19 November 2019
NZX/ASX Market Release

Launch of revised remuneration framework to align with strategic direction

The a2 Milk Company today announces a number of updates in relation to the Company's remuneration framework to enhance alignment with its strategic direction.

To support the execution of our strategy, