safety – technical or managerial experience relating to food, food product development and development and/or implementation and management of safe practices for the sourcing, production, transport and distribution of perishable foods	33% (2)
Sustainability – experience in identifying economic, social and environmentally sustainable developments, and setting and monitoring sustainability aspirations	50% (3)
International markets – experience as a senior executive in, or as a professional advisor to, businesses that operate outside Australia and New Zealand, particularly those international markets in which the Company operates, and an understanding of how to succeed in different cultural, regulatory and business environments	100% (6)
Accounting, taxation and finance – experience in financial accounting, taxation, external and/or internal audit and reporting	20% (1)
Risk management – experience in identifying and mitigating risk	100% (6)
Remuneration – experience in developing and/or implementing executive remuneration programmes, including incentive-based remuneration	83% (5)

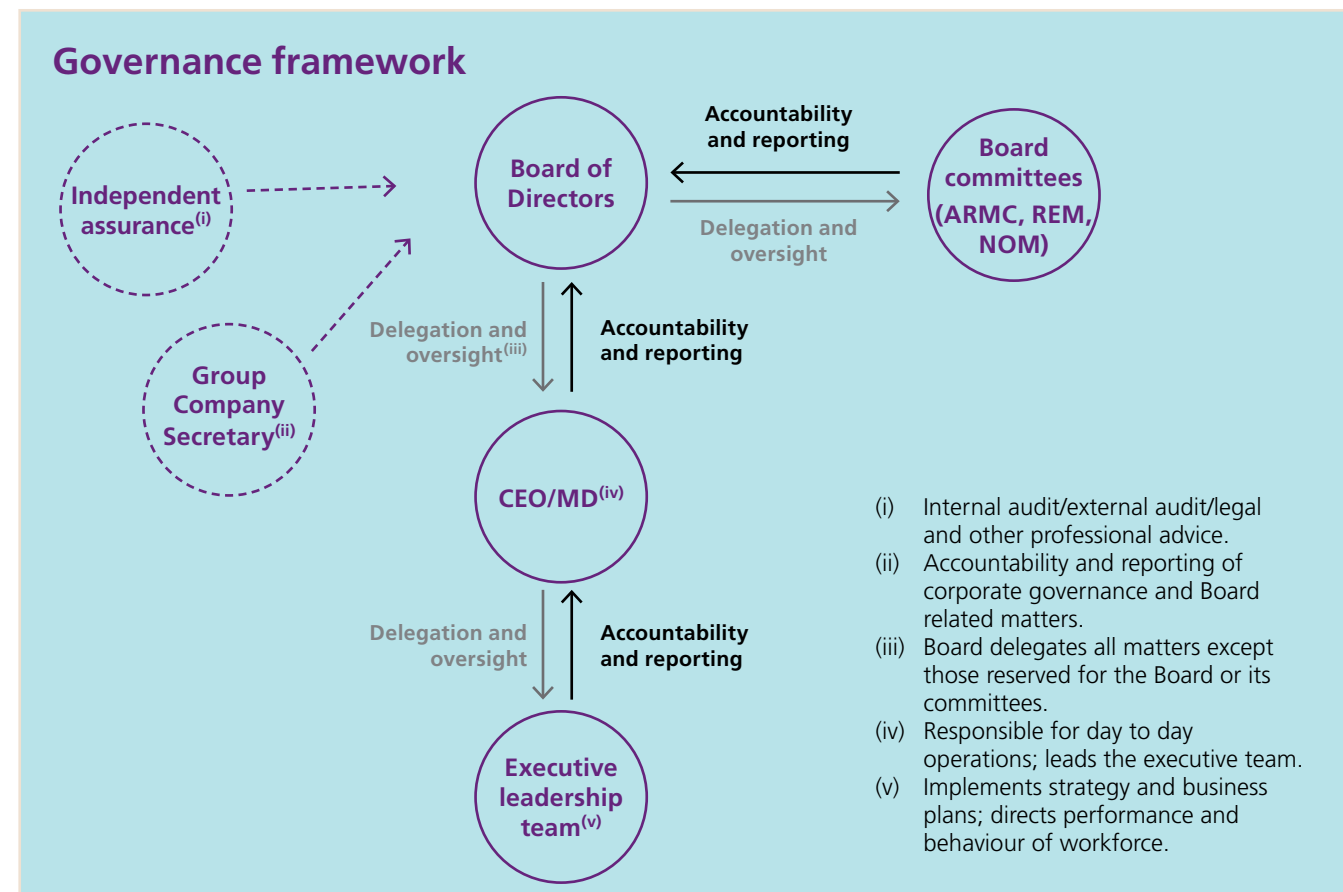
Board committees

The Board's three standing committees facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the committees as at, and throughout the financial year ended, 30 June 2019, was as follows:

Members	Independent	Non-executive
Audit and Risk Management Committee		
Julia Hoare (Chair)	✓	✓
Warwick Every-Burns	✓	✓
Jesse Wu	✓	✓
Nomination Committee		
Peter Hinton (Chair)	✓	✓
Julia Hoare	✓	✓
David Hearn	✗	✓*
Remuneration Committee		
Warwick Every-Burns (Chair)	✓	✓
Peter Hinton	✓	✓
Jesse Wu	✓	✓

* David Hearn ceased to be an executive director on 18 December 2019.

Peter Hinton retired as a director on 30 June 2019. Pip Greenwood, appointed as a director on 1 July 2019, was also appointed Chair of the Nomination Committee and member of the Remuneration Committee from that date.



Attendance at Board and committee meetings

Director attendance at Board and committee meetings during the year ended 30 June 2019 is set out below.

	Meetings of the Board		Audit and Risk Management Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Hearn (Chair)	12	12	–	–	–	–	3	3
Julia Hoare (Deputy Chair)	12	12	6	6	–	–	3	3
Jayne Hrdlicka (Managing Director and CEO)	10	10	–	–	–	–	–	–
Geoffrey Babidge ¹ (Managing Director and CEO)	2	2	–	–	–	–	–	–
Peter Hinton	12	11	–	–	4	4	3	3
Warwick Every-Burns	12	12	6	6	4	4	–	–
Jesse Wu	12	12	6	6	4	4	–	–

Held: Meetings held during the period for which the person was a director or committee member.

¹ Retired as Managing Director and CEO on 16 July 2018.

Corporate governance policies

The following policies, each of which has been prepared having regard to the ASX Principles and the NZX Corporate Governance Code, are available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance:

- Code of Ethics;
- Continuous Disclosure Policy;
- Diversity Policy. The Company's diversity policy is discussed on pages 26-27 of this Annual Report;
- Risk Management Policy. The Company's risk management policy is discussed on page 32 of this Annual Report;
- Securities Trading Policy; and
- Shareholder Communication Policy.

The Board regularly reviews the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amends those policies and procedures or adopts new policies or procedures to uphold the integrity of the Company's corporate governance framework.

Remuneration

We recognise that our success depends on the quality and contribution of our people. Our remuneration philosophy for all employees and executives aims to:

- link rewards to the creation of sustainable value for shareholders;
- attract, develop and retain talented employees and executives;
- initiate and execute the Company's business plans and strategy as endorsed by the Board;
- reward the delivery of superior performance;
- have a balanced mix of short-term and long-term remuneration components;
- be consistent with and supportive of the Company's ethical framework and commitment to good corporate governance; and
- ensure that remuneration arrangements are competitive, fair, and reflect the external labour market.

Remuneration policies and practices

The Remuneration Committee is responsible for establishing the policies and practices of the Company regarding the remuneration of directors and other senior executives of the Group and reviewing all components of the Group's remuneration practices relevant to its employees. The Remuneration Committee Charter sets out the objectives, responsibilities and authority of the Remuneration Committee in relation to remuneration matters. The Charter stipulates that the Committee will make recommendations to the Board, but all decision-making authority in relation to remuneration remains with the Board.

The Board's policy for remunerating the CEO and other senior executives is to provide market-based remuneration packages comprising a blend of fixed and variable at-risk incentive-based remuneration with clear links between individual and Company performance, and reward. The Remuneration Committee reviews the remuneration packages of the CEO and other senior executives at least annually.

All employees have a fixed remuneration package. Selected senior executives and managers also have variable remuneration in the form of a short-term incentive (STI) as part of their remuneration package. Certain selected senior executives and managers may also have long-term incentives (LTI) as part of their remuneration package.

Remuneration packages for senior executives are structured so that a significant portion of remuneration is at risk but can be earned by the achievement of superior performance. The LTI is designed to drive sustained performance over time and to both attract and retain the best possible talent.

An appropriate remuneration mix is determined for each position, taking into consideration the executive's role and level of responsibility.

Employees, not participating in the STI or LTI plans, may receive a bonus of 3% to 5% of fixed remuneration, subject to individual performance and the Company achieving its financial objectives for the year.

Fixed remuneration

Employees' fixed remuneration is based on a matrix of an individual's skills and experience, their individual performance and their current level of remuneration relative to the market. Fixed remuneration is reviewed on an annual basis with reference to independent external surveys; and where appropriate, is adjusted based on consideration of individual performance and, market remuneration movement. The Remuneration Committee reviews and approves all changes to fixed remuneration.

Variable remuneration

The STI and LTI programmes provide the potential for employees to receive payment over and above fixed remuneration. These programmes are discretionary, and appropriate to the results delivered by the Group and the individual performance of the employee, based on the principle of reward for performance.

Short-Term Incentive plan (STI)

The STI is focused on performance goals that align with Company direction; driving outcomes, differentiating high performance and rewarding delivery over the financial year.

STI values are calculated as a percentage of fixed remuneration.

STI values and performance targets are approved by the Board at the start of each financial year. For the year ended 30 June 2019 the range of maximum STI payments available to participants is between 12% and 120% of fixed pay, with the STI payable up to the maximum subject to achievement of financial targets and specific agreed personal objectives, aligning with the strategic objectives of the Company.

Performance against financial targets is compared with agreed business unit or Group budgets, and achievement of personal objectives is tracked and discussed throughout the performance period as part of the Company's performance management process. Personal targets include: brand development; safety; leadership behaviours; and delivery of key projects.

STI payments are determined and paid annually following the finalisation of the audited Company results.

Remuneration

Long-Term Incentive plan (LTI)

The LTI has been established to:

- assist in the reward and retention of selected senior executives and managers;
- link the reward available to senior executives and managers to shareholder value creation; and
- align the interests of senior executives and managers and shareholders by providing senior executives and managers with an equity interest in the Company.

Participation in the LTI plan is by invitation only, at the sole and absolute discretion of the Board. The Company may grant performance rights (Awards) to eligible participants under the plan.

Each Award granted represents a right to receive one fully paid share in the Company once the Award vests and is exercised. The number of Awards and the vesting conditions for Awards issued under the LTI Plan are determined by and at the sole discretion of the Board. No dividends are paid on performance rights.

The grants of performance rights, in this and previous years, vest subject to an Earnings Per Share (EPS) performance hurdle. The diluted EPS growth performance hurdle was chosen as a performance measure appropriate to the Company, with progress easily tracked against agreed performance targets; encouraging employee engagement and aligning with shareholder objectives.

Further details on the LTI can be found at Note F2 to the financial statements.

The Board may forfeit performance rights for fraud, dishonesty or wilful breach of duties.

Revised LTI programme in FY20

During FY19 a revised remuneration policy for the Group was finalised. The policy supports a high performance remuneration framework with a comparatively lower fixed pay component and higher at-risk component than was contained in the previous framework. This review resulted in the temporary suspension of the LTI programme in the 2019 financial year. The revised programme is expected to commence in the first half of the 2020 financial year.

Managing executive performance

Robust processes are in place for supporting and evaluating the performance of the CEO and other senior executives and managers.

The Board and CEO determine and agree annual targets and objectives for the Company based on the Company's strategic plan, supported by a comprehensive and collaborative forecasting and budgeting process. The CEO is accountable to the Board for the delivery of the agreed objectives.

The objectives agreed between the Board and the CEO are discussed and cascaded to each member of the executive team, and captured in individual performance delivery documents and STI agreements. The CEO uses the performance delivery documents to facilitate individual conversations with each member of the executive team periodically throughout the performance period. The periodic performance discussions are documented and form the basis of the annual performance review that each executive undertakes with the CEO, and that the CEO undertakes with the Board, at the end of the performance period.

The outcome of the executive's performance over the course of the year contributes to considerations surrounding changes to fixed remuneration and the awarding of variable remuneration and incentives.

For the financial year ended 30 June 2019, each member of the executive team who was an employee for the duration of the reporting period had at least one periodic performance discussion documented.

Directors' remuneration

Non-executive directors' remuneration is paid in the form of directors' fees. The fees paid to directors are structured to reflect the respective responsibilities and workloads of their Board and Committee positions.

The annual aggregate non-executive directors' remuneration pool, applying from 1 January 2019, is capped at \$1,365,000 (previously \$950,000), and was approved by shareholders at the Company's Annual Meeting held on 20 November 2018.

Directors' fees structure	\$ annual from 1 Jan 19	\$ annual to 31 Dec 18
Base board fees:		
Chair of the Board (refer below)	165,000	120,000
Deputy Chair	210,000	165,000
Non-executive director	165,000	120,000
Audit and Risk Management Committee:		
Chair	35,000	33,000
Committee member	16,500	16,500
Remuneration Committee:		
Chair	35,000	33,000
Committee member	16,500	16,500
Nomination Committee:		
Chair	22,000	22,000
Committee member	11,000	11,000

The Chair, David Hearn, was previously regarded as an executive director on account of his executive role in relation to the Group's business in Europe and the UK. He received consultancy fees for services to the Company in Europe and the UK through Lovat Partners Limited, an entity controlled by him. However, he was never an employee of the Company. This executive role ceased in December 2018.

Prior to the Company's admission to the Official List of the ASX on 31 March 2015, 5,000,000 options over unissued ordinary shares were issued to Lovat Partners Limited under the Company's LTI Plan. Each option has an exercise price of NZ\$0.63. At 30 June 2019, 1,000,000 of these options are yet to vest and 2,200,000 have vested but are not yet exercised.

The consultancy fees received for the year ended 30 June 2019, and the annual accounting charge to profit or loss for the options issued under the LTI Plan, are included in the schedule of non-executive directors' remuneration as other benefits. The current level of Chair's fees recognises the contribution to total remuneration of these other benefits.

Remuneration paid to non-executive directors of the Group for the year ended 30 June 2019 was as follows:

	Board fees	Committee fees			Total fees	Other benefits received	Total remuneration
		Audit and Risk Management	Remuneration	Nomination			
	\$	\$	\$	\$	\$	\$	\$
Company							
David Hearn (Chair) ¹	142,500	–	–	–	142,500	89,045	231,545
Julia Hoare (Deputy Chair)	187,500	34,000	–	11,000	232,500	–	232,500
Peter Hinton	142,500	–	16,500	22,000	181,000	–	181,000
Warwick Every-Burns	142,500	16,500	34,000	–	193,000	–	193,000
Jesse Wu ²	180,000	16,500	16,500	–	213,000	–	213,000
Total	795,000	67,000	67,000	33,000	962,000	89,045	1,051,045
Subsidiary companies							
William Keane ³	46,884	–	–	–	46,884	–	46,884
Total	841,884	67,000	67,000	33,000	1,008,884	89,045	1,097,929

¹ Other benefits received include the annual non-cash accounting charge for options issued under the LTI plan of \$44,755; and consultancy fees of \$44,290 payable to Lovat Partners Limited, an entity controlled by David Hearn providing services solely to the Company, for consultancy services rendered during the first half of the year and charged at commercial rates, separate from the director's fees reported above. The value of options exercised by David Hearn during the year was \$1,454,657.

² Jesse Wu received \$37,500 in the period for additional Board duties.

³ William Keane is included as a director of The a2 Milk Company Limited (UK). No other director of a subsidiary company was remunerated in their capacity as a director.

Remuneration of CEO – Jayne Hrdlicka

Jayne commenced her role as Managing Director and CEO of the Company on 16 July 2018. Details of the remuneration arrangements under her employment agreement are set out below.

Term

There is no fixed term; employment is ongoing until terminated by either Jayne or the Company in accordance with her employment agreement, which includes a six months’ notice period for resignation or termination of employment by the Company.

Total fixed remuneration

A\$1,500,000 per annum, including superannuation, subject to annual review.

STI

An annual STI payment of up to a maximum of 120% of total fixed remuneration may be achieved, based on the achievement of performance objectives measured against key performance indicators determined by the Board on an annual basis.

LTI

On an annual basis, Jayne will be invited to take up performance rights under the Company’s current LTI Plan Rules, which apply to all senior management.

Commencing in the 2020 financial year, Jayne will be offered performance rights equivalent to 150% of Total Fixed Remuneration (subject to adjustment from time to time at the discretion of the Board in order to have reasonable regard to equivalent entitlements provided by peer companies).

Subject to the discretion of the Board or unless employment is terminated by the Company other than for fault, cessation of employment will result in the forfeiture of all unvested performance rights. The Board may also forfeit performance rights for fraud, dishonesty or wilful breach of duties.

At the discretion of the Board, performance rights may be subject to accelerated vesting if the Company is subject to a change of control.

Adjustments to the number of performance rights, or the number of the Company’s ordinary shares to which they relate, may be made following any bonus issue of the Company’s ordinary shares or other reorganisation of its capital.

Annual leave

Statutory entitlements together with one week per annum of additional paid leave.

Other terms

The employment agreement also includes standard terms covering expenses, conflicts of interest, confidentiality, intellectual property and moral rights, and restraints upon termination.

Remuneration paid in the financial year

The remuneration paid to Jayne Hrdlicka in the financial year was as follows:

	2019 A\$
Fixed remuneration	1,500,000
Transition benefit paid	586,666
STI paid	–
Total remuneration received	2,086,666

The STI for the 2019 financial year will be paid after the publication of the audited results for the year.

The potential STI for the 2019 financial year is up to 120% of her FY19 annual fixed remuneration (or A\$1,800,000).

Fixed remuneration was paid for the period from 1 July 2019, reflecting work undertaken by Jayne prior to her formally commencing in the role of CEO on 16 July 2019, in order to ensure a smooth transition of the role from Geoffrey Babidge.

Performance rights

On commencement of her employment, Jayne was granted 245,787 performance rights, equivalent to 175% of her Total Fixed Remuneration (\$2,625,000). Vesting of these rights will be subject to the Company achieving a compound annual growth (CAGR) in its diluted earnings per share, measured over three consecutive financial years to 30 June 2021, on a straight-line basis. 50% of the performance rights will vest if diluted EPS CAGR of 15% is achieved, to a maximum of 100% if diluted EPS CAGR of 25% or more is achieved.

Transition benefits

On a one-off basis, Jayne received the following transition benefits as compensation for forfeitures of her former employer’s STI and LTI entitlements as a result of her resigning to take up employment with the Company:

- an A\$586,666 cash payment (calculated at approximately 67% of her forfeited STI cash benefit); and
- 599,254 time-based rights to acquire ordinary shares in the Company (calculated at approximately 80% of Jayne’s forfeited STI and LTI scrip benefit, based on the 90 day VWAP of shares in the Company and her previous employer as at the date that her appointment was announced to the market, being 13 December 2017) vesting in four tranches during the period from 28 August 2018 to 24 August 2019.

The time-based rights are not subject to performance hurdles but are otherwise issued on terms similar to Jayne’s performance rights, including continuing employment.

As at 30 June 2019, 508,340 time-based rights had vested, of which 357,232 resultant shares were subsequently sold.

Remuneration of the former CEO – Geoffrey Babidge

Geoffrey’s employment as CEO under an executive service agreement with the Company commenced in 2010 and ceased upon his retirement on 16 July 2018.

The remuneration paid to Geoffrey Babidge in the financial year was as follows:

	2019 A\$
Fixed remuneration	41,667
Exit payments	860,906
STI paid	555,000
Total remuneration received	1,457,573

Fixed remuneration was paid for the period 1 July to retirement on 16 July 2018. Exit payments upon retirement were paid in accordance with the terms of his employment agreement (including statutory leave entitlements, and six months’ notice period termination payment).

The STI paid of \$555,000 refers to the STI earned for FY18. The potential STI was up to \$600,000, equivalent to 60% of his annual fixed remuneration of \$1,000,000.



FINANCIAL STATEMENTS

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Directors' approval of the financial statements for the year ended 30 June 2019

The directors of The a2 Milk Company Limited are pleased to present the consolidated financial statements for The a2 Milk Company Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2019.

The directors are responsible for preparing and presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly the financial position of the Group as at 30 June 2019 and the results of its operations and cash flows for the period ended on that date.

The directors consider the financial statements of the Group to have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all 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 Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

There are reasonable grounds to believe that the Company and the Group entities identified in Note E2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785.

Signed on behalf of the Board by:



David Hearn
Chair



Jayne Hrdlicka
Managing Director and CEO

20 August 2019

Independent auditor's report for the year ended 30 June 2019



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Independent auditor's report to the Shareholders of The a2 Milk Company Limited

Opinion

We have audited the financial statements of The a2 Milk Company Limited ("the company") and its subsidiaries (together "the Group") on pages 56 to 95, which comprise the consolidated statement of financial position of the Group as at 30 June 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 56 to 95 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters 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 shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). 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 are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young has provided market research services in relation to brand health tracking and has also provided sustainability reporting advisory services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Discounts and rebates provided to customers

Why significant

Revenue and associated trade receivables are recognised net of trade discounts, volume rebates and promotional allowances owed to customers based on their individual contractual arrangements. The recognition and measurement of rebates and promotional allowances, including the establishment of an appropriate accrual at year end, involves judgment and estimation, particularly relating to the expected level of rebate claims by the customers. This was considered a key audit matter given the value of the trade discounts, rebates and promotional allowances provided to customers, together with the level of judgment involved in estimating this variable consideration at year end.

Disclosures regarding revenue and the related rebates, discounts and promotional allowances are included in note B2 to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered the appropriateness of the Group's revenue recognition accounting policies as they relate to trade discounts, promotional allowances and rebates, including the Group's initial adoption of NZ IFRS 15 during the period.
- ▶ Evaluated the Group's processes and controls over the recording of trade discounts, promotional allowances and rebates.
- ▶ Selected a sample of customer contracts and determined whether rebates were calculated in accordance with the agreed terms and inquired of management as to the existence of any non-standard agreements or side arrangements with customers.
- ▶ Selected a sample of customer discounts and rebates recorded and assessed whether the timing and value of amounts recognised were in accordance with NZ IFRS.
- ▶ Compared a sample of customer claims for variable consideration and payments made subsequent to year end to recorded accruals.
- ▶ Considered the year end ageing profile of trade discounts and rebates and inquired as to the likelihood of aged balances being settled.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, 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.



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Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 consolidated financial statements, the directors are responsible for assessing on behalf of the entity 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 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 consolidated 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 International Standards on Auditing (New Zealand) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Lisa Nijssen-Smith.

Ernst & Young
Sydney
20 August 2019

Consolidated statement of comprehensive income for the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Sales	B1	1,304,336	922,354
Cost of sales		(590,584)	(458,005)
Gross margin		713,752	464,349
Other revenue	B1	160	323
Distribution expenses		(31,290)	(26,825)
Administrative expenses	B3	(71,161)	(47,262)
Marketing expenses		(135,301)	(73,647)
Other expenses	B3	(64,608)	(35,937)
Operating profit		411,552	281,001
Interest income		4,277	2,369
Finance costs	B3	(118)	(138)
Net finance income		4,159	2,231
Profit before tax		415,711	283,232
Income tax expense	B5	(127,970)	(87,548)
Profit after tax for the year		287,741	195,684
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		(4,319)	(74)
Items not to be reclassified to profit or loss:			
Listed investment fair value (loss)/gain	C6	(62,390)	108,741
Total comprehensive income		221,032	304,351
Earnings per share			
Basic (cents per share)	B4	39.25	27.00
Diluted (cents per share)	B4	38.78	26.30

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity for the year ended 30 June 2019

	Foreign currency translation reserve \$'000	Fair value revaluation reserve \$'000	Employee equity settled payments reserve \$'000	Total reserves \$'000	Retained earnings \$'000	Share capital \$'000	Total equity \$'000
Year ended 30 June 2019							
Balance 1 July 2018	(11,022)	122,113	12,351	123,442	290,701	141,566	555,709
Profit for the period (net of tax)	-	-	-	-	287,741	-	287,741
Foreign currency translation differences – foreign operations	(4,250)	-	-	(4,250)	-	-	(4,250)
Listed investment – fair value movement	-	(62,390)	-	(62,390)	-	-	(62,390)
Income tax	(69)	-	-	(69)	-	-	(69)
Total comprehensive income for the period	(4,319)	(62,390)	-	(66,709)	287,741	-	221,032
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	-	-	-	-	-	2,970	2,970
Share issue costs	-	-	-	-	-	(41)	(41)
Share-based payments	-	-	8,184	8,184	-	-	8,184
Total transactions with owners	-	-	8,184	8,184	-	2,929	11,113
Balance 30 June 2019	(15,341)	59,723	20,535	64,917	578,442	144,495	787,854
Year ended 30 June 2018							
Balance 1 July 2017	(10,948)	13,372	9,739	12,163	95,017	134,302	241,482
Profit for the period (net of tax)	-	-	-	-	195,684	-	195,684
Foreign currency translation differences – foreign operations	(101)	-	-	(101)	-	-	(101)
Listed investment – fair value movement	-	108,741	-	108,741	-	-	108,741
Income tax	27	-	-	27	-	-	27
Total comprehensive income for the period	(74)	108,741	-	108,667	195,684	-	304,351
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	-	-	-	-	-	7,316	7,316
Share issue costs	-	-	-	-	-	(52)	(52)
Share-based payments	-	-	2,612	2,612	-	-	2,612
Total transactions with owners	-	-	2,612	2,612	-	7,264	9,876
Balance 30 June 2018	(11,022)	122,113	12,351	123,442	290,701	141,566	555,709

The accompanying notes form part of these financial statements.

Consolidated statement of financial position as at 30 June 2019

	Notes	2019 \$'000	2018 \$'000 restated
Assets			
Current assets			
Cash and short-term deposits	D3	464,805	340,455
Trade and other receivables	C1	52,748	59,131
Prepayments		49,693	36,015
Inventories	C2	108,453	64,101
Total current assets		675,699	499,702
Non-current assets			
Property, plant and equipment	C4	10,296	9,701
Intangible assets	C5	12,985	15,092
Other financial assets	C6	286,807	186,862
Deferred tax assets	B5	7,683	4,861
Total non-current assets		317,771	216,516
Total assets		993,470	716,218
Liabilities			
Current liabilities			
Trade and other payables	C3	160,248	108,934
Customer contract liabilities	B2	1,431	898
Income tax payable		43,710	50,557
Total current liabilities		205,389	160,389
Non-current liabilities			
Trade and other payables	C3	227	120
Total non-current liabilities		227	120
Total liabilities		205,616	160,509
Net assets		787,854	555,709
Equity attributable to owners of the Company			
Share capital	D5	144,495	141,566
Retained earnings		578,442	290,701
Reserves	D6	64,917	123,442
Total equity		787,854	555,709

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows for the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		1,317,930	927,703
Payments to suppliers and employees		(899,238)	(629,652)
Interest received		4,277	2,369
Taxes paid		(133,901)	(69,312)
Net cash inflow from operating activities	D4	289,068	231,108
Cash flows from investing activities			
Payments for property, plant and equipment	C4	(2,653)	(2,526)
Payments for intangible assets	C5	(709)	(2,320)
Payment for listed investment	C6	(162,335)	(16,073)
Net cash outflow from investing activities		(165,697)	(20,919)
Cash flows from financing activities			
Proceeds from issue of equity shares	D5	2,929	7,264
Net cash inflow from financing activities		2,929	7,264
Net increase in cash and short-term deposits		126,300	217,453
Cash and short-term deposits at the beginning of the year		340,455	121,020
Effect of exchange rate changes on cash		(1,950)	1,982
Cash and short-term deposits at the end of the year	D3	464,805	340,455

The accompanying notes form part of these financial statements.

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A. Basis of preparation

The a2 Milk Company Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand. The consolidated financial statements of the Company for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the Group).

The Company is registered in New Zealand under the Companies Act 1993, and is a FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is also registered as a foreign company in Australia under the *Corporations Act 2001* (Cth, Australia). The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX), the Australian Securities Exchange (ASX) and Chi-X Australia (Chi-X). The Group's reporting currency is the New Zealand dollar.

The principal activity of the Company is the sale of branded products in targeted markets made with milk from cows that produce milk naturally containing only the A2 protein type.

The consolidated financial statements were authorised for issue by the directors on 20 August 2019.

The consolidated financial report:

- has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand;
- complies with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS);
- complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB);
- is presented in New Zealand dollars, which is the Company's functional currency, with all values rounded off to the nearest thousand dollars, unless otherwise stated; and
- has been prepared in accordance with the historical cost convention and, except for listed investments, does not take into account changing money values or fair values of assets.

Significant accounting policies have been:

- included in the relevant note to which each policy relates, other than the accounting policy for foreign currency, set out below; and
- except for the adoption of NZ IFRS 15: *Revenue from Contracts with Customers*, noted below, consistently applied to all periods presented in these consolidated financial statements.

Accounting policy: Foreign currency**Transactions**

Foreign currency transactions are initially translated to the respective functional currencies of Group companies at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date. Foreign exchange differences are generally recognised in profit or loss in the statement of comprehensive income.

Foreign operations translation to reporting currency

The assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated into New Zealand currency at rates of exchange current at the reporting date, while revenues and expenses are translated at approximately the exchange rates ruling at the date of the transaction. Exchange differences arising on translation are recognised in other comprehensive income and accumulated within equity in the foreign currency translation reserve.

Judgements, estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions.

- This may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- Estimates and underlying assumptions are reviewed on an ongoing basis.
- Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
- Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
 - Note B5: Deferred tax assets and liabilities – Recovery of deferred tax assets
 - Note C2: Inventories – Estimation of net realisable value
 - Note C5: Intangible assets – Goodwill and intangibles

Notes to the financial statements – Basis of preparation for the year ended 30 June 2019

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2019.

Adoption of NZ IFRS 15: Revenue from Contracts with Customers

The Group has adopted this standard from 1 July 2018, using the full retrospective method.

The adoption of the standard had no impact on the Group's consolidated total equity, retained earnings, earnings per share or cash flows; with the following adjustments made to the presentation of the Group's consolidated statement of financial position as at 30 June 2018.

30 June 2018	As reported \$'000	Adjustments \$'000	Before adoption of NZ IFRS 15 \$'000
Trade and other receivables (current)	59,131	(6,360)	65,491
Total current assets	499,702	(6,360)	506,062
Trade and other payables (current)	108,934	(7,258)	116,192
Customer contract liabilities (current)	898	898	–
Total current liabilities	160,389	(6,360)	166,749

Trade receivables are now recognised and measured at the transaction price in accordance with NZ IFRS 15, reflecting adjustments for variable consideration such as rebates. Previously, items of variable consideration were recognised as accruals. Customer contract liabilities refer to payments in advance received from customers, previously recognised in accruals.

Additional disclosures of the Group's revenue accounting policies as required by the standard are disclosed in Note B2.

New standards and interpretations not yet adopted

Certain new accounting standards have been published that are relevant to the Group's operations but are not yet mandatory for the 30 June 2019 accounting period. The Group's current assessment of the impact of these is set out below.

Accounting standard	Requirement	Impacts in future periods
NZ IFRS 16: Leases	NZ IFRS 16 will become mandatory for the Group's annual reporting period ending 30 June 2020, replacing the existing leases standard. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on balance sheet, with limited exceptions for short-term leases and low value assets.	As a right-to-use asset and a lease liability will be recognised for operating leases, the change will result in a more front-loaded expense pattern for operating leases as compared to current straight-lining, with lease expense allocated to interest and depreciation. The right-to-use asset and lease liabilities will be determined based on the present value of future lease payments (see Note D8). Based on information currently available, the Group estimates that it will recognise right-to-use assets and lease liabilities of \$8 million as at 1 July 2019, using the modified retrospective transition method. The cumulative effect of the adoption of NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods.

Notes to the financial statements – Group performance for the year ended 30 June 2019

B. Group performance

This section explains the results and performance of the Group for the year, including segment information, earnings per share and taxation.

The Group's key performance measures are segment revenue and segment results before interest, tax, depreciation and amortisation (Segment EBITDA, a non-GAAP measure). Further information and analysis of performance can be found in the CEO's year in review report, which forms part of this Annual Report.

B1. Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

For management purposes, the Group is organised into business units based on geographical location, and a corporate function. From 1 January 2019 the Group is organised into four reportable operating segments as follows:

- The *Australia and New Zealand* segment receives external revenue from infant formula, milk and other dairy products along with royalty and licence fee income.
- The *China and other Asia* segment receives external revenue from infant formula, milk and other dairy products.
- The *USA* segment receives external revenue from milk sales.
- The *UK* segment receives external revenue from infant formula and milk sales.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is assessed on segment EBITDA and is measured in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

In previous periods the Group was organised into three reportable operating segments. Comparative information for the year ended 30 June 2018 has been restated to reflect the change to four reportable operating segments. The measurement bases for reportable segment results in the current and prior period remain the same.

B1. Operating segments (continued)

2019	Australia and New Zealand \$'000	China and other Asia \$'000	USA \$'000	UK \$'000	Total \$'000
Consolidated sales	842,543	405,659	34,560	21,574	1,304,336
Other revenue	152	8	–	–	160
Reportable segment revenue	842,695	405,667	34,560	21,574	1,304,496
Reportable segment results (Segment EBITDA)	388,234	123,878	(43,980)	4,396	472,528
Corporate EBITDA					(58,918)
Group EBITDA					413,610
<i>Reconciliation to consolidated statement of comprehensive income</i>					
Interest income					4,277
Depreciation and amortisation					(2,176)
Income tax expense					(127,970)
Consolidated profit after tax					287,741
2018	Australia and New Zealand \$'000	China and other Asia \$'000	USA \$'000	UK \$'000	Total \$'000
Consolidated sales	656,309	233,646	13,257	19,142	922,354
Other revenue	321	2	–	–	323
Reportable segment revenue	656,630	233,648	13,257	19,142	922,677
Reportable segment results (Segment EBITDA)	262,189	81,275	(28,567)	929	315,826
Corporate EBITDA					(32,789)
Group EBITDA					283,037
<i>Reconciliation to consolidated statement of comprehensive income</i>					
Interest income					2,369
Depreciation and amortisation					(2,174)
Income tax expense					(87,548)
Consolidated profit after tax					195,684

Two customers within the Australian and New Zealand segment each contributed revenue in excess of 10% of Group revenue of \$258,623,000 (2018: \$185,008,000); and \$132,235,000 (2018: \$131,374,000).

Notes to the financial statements – Group performance for the year ended 30 June 2019

B1. Operating segments (continued)

Other segment information

2019	Australia and New Zealand \$'000	China and other Asia \$'000	USA \$'000	UK \$'000	Corporate \$'000	Total \$'000
Additions to non-current assets	2,118	178	38	36	992	3,362
Depreciation and amortisation	1,312	218	91	25	530	2,176
2018						
Additions to non-current assets	1,789	268	4	7	2,778	4,846
Depreciation and amortisation	1,233	548	80	40	273	2,174

The majority of the Group's revenue is generated from customers, and the majority of its non-current assets (other than financial instruments and deferred tax assets) are located outside of its country of domicile (New Zealand).

B2. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical location (reportable segments) and major product types.

2019	Australia and New Zealand \$'000	China and other Asia \$'000	USA \$'000	UK \$'000	Total \$'000
Infant formula	652,864	393,124	–	17,828	1,063,816
Liquid milk	133,704	2,906	34,560	3,746	174,916
Other	56,127	9,637	–	–	65,764
	842,695	405,667	34,560	21,574	1,304,496
2018					
Infant formula	482,467	226,656	–	15,125	724,248
Liquid milk	123,564	1,523	13,257	4,017	142,361
Other	50,599	5,469	–	–	56,068
	656,630	233,648	13,257	19,142	922,677

B2. Revenue (continued)

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	Note	2019 \$'000	2018 \$'000
Receivables	C1	44,513	53,476
Customer contract liabilities		(1,431)	(898)

Customer contract liabilities are payments received in advance from customers. The amount of \$898,000 recognised in customer contract liabilities at 30 June 2018 was recognised as revenue in the year ended 30 June 2019.

Remaining performance obligations at 30 June 2019 have an original expected duration of one year or less. No further information on these performance obligations is provided, as allowed by NZ IFRS 15.

Recognition and measurement

Sales of products

The Group sells branded milk products made with milk from cows that are specially selected to produce milk that naturally contains only the A2 protein type, to wholesale customers.

A sale is recognised when control of the product has transferred, being when the product is delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Delivery occurs when the product has been shipped to the location specified by the customer and the customer accepts the product.

Revenue from sales is recognised based on arrangements as agreed with the customer. These arrangements are applied on an order by order basis and do not commit the customers to purchase a specified quantity or type of product; nor do they commit the Group to deliver a specified quantity or type of product. The arrangements set out the terms and conditions that apply to the parties each time an order is placed by a customer and accepted by the Group, creating a sale contract for that order. The terms and conditions cover, as appropriate to the customer, pricing, settlement of liabilities, return policies and any other negotiated performance obligations.

Revenue is recognised after off-setting items of variable consideration such as rebates agreed with customers.

Settlement terms range from cash-on-delivery or prepaid terms to various credit terms not exceeding 60 days from end of month. These terms reflect assessment of customer credit risk and industry practice.

Customer contract liabilities refer to payments in advance received from customers, with subsequent delivery to customer, and recognition of revenue, generally occurring within a week of receipt of the payment.

For credit customers a receivable is recognised when the products are delivered, being the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the financial statements – Group performance for the year ended 30 June 2019

B3. Expenses

	2019 \$'000	2018 \$'000
Administrative expenses		
Salary and wage costs	45,721	32,140
Equity-settled share-based payments (refer Note F2)	8,184	2,612
Travel costs	7,343	5,893
Other administrative expenses	9,913	6,617
	71,161	47,262
Other expenses		
Audit fees	701	609
Bad and doubtful debts	(17)	29
Professional service fees	27,628	8,957
Directors' fees and expenses	1,012	968
Legal expenses	4,911	5,301
Patents, trademarks, and research and development	6,995	4,367
Occupancy expenses	2,195	2,071
Depreciation and amortisation	2,176	2,174
Promotion and merchandising	476	987
Insurance	5,333	3,469
Net foreign exchange (gain)	(198)	(1,634)
Impairment of intangible assets	2,059	–
Other operating expenses	11,337	8,639
	64,608	35,937
Finance costs		
Other finance costs	118	138
	118	138

B4. Earnings per share (EPS)

	2019	2018
Profit attributable to members of the Company used in calculating basic and diluted EPS (\$'000)	287,741	195,684
Weighted average number of ordinary shares ('000) for basic EPS	733,145	724,685
Effect of dilution due to partly paid ordinary shares, share options and time-based and performance rights ('000)	8,772	19,278
Weighted average number of ordinary shares ('000) for diluted EPS	741,917	743,963
Basic EPS (cents)	39.25	27.00
Diluted EPS (cents)	38.78	26.30

Recognition and measurement

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the financial year.

Diluted EPS adjusts basic EPS for the dilutive effect of employee share rights and options that may be converted into ordinary shares in the Company.

Notes to the financial statements – Group performance for the year ended 30 June 2019

B5. Income taxes

	2019 \$'000	2018 \$'000
Income tax recognised in profit or loss		
Current tax	133,985	92,167
Deferred tax origination and reversal of temporary differences	(2,891)	(2,880)
Adjustments in respect of current income tax of previous year	(3,124)	(1,739)
Total tax expense	127,970	87,548
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from operations	415,711	283,232
Income tax expense calculated at 28% (2018: 28%)	116,399	79,305
Difference in income tax rates: UK (19%; 2018: 19.75%), Australia (30%), USA (24%; 2018: 34.42%), and China (25%)	6,430	3,195
Non-deductible expenses	5,680	2,168
Prior period adjustment to tax expense	(4,243)	(1,640)
Deferred tax impact to tax expense for permanent establishments	114	(66)
Unutilised foreign tax credits forfeited	1,429	2,009
Deferred tax asset not recognised	2,161	2,577
Total tax expense	127,970	87,548
Income tax recognised directly in equity		
Deferred tax	69	(27)
Tax benefit in Other Comprehensive Income (OCI)	69	(27)

B5. Income taxes (continued)

Deferred tax balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available, against which the tax asset can be utilised.

	Opening balance \$'000	Charge in period \$'000	Closing balance \$'000
2019			
Gross deferred tax assets			
Patents	99	(27)	72
Accrued expenses	3,937	3,625	7,562
Tax losses	471	(187)	284
Other	985	(796)	189
	5,492	2,615	8,107
Gross deferred tax liabilities			
Property, plant and equipment	(530)	106	(424)
Foreign exchange (gains)/losses	(101)	101	–
	(631)	207	(424)
Net deferred tax	4,861	2,822	7,683
Charge to profit or loss		2,891	
Charge to OCI		(69)	
		2,822	
2018			
Gross deferred tax assets			
Patents	114	(15)	99
Accrued expenses	1,913	2,024	3,937
Tax losses	327	144	471
Other	21	964	985
	2,375	3,117	5,492
Gross deferred tax liabilities			
Property, plant and equipment	(662)	132	(530)
Foreign exchange (gains)/losses	241	(342)	(101)
	(421)	(210)	(631)
Net deferred tax	1,954	2,907	4,861
Charge to profit or loss		2,880	
Charge to OCI		27	
		2,907	

Notes to the financial statements – Group performance for the year ended 30 June 2019

B5. Income taxes (continued)

Deferred tax balances (continued)

	2019 \$'000	2018 \$'000
Net deferred tax balances recognised in the financial statements		
Net deferred tax assets	7,683	4,861
Net deferred tax liabilities	–	–
Net deferred tax	7,683	4,861

Tax losses

The Group has the following estimated gross tax losses at balance date not recognised:

	2019 \$'000	2018 \$'000
United Kingdom	52,620	41,676
United States of America	31,582	24,411
Australia	273	527
Total	84,475	66,614

Imputation and franking credits

The Company is a New Zealand company which has elected to maintain an Australian franking credit account. The imputation credit and franking credit balances represent the sum of the imputation credit and franking credit account balances of all Group companies stated on an accrual basis. The ability to use the imputation and franking credits is dependent upon the ability of Group companies to declare dividends. The franking credit account balance is stated in NZD, with the balance available for distribution dependant on future exchange rate movements.

Imputation and franking credits available within the Group, and ultimately available to the shareholders of the Company:

	2019 \$'000	2018 \$'000
Imputation credits	44,190	25,692
Franking credits	251,973	131,458

B5. Income taxes (continued)

Recognition and measurement

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited in other comprehensive income, in which case that tax is recognised in other comprehensive income; or where they arise from the initial accounting for a business combination.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent

that it is probable that taxable profits will be available in the future against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date for recoverability. Likewise, unrecognised tax assets (not booked to balance sheet) are re-assessed at each reporting date, and recognised, to the extent that future taxable profits are deemed likely to allow the asset to be recovered.

Key estimates and judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used.

Judgement is required when deferred tax assets are reviewed at each reporting date. Deferred tax assets may be reduced to the extent that it is no longer probable that future taxable profits will be available.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Changes in expectations for the future performance of the business may impact the amount of deferred tax assets recoverable and recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2019

C. Operating assets and liabilities

This section provides details of the Group's operating assets, and liabilities incurred as a result of trading activities, used to generate the Group's performance.

C1. Trade and other receivables

	2019 \$'000	2018 \$'000
Trade receivables from contracts with customers	44,513	53,476
Allowance for impairment	(20)	(37)
Other receivables	8,255	5,692
	52,748	59,131

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note D2: Financial risk management.

Recognition and measurement

Trade receivables from contracts with customers are recognised initially at their transaction price. Other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less any lifetime expected credit losses.

C2. Inventories

	2019 \$'000	2018 \$'000
Raw materials	9,933	5,051
Finished goods	59,556	50,641
Goods in transit	38,964	8,409
Total inventories at the lower of cost and net realisable value	108,453	64,101

During the year, \$1,550,000 (2018: \$1,296,000) was recognised as an expense in cost of sales for inventories written down to net realisable value.

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using standard costing or weighted average methods. Standard costs are regularly reviewed and, if necessary, revised to reflect actual costs.

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Key estimates and judgements

Recovery of inventory

Estimation of net realisable value includes assessment of expected future turnover of inventory held for sale and the expected future selling price of such inventory. Changes in trading and economic conditions, and changes in country specific regulations, may impact these estimations in future periods.

C3. Trade and other payables

Trade and other payables – current

	2019 \$'000	2018 \$'000
Trade payables	84,152	66,076
Accruals	70,042	36,604
Employee entitlements	6,054	6,254
	160,248	108,934

Trade and other payables – non-current

	2019 \$'000	2018 \$'000
Employee entitlements	227	120

Recognition and measurement

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate method. They represent liabilities recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services. The amounts are unsecured.

Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2019

C4. Property, plant and equipment

	Office and computer \$'000	Furniture and fittings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total property, plant and equipment \$'000
2019					
Carrying amount 1 July 2018	322	254	803	8,322	9,701
Additions	213	50	112	2,278	2,653
Depreciation	(197)	(49)	(400)	(1,104)	(1,750)
Net foreign currency exchange differences	(8)	(5)	(19)	(276)	(308)
Carrying amount 30 June 2019	330	250	496	9,220	10,296
Cost	1,166	435	1,397	15,811	18,809
Accumulated depreciation	(836)	(185)	(901)	(6,591)	(8,513)
Carrying amount 30 June 2019	330	250	496	9,220	10,296

	Office and computer \$'000	Furniture and fittings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total property, plant and equipment \$'000
2018					
Carrying amount 1 July 2017	249	266	672	7,171	8,358
Additions	230	42	374	1,880	2,526
Depreciation	(164)	(64)	(274)	(976)	(1,478)
Net foreign currency exchange differences	7	10	31	247	295
Carrying amount 30 June 2018	322	254	803	8,322	9,701
Cost	975	394	1,316	14,058	16,743
Accumulated depreciation	(653)	(140)	(513)	(5,736)	(7,042)
Carrying amount 30 June 2018	322	254	803	8,322	9,701

Recognition and measurement

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight-line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	10 to 15 years
Furniture and fittings	5 to 10 years
Office and computer equipment	2 to 10 years
Leasehold improvements	2 to 10 years

The carrying value of an item of property, plant and equipment is derecognised either upon disposal or when no future economic benefits are expected from the asset. Any gain or loss arising from the derecognition (representing the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

C5. Intangible assets

	Patents \$'000	Trademarks \$'000	Software \$'000	Project development \$'000	Goodwill \$'000	Total \$'000
2019						
Carrying amount 1 July 2018	949	2,811	320	803	10,209	15,092
Additions	155	503	50	1	–	709
Transfers	–	–	137	(137)	–	–
Amortisation	(269)	–	(157)	–	–	(426)
Impairment	–	(127)	–	–	(1,932)	(2,059)
Net foreign currency exchange differences	–	–	(9)	(2)	(320)	(331)
Carrying amount 30 June 2019	835	3,187	341	665	7,957	12,985
Cost	1,294	3,187	1,954	4,284	7,957	18,676
Accumulated amortisation	(459)	–	(1,613)	(3,619)	–	(5,691)
Carrying amount 30 June 2019	835	3,187	341	665	7,957	12,985

	Patents \$'000	Trademarks \$'000	Software \$'000	Project development \$'000	Goodwill \$'000	Total \$'000
2018						
Carrying amount 1 July 2017	852	780	560	1,048	10,041	13,281
Additions	128	2,031	20	141	–	2,320
Amortisation	(31)	–	(277)	(388)	–	(696)
Net foreign currency exchange differences	–	–	17	2	168	187
Carrying amount 30 June 2018	949	2,811	320	803	10,209	15,092
Cost	1,139	2,811	1,819	4,453	10,209	20,431
Accumulated amortisation	(190)	–	(1,499)	(3,650)	–	(5,339)
Carrying amount 30 June 2018	949	2,811	320	803	10,209	15,092

Trademarks are allocated to the following cash-generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand \$268,000 (2018: \$185,000); China and other Asia \$2,817,000 (2018: \$2,446,000); and USA \$102,000 (2018: \$70,000).

During the year the total value of research and development costs expensed was \$3,392,000 (2018: \$3,629,000).

Recognition and measurement

The costs of intangible assets other than goodwill are capitalised where there is sufficient evidence to support the probability of the expenditure generating future economic benefits for the Group.

Patents

Patents are considered to have a finite life and are amortised on a straight-line basis over the lifetime of the patent.

Trademarks

Trademarks are not subject to amortisation as they are considered to have an indefinite life and are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Software

Software is amortised on a straight-line basis over two to three years.

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2019

C5. Intangible assets (continued)

Recognition and measurement (continued)

Project development costs

Project development expenditure is capitalised only when the Group can demonstrate: the technical feasibility of completing the intangible asset so that it can be available for use or sale; the potential for the asset to generate future economic benefits on completion; and the ability to measure reliably the expenditure attributable to the asset during its development. Amortisation commences when the asset is available for use.

Project development costs are amortised over a maximum useful life of five years.

Goodwill

Goodwill is recognised on business acquisitions, representing the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

Impairment testing for cash-generating units (CGUs) containing goodwill

Goodwill allocation

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs which represent the lowest level within the Group at which goodwill is monitored by internal management as follows:

CGUs	2019 \$'000	2018 \$'000
Australia and New Zealand	7,957	8,245
UK	–	1,964
	7,957	10,209

The movement in goodwill is attributable to impairment of UK goodwill and foreign exchange movements on the Australia and New Zealand goodwill.

Recognition and measurement

Impairment testing of non-financial assets

Assets that have an indefinite useful life, such as goodwill and trademarks, are not amortised but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised in the statement of comprehensive income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Key estimates and judgements

Goodwill and intangibles

Judgements are made with respect to identifying and valuing intangible assets on acquisitions of new businesses.

The Group assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually. These calculations involve judgements to estimate the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

C5. Intangible assets (continued)

Annual impairment testing as at 30 June 2019

The recoverable amount of goodwill and trademarks has been determined on a value-in-use basis using a discounted cash flow approach, and projections based on financial budgets approved by the Board, and four-year forward plans supplied by management.

Key assumptions

- Discount rates (pre-tax): 7.4% to 9.0% (2018: 8.0% to 9.0%)
- Terminal growth rate: 2.0%. (2018: 2.0%)

Sensitivity to change in assumptions

The calculation of value in use is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Revenue growth during the forecast period
- Growth rates used to extrapolate cash flows beyond the forecast period (terminal growth rate)

Gross margins – Gross margins are based on budgeted margins for FY20, and estimates for future years, adjusted where appropriate to account for expected future trading conditions. Consideration has been given to the growth profile of each CGU when forecasting future margin returns.

Discount rates – Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. Noting that the Group had no debt at 30 June 2019, the cost of debt is based on the capital structure that could be expected from a similar market participant.

Revenue growth – Revenue projections have been constructed with reference to the FY20 budget and four-year forward looking plans, and adjusted for recent performance trends across the regions (where necessary).

Terminal growth rate – A terminal growth rate of 2.0% has been used for future cash flow growth beyond the four-year forecast period.

The terminal value (being the total value of expected cash flows beyond the forecast period) is discounted to present values using the discount rate specific to each CGU.

Impairment of UK CGU goodwill and intangible assets

Based on current forecasts the UK CGU is not expected to achieve a cash break-even position in the near term, causing the CGU to be impaired.

From 1 July 2019, infant formula sales previously reported in the UK CGU will be allocated to the China and other Asia segment.

The recoverable amount of the UK CGU at 30 June 2019 has been determined based on a value-in-use calculation using risk adjusted cash flow projections based on financial estimates provided by senior management. The discount rate applied in this calculation was 7.4%.

The following assets of the UK CGU have been written off as impaired: goodwill; and UK specific trademarks. Other UK CGU assets, including working capital and property, plant and equipment, have been assessed as fully recoverable, with no impairment booked on these items. The total impairment charge included in other expenses relating to goodwill and trademarks in the UK segment is \$2,059,000.

As at 30 June 2019, the recoverable amount of the Group's CGUs, other than the UK CGU, exceeds their carrying amounts. The directors believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of these CGUs to be less than their carrying values. Based on this assessment, with the exception of the UK CGU, no impairment write downs are considered necessary.

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2019

C6. Other financial assets

	2019 \$'000	2018 \$'000
Listed investment at fair value	286,807	186,862

The listed investment is in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on the New Zealand Stock Exchange and Australian Securities Exchange) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the year (2018: \$nil)

In August 2018 the Company made a further investment in Synlait, acquiring 14,840,527 shares for \$162,335,000, increasing its total holding in Synlait to 17.394%.

A fair value loss of \$62,390,000 (2018: profit \$108,741,000) was recognised for the year.

Recognition and measurement

This listed investment is a long-term investment classified as a financial asset measured at fair value through other comprehensive income. The Group does not control or have significant influence over the investee.

Unrealised gains or losses arising from changes in fair value are recognised through other comprehensive income in the Fair Value Revaluation Reserve within equity.

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2019

D. Capital and financial risk management

This section outlines how the Group manages its capital structure and its exposure to financial risk, and provides details of its balance sheet liquidity and access to financing facilities.

D1. Capital management

The Group's primary capital management objective is to optimise its use of capital to generate value for stakeholders. The Group is not subject to externally imposed capital requirements, and currently has no debt.

The Board and management continue to evaluate a broad range of investment options designed to support the Company's future growth aspirations and, as a consequence, do not anticipate paying dividends in the near-term.

The Group's capital structure may be modified by payment of dividends to shareholders, returning capital to shareholders, or issuing new shares.

The Company's Board of Directors reviews the capital structure at least twice a year.

D2. Financial risk management

Financial risk management objectives

Exposure to credit risk, market risk (including currency risk and equity price risk), and liquidity risk arises in the normal course of the Group's business.

The Group's financial risk management processes and procedures seek to minimise the potential adverse impacts that may arise from the unpredictability of financial markets.

The Group's corporate finance function provides treasury services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages liquidity and the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of these risks.

Policies and procedures are reviewed periodically to reflect both changes in market conditions and changes in the nature and volume of Group activities.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative or hedging purposes. Specific risk management objectives and policies are set out below.

The Group uses various methods to measure different types of risk exposures. These methods include ageing analysis for credit risk, and sensitivity analysis in the case of foreign exchange risk and equity price risk.

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

	2019 \$'000	2018 \$'000
Maximum exposures to credit risk at balance date:		
Cash and short-term deposits (counterparty risk)	464,805	340,455
Trade receivables (customer credit risk)	44,513	53,476
	509,318	393,931

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2019

D2. Financial risk management (continued)

Counterparty risk

At balance date, the Group's bank accounts were held with banks with acceptable credit ratings determined by recognised credit agencies, including National Australia Bank Limited, Bank of New Zealand Limited, HSBC Bank, Great Western Bank and Lloyds Bank. The Group does not have any other concentrations of counterparty credit risk.

Customer credit risk

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. The majority of sales are to major retailers and other significant customers with established credit worthiness and minimum levels of default. Other sales are made cash on delivery.

New customers are analysed individually for creditworthiness; taking into account credit ratings where available, financial position, previous trading experience and other factors.

In monitoring customer credit risk, customers are assessed individually by their debtor ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure to bad debts. Historically, bad debt write-offs have been negligible.

There are significant concentrations of business within the Group. In 2019 37% of sales with credit terms were to three customers. (2018: 36% of sales to three customers). There is no history of default for these customers.

The provision for impairment is recognised based on an assessment of lifetime expected credit loss.

Ageing of trade receivables at the reporting date:

	Gross 2019 \$'000	Impairment 2019 \$'000	Restated Gross 2018 \$'000	Impairment 2018 \$'000
Not past due	76,031	–	69,489	–
Past due up to 90 days	7,861	(20)	5,639	–
Past due 91 to 180 days	–	–	191	(37)
Past due 181 days to one year	–	–	–	–
More than one year	–	–	–	–
	83,892	(20)	75,319	(37)
Rebates and other items of variable consideration payable:				
Within 90 days	(37,777)	–	(20,337)	–
Within 91 to 180 days	(1,602)	–	(1,506)	–
	44,513	(20)	53,476	(37)

The average credit period on sales is 22 days (2018: 25 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2019 \$'000	2018 \$'000
Balance at beginning of year	37	96
Amount charged to the statement of comprehensive income	(17)	29
Provisions reversed	–	(91)
Net foreign currency exchange differences	–	3
	20	37

D2. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings in financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates to the NZ dollar. The Group's holding of a listed investment also exposes it to equity price risk.

Market risk exposures are monitored by management on an ongoing basis and there has been no change during the year to the Group's exposure to market risks or the way it manages and measures risk.

Foreign currency risk management

The Group's exposure to foreign currency risk arises principally from its operations in Australia, the US, the United Kingdom, and China; and the resultant movements in the currencies of those countries against the NZ dollar. The Group does not hedge this risk, but may transfer cash balances from time to time between currencies to reduce exposure or to match underlying liabilities.

Expressed in NZ dollars, the table below indicates exposure and sensitivity to movements in exchange rates on the profit or loss of the Group based on closing exchange rates as at 30 June, applied to the Group's financial assets/(liabilities) at 30 June. Exchange rates and assets and liabilities held in foreign currencies will fluctuate over the course of normal operations.

The analysis is performed consistently from year to year.

	Net exposure on reporting date \$'000	Impact on pre-tax profit or (loss) \$'000 +10%	\$'000 -10%
2019			
Movement on exchange rate	–	+10%	–10%
AUS Dollar	8,981	998	(816)
US Dollar	(16,964)	(1,886)	1,541
GB Pounds	(44)	(5)	4
Chinese Yuan Renminbi	79	9	(7)

	Net exposure on reporting date \$'000	Impact on pre-tax profit or (loss) \$'000 +10%	\$'000 -10%
2018			
Movement on exchange rate	–	+10%	–10%
AUS Dollar	165	18	(15)
US Dollar	(10,790)	(1,199)	981
GB Pounds	63	7	(6)
Chinese Yuan Renminbi	(4,676)	(520)	425

As the foreign currency denominated monetary financial instruments of the Group consist only of cash, and trade and other receivables and payables, foreign exchange movements do not have any impact on equity other than the above-mentioned impact on profit or loss.

Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
AUS Dollar	0.9401	0.9192	0.9552	0.9219
US Dollar	0.6724	0.7107	0.6679	0.6779
GB Pounds	0.5200	0.5267	0.5268	0.5180
Chinese Yuan Renminbi	4.5911	4.6241	4.5944	4.4818

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2019

D2. Financial risk management (continued)

Equity price risk

The Group is exposed to equity price risk on its listed investment classified and measured at fair value through other comprehensive income (FVOCI). This risk is not hedged.

The Group monitors this risk exposure by comparing the movement in the quoted share price of this long-term investment against movements in the NZX index over the same period.

As at 30 June 2019, the exposure to the listed investment at FVOCI was \$286,807,000 (2018: \$186,862,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of \$28,681,000 (2018: \$18,686,000) in the fair value revaluation reserve through other comprehensive income, with no effect on profit or loss.

Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. This risk is managed by establishing a target minimum liquidity level, ensuring that ongoing commitments are managed with respect to forecast available cash inflows.

The Group holds significant cash reserves which enable it to meet its obligations as they fall due, and to support operations in the event of unanticipated external events.

The Group has no borrowings. (2018: Nil).

Contractual maturities of financial liabilities

The Group's financial liabilities consist entirely of trade payables and accruals.

Financial liabilities	2019 \$'000	2018 \$'000
Trade payables	84,152	66,076
Accruals	70,042	36,604
	154,194	102,680

These financial liabilities are all payable within three months (2018: three months), with no interest payable.

Fair values

Fair value hierarchy

Financial instruments carried at fair value are classified by valuation method based on the following hierarchy:

- 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)

The listed investment, classified as a financial asset measured at fair value through other comprehensive income, is the only financial instrument carried by the Group at fair value, with a Level 1 valuation method applied. Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the statement of financial position at fair value.

The following methods and assumptions are used in estimating the fair values of financial instruments:

- listed investment – closing share price as at 30 June 2019 on the New Zealand Stock Exchange; and
- cash and short-term deposits, trade and other receivables and payables – carrying amount equals fair value

D3. Cash and short-term deposits

	2019 \$'000	2018 \$'000
Cash at banks and on hand	193,472	154,750
Short-term deposits	271,333	185,705
	464,805	340,455

Bank balances and cash comprise cash held by the Group. Interest is earned at floating rates based on daily bank deposit rates. The carrying value of cash assets approximates their fair value.

Cash at banks and on hand includes AUD 40,470,000 (2018: AUD 91,338,000), GBP 3,267,000 (2018: GBP 4,922,000), USD 14,310,000 (2018: USD 17,093,000), and RMB 112,997,000 (2018: RMB 30,788,000).

Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

D4. Cash flow information

Reconciliation of after tax profit with net cash flows from operating activities

	2019 \$'000	2018 \$'000
Net profit for the year	287,741	195,684
Adjustments for non-cash items:		
Depreciation and amortisation	2,176	2,174
Impairment of goodwill, and trademarks	2,059	–
Share-based payments	8,184	2,612
Net foreign exchange gain	(1,730)	(2,537)
Deferred tax	(2,822)	(2,907)
Changes in working capital:		
Trade and other receivables	6,383	7,383
Prepayments	(13,678)	(58)
Inventories	(44,352)	(35,664)
Trade and other payables	51,421	44,862
Customer contract liabilities	533	–
Income tax payable	(6,847)	19,559
Net cash inflow from operating activities	289,068	231,108

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2019

D5. Share capital

	2019		2018	
	Number of shares	Share capital \$'000	Number of shares	Share capital \$'000
Movements in contributed equity:				
Fully paid ordinary shares:				
Balance at beginning of year	730,039,067	141,566	718,238,067	134,302
Movements in the period:				
Exercise of options	3,000,998	1,890	4,231,000	2,666
Vesting of performance rights	–	–	320,000	–
Vesting of time-based rights	508,340	–	–	–
Partly paid shares fully paid	1,500,000	1,080	7,250,000	4,650
Share issue costs	–	(41)	–	(52)
	5,009,338	2,929	11,801,000	7,264
Balance at end of year	735,048,405	144,495	730,039,067	141,566
Partly paid ordinary shares:				
Balance at beginning of year	1,500,000	–	8,750,000	–
Partly paid shares fully paid	(1,500,000)	–	(7,250,000)	–
Balance at end of year	–	–	1,500,000	–
Total ordinary shares on issue	735,048,405	144,495	731,539,067	141,566

Holders of fully paid ordinary shares are entitled to receive dividends as may be declared from time to time and are entitled to one vote per share at shareholders' meetings.

The Company does not have authorised capital or par value in respect of its issued shares.

D6. Reserves

Details of the following reserve accounts are set out in the Consolidated statement of changes in equity.

Employee equity settled payments reserve

The employee equity settled payments reserve is used to record the value of share-based payments provided to employees and contractors, including key management personnel.

Fair value revaluation reserve

The fair value revaluation reserve is used to record movements in the fair value of listed investments classified as financial assets measured at fair value through other comprehensive income.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

D7. Capital expenditure commitments

As at 30 June 2019, there were no capital expenditure commitments (2018: \$nil).

D8. Operating lease commitments

The Group has entered into operating leases for office and industrial premises, and motor vehicles. There are no financial restrictions placed upon Group entities by entering into these leases. The Group has the option, under some leases, to lease the assets for additional terms. All lease contracts contain market review clauses in the event that the Company exercises its option to renew.

Future minimum rentals payable under non-cancellable operating leases

	2019 \$'000	2018 \$'000
Not longer than one year	2,505	2,126
Longer than one year and not longer than five years	4,064	3,726
Longer than five years	3,576	–
	10,145	5,852

Recognition and measurement

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Leases under which a significant proportion of the risks and rewards remain with the lessor are classified as operating leases.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

D9. Contingent liabilities

As at 30 June 2019, there were no material contingent liabilities (2018: \$nil).

Notes to the financial statements – Group structure for the year ended 30 June 2019

E. Group structure

This section provides details of the Group structure and the entities included in the consolidated financial statements.

E1. Consolidated entities

Details of the Company's subsidiaries at 30 June 2019 are as follows:

	Parties to Deed of Cross Guarantee (Note E2)*	Principal place of business	Proportion of ownership interest	
			2019	2018
Parent entity:				
The a2 Milk Company Limited	✓	New Zealand	–	–
Subsidiaries:				
The a2 Milk Company (Export) Limited	–	New Zealand	100%	100%
a2 Holdings UK Limited	–	New Zealand	100%	100%
a2 Infant Nutrition Limited	✓#	New Zealand	100%	100%
The a2 Milk Company (New Zealand) Limited	–	New Zealand	100%	100%
a2 Australian Investments Pty. Limited	✓	Australia	100%	100%
a2 Botany Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company (Australia) Pty Ltd	✓	Australia	100%	100%
a2 Exports Australia Pty Limited	✓	Australia	100%	100%
a2 Infant Nutrition Australia Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company (Nutrition) Pty Limited	✓##	Australia	100%	–
The a2 Milk Company Limited	–	UK	100%	100%
The a2 Milk Company LLC	–	USA	100%	100%
The a2 Milk Company	–	USA	100%	100%
The a2 Milk Company Limited	–	Canada	100%	100%
a2 Infant Nutrition (Shanghai) Co., Ltd	–	China	100%	100%
The a2 Milk Company (Singapore) Pte. Ltd	–	Singapore	100%	100%

* Each party to the Deed of Cross Guarantee is a member of the "closed group" under the ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785. There are no other members of the "extended closed group".

a2 Infant Nutrition Limited is the subject of an ASIC declaration under section 601CK(7) of the *Corporations Act 2001* (Commonwealth of Australia) to the effect that it is not required to prepare and lodge a balance sheet, cash flow statement, and profit and loss statement with ASIC subject to it satisfying the conditions to the declaration, which includes a requirement that it comply with section 6 of ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785 with appropriate changes.

The a2 Milk Company (Nutrition) Pty Limited was incorporated on 24 September 2018, and became a party to the Deed of Cross Guarantee on 22 November 2018. There were no other entities over which the Company gained or lost control during the year. All subsidiaries have a balance date of 30 June, except for The a2 Milk Company LLC, and a2 Infant Nutrition (Shanghai) Co., Ltd which have a balance date of 31 December.

Recognition and measurement

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 powers over 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

E2. Deed of cross guarantee

Pursuant to ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785, the Australian-incorporated wholly owned subsidiaries listed in Note E1 as parties to the Deed of Cross Guarantee are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports in Australia.

It is a condition of the ASIC Corporations Instrument that the Company and each of the subsidiaries listed enter into a Deed of Cross Guarantee. The effect of the Deed is that each party guarantees to each creditor of each other party payment in full of any debt in the event of winding up of the other party under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the guarantee will only apply if after six months after a resolution or order for winding up any creditor has not been paid in full.

A consolidated statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are parties to the Deed of Cross Guarantee (each party being a member of the closed group), after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2019, are set out as follows:

Consolidated statement of comprehensive income and retained earnings for the year ended 30 June 2019

	2019 \$'000	2018 \$'000
Revenue	1,254,926	896,611
Expenses	(844,540)	(617,080)
Finance income (net)	4,121	3,180
Profit before tax	414,507	282,711
Income tax expense	(123,919)	(85,679)
Profit after tax	290,588	197,032
Other comprehensive income	(4,212)	569
Total comprehensive income for the year	286,376	197,601
Retained earnings at beginning of the year	323,797	126,765
Transfers to and from reserves	4,212	(569)
Retained earnings at the end of the year	614,385	323,797

Notes to the financial statements – Group structure for the year ended 30 June 2019

E2. Deed of cross guarantee (continued)

Consolidated statement of financial position as at 30 June 2019

	2019 \$'000	2018 \$'000
Assets		
Current assets		
Cash and short-term deposits	414,177	311,346
Trade and other receivables	56,283	63,677
Prepayments	49,018	35,431
Inventories	106,396	62,520
Total current assets	625,874	472,974
Non-current assets		
Property, plant and equipment	9,942	9,254
Intangible assets	12,901	13,028
Other financial assets	304,252	141,295
Deferred tax asset	5,059	3,762
Total non-current assets	332,154	167,339
Total assets	958,028	640,313
Liabilities		
Current liabilities		
Trade and other payables	145,331	117,031
Customer contract liabilities	1,431	898
Income tax payable	42,942	50,530
Total current liabilities	189,704	168,459
Non-current liabilities		
Trade and other payables	228	1,247
Total non-current liabilities	228	1,247
Total liabilities	189,932	169,706
Net assets	768,096	470,607
Equity		
Share capital	144,495	141,566
Retained earnings	614,385	323,797
Reserves	9,216	5,244
Total equity	768,096	470,607

Notes to the financial statements – Other disclosures for the year ended 30 June 2019

F. Other disclosures

F1. Related party transactions

Ultimate Parent

The a2 Milk Company Limited is the parent of the Group. The Group consists of The a2 Milk Company Limited and its subsidiaries as listed in Note E1.

Key management personnel

Key management personnel are defined as those persons having significant authority and responsibility for planning, directing and controlling the activities of the Group, and includes the directors, and a number of senior executives.

Key management personnel compensation:

	2019 \$'000	2018 \$'000
Short-term employee benefits	6,576	4,717
Other long-term benefits	36	155
Termination payments	916	–
Share-based payments	5,693	1,110
	13,221	5,982

Key management personnel include the following senior executives:

Chief Financial Officer

Chief Executive, Asia Pacific

Chief Executive, USA

Transactions with key management personnel and their related parties

The following table provides details of transactions that were entered into for the relevant financial year.

Related parties	Sales		Other transactions		Outstanding receivables/ (payables)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
a2 Holdings UK Limited – consultancy fees payable to Lovat Partners Limited, an entity controlled by David Hearn, Chairman of the Company. The fees were charged at commercial rates. This consulting arrangement ceased on 18 December 2018.	–	–	44	85	–	(85)

No amounts were receivable from related parties at year end.

Loans to key management personnel and their related parties

No loans were outstanding or made to key management personnel and their related parties at any time during the 2019 and 2018 financial years.

Notes to the financial statements – Other disclosures for the year ended 30 June 2019

F2. Share-based payments

Long-term incentives (LTI)

The LTI plan is designed to retain and motivate senior executives and management to achieve the Group's long-term strategic goals by providing rewards that align the interests of the executives and management with shareholders. Performance rights and time-based rights are currently issued under the LTI plan; and options were previously issued in FY15 and FY16.

Performance rights were issued under the Group's long-term incentive plan in FY17 and FY18. During the year, 245,787 performance rights and 599,254 time-based rights were granted to the Managing Director and CEO; and 93,809 time-based rights were granted to the Company's Chief Scientific Advisor.

The performance rights, granted on 13 July 2018, vest subject to an earnings per share (EPS) performance hurdle, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over a three-year performance period, with no retesting. 50% of the award will vest if diluted EPS CAGR of 15% is achieved, up to a maximum of 100% of the award vesting if diluted EPS CAGR of 25% or more is achieved.

Vesting of the time-based rights issued in the year is subject to continuing employment, with no other performance conditions, vesting as follows:

Number of time-based rights granted:	Grant dates	Vesting dates
237,090	13 Jul 18	28 Aug 18
120,142	13 Jul 18	3 Sep 18
151,108	13 Jul 18	30 Jun 19
90,914	13 Jul 18	24 Aug 19
31,270	1 Aug 18	1 Aug 19
31,270	1 Aug 18	1 Aug 20
31,269	1 Aug 18	1 Aug 21
693,063		

The time-based rights granted on 13 July 2018 were issued to the Managing Director and CEO as compensation for forfeiture of STI and LTI entitlements with a former employer as a result of resignation to take up employment with the Company, with vesting dates matching the vesting dates of the forfeited entitlements.

No amount is payable upon vesting of the performance and time-based rights and conversion to shares. Each exercised right is an entitlement to one fully paid ordinary share in the Company.

The FY19, FY18 and FY17 performance rights awards vest subject to an earnings per share (EPS) performance hurdle, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over the performance period, with no retesting. 50% of the awards will vest if diluted EPS CAGR of 15% is achieved, and up to a maximum of 100% of the award will vest if diluted EPS CAGR of either 20% or more, or 25% or more, is achieved, as follows:

Grants outstanding 30 June 2019:	Performance period	Performance hurdles	
		50%	100%
FY2017			
875,000 rights	3 years	EPS CAGR 15%	EPS CAGR 25%
FY2018			
320,000 rights	3 years	EPS CAGR 15%	EPS CAGR 20%
297,300 rights	2 years	EPS CAGR 15%	EPS CAGR 25%
FY2019			
245,787 rights	3 years	EPS CAGR 15%	EPS CAGR 25%

F2. Share-based payments (continued)

The options granted in FY15 and FY16 vest in five equal tranches over five years, commencing on the first anniversary of the date of the grant.

The FY16 awards of options vest subject to share price growth performance hurdles over a five-year performance period, and continuing employment. The absolute share price growth hurdle is a minimum share price CAGR of 10% over the performance period, subject to annual retesting until the performance condition is met, or the performance period ends.

On vesting, options are exercised on payment of the exercise price. No amount is payable upon vesting of the rights and conversion to shares. Each exercised option or right is an entitlement to one fully paid share in the Company.

No dividends are paid on options and rights, and they do not entitle their holder to attend or vote at Company meetings.

LTI outstanding as at 30 June 2019	Number	Grant Dates	Vesting Dates	Expiry Dates
Performance rights – FY17 grants	875,000	8 Feb 17 and 10 Mar 17	8 Feb 20 and 10 Mar 20	8 Feb 20 and 10 Mar 20
Performance rights – FY18 grants	617,300	28 Sep 17 and 6 Mar 18	1 Sep 20 and 6 Mar 21	28 Jun 21 and 6 Dec 21
Performance rights – FY19 grant	245,787	13 Jul 18	30 Jun 21	30 Sep 21
	1,738,087			
Time-based rights – FY19 grants	184,723	13 Jul 18 and 1 Aug 18	28 Aug 19 to 1 Aug 21	28 Aug 19 to 1 Aug 21
Options – FY15 grants	3,200,000	30 Mar 15	30 Mar 16 to 30 Mar 20	30 Jun 20
Options – FY16 grants	3,800,000	12 Aug 15	12 Aug 16 to 12 Aug 20	12 May 21
	7,000,000			

Performance rights movements:	Number 2019	Number 2018
Outstanding at the beginning of the year	1,612,200	2,262,000
Forfeited during the period	(119,900)	(1,040,000)
Granted during the period	245,787	710,200
Vested during the period	–	(320,000)
Outstanding at the end of the year	1,738,087	1,612,200

The weighted average remaining contractual life of performance rights is 1.1 years (2018: 1.9 years).

Time-based rights movements:	Number 2019
Granted during the period	693,063
Vested during the period	(508,340)
Outstanding at the end of the year	184,723

The weighted average remaining contractual life of time-based rights is 0.6 years.

Notes to the financial statements – Other disclosures for the year ended 30 June 2019

F2. Share-based payments (continued)

Options movements:	Weighted average exercise price 2019	Number 2019	Weighted average exercise price 2018	Number 2018
Outstanding at the beginning of the year	\$0.63	12,400,998	\$0.63	16,631,998
Forfeited during the period		(2,400,000)	–	–
Granted during the period	–	–	–	–
Exercised during the period	\$0.63	(3,000,998)	\$0.63	(4,231,000)
Outstanding at the end of the year	\$0.63	7,000,000	\$0.63	12,400,998
Exercisable at the end of the year		2,400,000		1,400,998

The weighted average remaining contractual life of options is 0.7 years (2018: 2.6 years).

The weighted average share price on exercise of the options in the period was \$12.03.

The fair value of services received in return for performance and share-based rights or options granted to employees is measured by reference to the fair value of the rights or options granted. The estimate of the fair value of the services received is measured by reference to the vesting conditions specific to the grant based on a MonteCarlo simulation option pricing model.

Fair value of performance and time-based rights granted during the year and assumptions	2019		2018	
	Jul 2018	Aug 2018	Sept 2017	Mar 2018
Fair value at measurement date	\$7.77	\$12.75	\$5.75	\$12.65
Share price at grant date	\$10.33	\$11.39	\$6.54	\$12.75
Performance rights life	2.98yrs	–	2.18yrs	2.68yrs
Expected dividend yield	–	–	–	–
Risk-free interest rate	2.09%	2.06%	2.10%	1.89%
Historical volatility	30%	30%	30%	30%

Partly paid shares (PPS) – legacy scheme

Partly paid ordinary shares were issued in financial years prior to 30 June 2014. No further grants will be awarded under this scheme. All remaining PPS were exercised during the year.

Partly paid shares movements:	Number 2019	Number 2018
Outstanding at the beginning of the year	1,500,000	8,750,000
Forfeited during the period	–	–
Exercised during the period	(1,500,000)	(7,250,000)
Outstanding at the end of the year	–	1,500,000
Exercisable at the end of the year	–	–

F2. Share-based payments (continued)

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2019, a \$8,184,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2018: \$2,612,000).

Recognition and measurement

The grant date fair value of share-based payment awards made to employees is recognised as an employee expense with a corresponding increase in the employee equity benefit reserve, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, but is not adjusted when market performance conditions are not met.

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:	2019 \$'000	2018 \$'000
An audit or review of the financial report of the Group	701	609
Other services:		
Market research	79	119
Sustainability reporting advisory	40	65
	820	793

F4. Subsequent events

On 20 August 2019, the Board decided to exit from liquid milk operations in the UK to focus instead on strengthening the Group's position in core regions, which offer more significant scale potential and a platform for further new product development.

The details of the exit plan are yet to be finalised, but the financial impact of the planned exit is not expected to be material to the Group. The Group does not have any material long term commitments in the UK.

UK infant nutrition customers have been transferred to the Group's China and other Asia segment.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.



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Company disclosures

1. Substantial product holders

The shares of the Company are quoted on NZX, the ASX and Chi-X.

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the ordinary shares of the Company as at 30 June 2019 (such disclosure being required by the *Financial Markets Conduct Act 2013* (NZ)) and as at 1 August 2019 (such disclosure being required by the ASX Listing Rules):

Name	As at 30 June and 1 August 2019	
	Number of ordinary shares in the Company in which a Relevant Interest is held	% of ordinary shares held
Commonwealth Bank of Australia	53,591,057	7.29%
The Vanguard Group, Inc.	51,494,591	7.01%
Pendal Group Limited	38,544,523	5.24%
BlackRock, Inc. and related bodies corporate	38,298,101	5.21%

The total number of voting shares on issue as at 30 June 2019 was 735,048,405 and the total number of voting shares on issue as at 1 August 2019 was 735,079,675.

2. Voting rights

During the period 1 July 2018 to 30 June 2019, each fully paid ordinary share of the Company gave the holder the right to cast one vote per shareholder on a show of hands and one vote per share on a poll on any resolution. Following the Company's transition to the new NZX Listing Rules on 30 June 2019, all votes cast at shareholder meetings will take place by way of poll.

3. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 1 August 2019 are listed below:

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	142,853,602	19.43
HSBC Nominees (New Zealand) Limited	50,909,598	6.93
JP Morgan Chase Bank	46,551,850	6.33
HSBC Nominees (New Zealand) Limited	38,592,191	5.25
Citibank Nominees (NZ) Ltd	37,459,637	5.10
J P Morgan Nominees Australia Pty Limited	35,958,600	4.89
Citicorp Nominees Pty Limited	30,788,330	4.19
Tea Custodians Limited	23,254,567	3.16
National Nominees Limited	21,418,032	2.91
Accident Compensation Corporation	18,975,721	2.58
Citicorp Nominees Pty Limited	17,049,761	2.32
Cogent Nominees Limited	15,257,915	2.08
New Zealand Superannuation Fund Nominees Limited	11,276,605	1.53
National Nominees New Zealand Limited	11,152,056	1.52
BNP Paribas Nominees NZ Limited	9,426,691	1.28
Premier Nominees Limited	8,303,719	1.13
BNP Paribas Nominees Pty Ltd	6,005,807	0.82
Cogent Nominees (NZ) Limited	4,599,198	0.63
FNZ Custodians Limited	4,363,108	0.59
Forsyth Barr Custodians Limited	3,864,534	0.53
Total	538,061,522	73.20

4. Spread of security holders as at 1 August 2019 and number of holders

a) Fully paid ordinary shareholders

Size of shareholding	Number of holders	Number of shares	%
1 to 1,000	23,804	9,582,331	1.30
1,001 to 5,000	12,520	30,909,282	4.20
5,001 to 10,000	2,688	20,247,136	2.75
10,001 to 100,000	2,178	56,002,254	7.62
100,001 shares or more	191	618,338,672	84.13
	41,381	735,079,675	100.00

As at 1 August 2019, the number of holders with between one and 57 ordinary shares (being less than a minimum holding under the NZX Listing Rules based on the closing market price) was 257 and the number of holders with less than a marketable share parcel of the Company's fully paid ordinary shares of AU\$500 (under the ASX Listing Rules), based on the closing market price, was 399.

Company disclosures

b) Options to acquire ordinary shares (unlisted securities not quoted by the ASX or NZX)

Size of holding	Number of holders	Number of options	%
100,001 options or more	5	7,000,000	100.00
	5	7,000,000	100.00

c) Performance rights (unlisted securities not quoted by the ASX or NZX)

Size of holding	Number of holders	Number of rights	%
5,001 to 10,000	2	13,300	0.77
10,001 to 100,000	16	866,800	49.87
100,001 performance rights or more	4	857,987	49.36
	22	1,738,087	100.00

d) Time-based rights (unlisted securities not quoted by the ASX or NZX)

Size of holding	Number of holders	Number of rights	%
10,001 to 100,000	2	153,453	100.00
	2	153,453	100.00

5. Directors' relevant interests and share dealings

Directors of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2018 to 30 June 2019:

Registered holder	Beneficial/ Non-beneficial	Acquired/ (Disposed)	Class of financial product	Date	Consideration paid/(received) NZD
Jayne Hrdlicka					
Carla Jayne Hrdlicka	Beneficial	245,787	Performance rights	13 Jul 18	N/A
Carla Jayne Hrdlicka	Beneficial	599,254	Time-based rights	13 Jul 18	N/A
Carla Jayne Hrdlicka	Beneficial	(237,090)	Time-based rights ¹	28 Aug 18	N/A
Carla Jayne Hrdlicka	Beneficial	237,090	Ordinary shares ¹	28 Aug 18	N/A
Carla Jayne Hrdlicka	Beneficial	(120,142)	Time-based rights ¹	03 Sep 18	N/A
Carla Jayne Hrdlicka	Beneficial	120,142	Ordinary shares ¹	03 Sep 18	N/A
Carla Jayne Hrdlicka	Beneficial	(178,616)	Ordinary shares	18 Sep 18	(\$2,157,336.94)
Carla Jayne Hrdlicka	Beneficial	(178,616)	Ordinary shares	20 Sep 18	(\$2,202,781.09)
Carla Jayne Hrdlicka	Beneficial	(151,108)	Time-based rights ¹	30 Jun 19	N/A
Carla Jayne Hrdlicka	Beneficial	151,108	Ordinary shares ¹	30 Jun 19	N/A
Geoffrey Babidge²					
GCAA Investments Pty Ltd	Beneficial	(250,000)	Ordinary shares	23 Aug 18	(\$2,913,204.50)
GCAA Investments Pty Ltd	Beneficial	(250,000)	Ordinary shares	23 Aug 18	(\$2,938,950.00)
GCAA Investments Pty Ltd	Beneficial	(53,858)	Ordinary shares	27 Aug 18	(\$659,110.54)
GCAA Investments Pty Ltd	Beneficial	(196,142)	Ordinary shares	28 Aug 18	(\$2,412,448.53)
GCAA Investments Pty Ltd	Beneficial	(250,000)	Ordinary shares	29 Nov 18	(\$2,751,077.00)
Peter Hinton					
Peter Bruce Hinton	Beneficial	(25,000)	Ordinary shares	26 Sep 18	(\$297,856.28)
Peter Bruce Hinton	Beneficial	(325,000)	Ordinary shares ³	21 Feb 19	(\$4,550,000)
David Hearn					
Lovat Partners Limited	Beneficial	(100,000)	Options ⁴	25 Feb 19	N/A
David Hearn	Beneficial	100,000	Ordinary shares ⁴	25 Feb 19	\$63,000
David Hearn	Beneficial	(100,000)	Ordinary shares ⁴	25 Feb 19	(\$1,454,657.50)

¹ Reflects the issue of ordinary shares to Jayne Hrdlicka following the vesting and automatic exercise of time-based rights.

² Transactions are for the six-month period after Geoffrey Babidge retired as Managing Director and CEO on 16 July 2018.

³ Sale by Peter Hinton of 325,000 ordinary shares off-market to his spouse.

⁴ Reflects (i) issue of ordinary shares following exercise of options held by Lovat Partners Limited; (ii) subsequent transfer of those ordinary shares from Lovat Partners Limited to David Hearn; and (iii) subsequent sale by David Hearn of those ordinary shares on-market.

Directors of the Company as at 30 June 2019 held the following relevant interests in the financial products of the Company as at that date:

Registered holder	Beneficial/ Non-beneficial	Balance held No's	Class of financial product
David Hearn			
Lovat Partners Limited	Beneficial	3,200,000	Unlisted options to acquire ordinary shares
David Lovat Gordon Hearn	Beneficial	100,000	Ordinary shares
Julia Hoare			
Julia Cecile Hoare	Beneficial	50,000	Ordinary shares
Jayne Hrdlicka			
Carla Jayne Hrdlicka	Beneficial	151,108 ¹	Ordinary shares
Carla Jayne Hrdlicka	Beneficial	245,787	Unlisted performance rights
Carla Jayne Hrdlicka	Beneficial	90,914 ²	Unlisted time-based rights
Peter Hinton			
Peter Bruce Hinton	Beneficial	300,000	Ordinary shares
Warwick Every-Burns			
Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Ordinary shares
Kathryn Every-Burns	Beneficial	25,000	Ordinary shares
Jesse Wu			
Jesse Jen-Wei Wu	Beneficial	27,000	Ordinary shares

¹ Reflects the number of ordinary shares issued to Jayne Hrdlicka following the vesting and automatic exercise of 151,108 time-based rights on 30 June 2019.

² Reflects the remaining time-based rights held by Jayne Hrdlicka following the vesting and automatic exercise of time-based rights described in this section.

6. Credit rating status

Not applicable.

7. NZX Waivers

A summary of all waivers granted and published by NZX following an application by the Company or relied upon by the Company during the reporting period ended 30 June 2019 is as follows:

- On 5 July 2019, NZX granted the Company a waiver from NZX Listing Rule 9.1.1. The waiver allowed a wholly owned subsidiary of the company to enter into a variation to an existing supply contract with a subsidiary of Synlait Milk Limited without obtaining shareholder approval.
- On 12 September 2018, NZX granted the Company a waiver from NZX Listing Rule 5.5.1(b). The waiver allowed the Company to hold its Annual Meeting physically in Melbourne, Australia.
- The Company transitioned to the new NZX Listing Rules on 30 June 2019 and has relied on the class waiver granted by NZX on 19 November 2018 in relation to the transition.

8. Particulars of notices or statements given to or approved by the Board

8.1 Interests register

The Company is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for the Company is available for inspection on request by shareholders.

Directors have declared interests during the reporting period ended 30 June 2019 as follows:

- The Company has arranged and paid for policies for directors' liability insurance which ensure that directors of the Company and its subsidiaries are protected against liabilities and costs for acts or omissions by them in their capacity as directors of the Company and its subsidiaries.
- The Company has provided Deeds of Indemnity to all directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiaries.
- Directors' relevant interests and share dealings as outlined in Section 5, above.

Refer to Note F1 to the financial statements for consultancy transactions entered into with David Hearn.

No other entries were made in the interests registers of the Company's subsidiaries during the reporting period.

8.2 Other positions held

No directors advised the Company of changes to interests during the reporting period ended 30 June 2019.

Company disclosures

8.3 Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2019.

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (Export) Limited	New Zealand	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
a2 Infant Nutrition Limited	New Zealand	Jayne Hrdlicka (Appointed: 16 July 2018) Peter Nathan Geoffrey Babidge (Resigned: 16 July 2018) Simon Hennessy (Resigned: 3 December 2018)
a2 Holdings UK Limited	New Zealand	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
a2 Australian Investments Pty. Limited.	Australia	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
a2 Botany Pty Ltd	Australia	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
The a2 Milk Company (Australia) Pty Ltd	Australia	Jayne Hrdlicka (Appointed: 16 July 2018) Peter Nathan Geoffrey Babidge (Resigned: 16 July 2018)
The a2 Milk Company (New Zealand) Limited	New Zealand	Jayne Hrdlicka (Appointed: 16 July 2018) Julia Hoare Geoffrey Babidge (Resigned: 16 July 2018)
a2 Infant Nutrition Australia Pty Ltd	Australia	Jayne Hrdlicka (Appointed: 16 July 2018) Peter Nathan Geoffrey Babidge (Resigned: 16 July 2018) Simon Hennessy (Resigned: 3 December 2018)
a2 Exports Australia Pty Limited	Australia	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
The a2 Milk Company (Nutrition) Pty Limited	Australia	Jayne Hrdlicka (Appointed: 24 September 2018) Craig Louttit (Appointed: 24 September 2018)
The a2 Milk Company Limited	British Columbia, Canada	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
The a2 Milk Company Limited	Scotland, UK	David Hearn William Keane Jayne Hrdlicka (Appointed: 16 July 2018, Resigned: 1 June 2019) Geoffrey Babidge (Resigned: 16 July 2018) John Scott Wotherspoon (Resigned: 9 August 2018) Simon Charles Hennessy (Appointed: 9 August 2018, Resigned: 24 August 2018)
The a2 Milk Company	Delaware, USA	Jayne Hrdlicka (Appointed: 16 July 2018) David Hearn Geoffrey Babidge (Resigned: 16 July 2018)
The a2 Milk Company LLC	Delaware, USA	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Geoffrey Babidge (Resigned: 16 July 2018)
a2 Infant Nutrition (Shanghai) Co., Ltd.	China	Michael Bracka (Resigned: 19 December 2018) Peter Nathan (Appointed: 19 December 2018, Resigned: 30 May 2019) Xiao Li (Appointed: 30 May 2019)
The a2 Milk Company (Singapore) Pte. Ltd.	Singapore	Jayne Hrdlicka (Appointed: 16 July 2018) Craig Louttit Shaun Singh Geoffrey Babidge (Resigned: 16 July 2018)

No employee of the Company appointed as a director of the Company or its subsidiaries receives remuneration or other benefits in their role as director, other than described in the Remuneration section on page 47 of this Annual Report. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed under Employee remuneration range in Section 13, below.

8.4 Use of Company information

The Board received no notices during the period from directors requesting to use Company information received in their capacity as directors which would not have been otherwise available to them.

9. Limitations on the acquisition of securities

The Company is not subject to chapters 6, 6A, 6B and 6C of the *Corporations Act 2001* (Cth, Australia) dealing with the acquisition of its shares (including substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by New Zealand law are as follows:

- In general, fully paid ordinary shares in the Company are freely transferable, and the only significant restrictions or limitations in relation to the acquisition of fully paid ordinary shares in the Company are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the Company, or the increase of an existing holding of 20% or more of the voting rights in the Company, can only occur in certain permitted ways. These include a full takeover offer, a partial takeover offer, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more shares in the Company, in each case in accordance with the New Zealand Takeovers Code.
- The New Zealand Overseas Investment Act 2005 regulates certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office will likely be required where an "overseas person" acquires shares or an interest in shares in the Company that amount to more than 25% of the shares issued by the Company or, if the overseas person already holds 25% or more, the acquisition increases that holding.
- The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

The Company has complied with, and continues to comply with, the requirements of the NZX Listing Rules with respect to the issue of new securities.

10. On-market buy-back

There is no current on-market buy-back of the Company's securities.

11. Donations

The Company and its subsidiaries have made donations of cash and inventories totalling NZD 944,057 during the year ended 30 June 2019 (2018: NZD 50,852), primarily related to NZD 861,460 for drought relief and various other donations including donations of inventory to not-for-profit and charitable organisations.

12. Directors and officers

For the purposes of NZX Listing Rule 3.8.1(c), the quantitative breakdown as to the gender composition of the Company's Directors and Officers as at 30 June 2019 and 30 June 2018 is as follows:

	At 30 June 2019	At 30 June 2018
Directors	6	6
Females	2	1
Males	4	5
Officers	9	9
Females	4	1
Males	5	8

Company disclosures

13. Employee remuneration range

The following table shows the number of employees and former employees of the Company and its subsidiaries (not being directors or former directors of the Company) who, in their capacity as employees, received remuneration and other benefits valued at or in excess of \$100,000 during the year to 30 June 2019.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range \$ (gross)	Number of employees in the year ended 30 June 2019 (based on actual payments)	Value of exercised options included in remuneration range
\$100,000 – \$109,999	4	–
\$110,000 – \$119,999	6	–
\$120,000 – \$129,999	9	–
\$130,000 – \$139,999	6	–
\$140,000 – \$149,999	3	–
\$150,000 – \$159,999	5	–
\$160,000 – \$169,999	2	–
\$170,000 – \$179,999	4	–
\$180,000 – \$189,999	2	–
\$190,000 – \$199,999	4	–
\$200,000 – \$209,999	3	–
\$210,000 – \$219,999	1	–
\$220,000 – \$229,999	1	–
\$230,000 – \$239,999	1	–
\$240,000 – \$249,999	2	–
\$270,000 – \$279,999	2	–
\$280,000 – \$289,999	3	–
\$290,000 – \$299,999	1	–
\$310,000 – \$319,999	2	–
\$340,000 – \$349,999	2	–
\$360,000 – \$369,999	1	–
\$370,000 – \$379,999	2	–
\$390,000 – \$399,999	1	–
\$410,000 – \$419,999	1	–
\$430,000 – \$439,999	1	–
\$490,000 – \$499,999	1	–
\$590,000 – \$599,999	1	–
\$790,000 – \$799,999	1	–
\$2,830,000 – \$2,839,999	1	2,310,000
\$4,040,000 – \$4,049,999	1	3,354,000
\$5,030,000 – \$5,039,999	1	4,480,000
\$5,230,000 – \$5,239,999	1	4,480,000
\$9,600,000 – \$9,609,999	1	9,251,527
\$10,200,000 – \$10,209,999	1	8,944,000
Total	78	32,819,527

The table includes base salaries, short-term incentives, contributions paid to an individual's superannuation fund, or, if an individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme, and exercised options. The table does not include amounts paid after 30 June 2019 relating to FY19, and long-term incentives that have been granted and have not yet vested or been exercised (as applicable).

14. Principal activities

There were no significant changes to the nature of the business of the Company (or its subsidiaries) or to the classes of business in which the Company (or its subsidiaries) had an interest during the year ended 30 June 2019.

15. Reconciliation of EBITDA to net profit after tax

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business.

	2019 \$'000	2018 \$'000
EBITDA	413,610	283,037
Depreciation and amortisation	(2,176)	(2,174)
EBIT	411,434	280,863
Interest income	4,277	2,369
Income tax expense	(127,970)	(87,548)
Net profit after tax	287,741	195,684



Corporate directory

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Registered offices

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Auditor Ernst & Young
200 George Street
Sydney NSW 2000
Australia

Company Secretary Jaron McVicar

Corporate website www.thea2milkcompany.com

The A2 protein difference

Conventionally cows' milk contains two main types of beta casein protein, A2 protein and A1 protein – our branded milk is different from conventional cows' milk because it comes from cows selected to naturally produce only the A2 protein type and no A1.

Our milk is comparable to conventional cows' milk in other respects.

Our branded milk is naturally occurring and not a product of genetic engineering or technological processes.

Many consumers and healthcare professionals report that certain people who experience challenges drinking conventional cows' milk may experience benefits when they switch to a2 Milk™.





thea2milkcompany.com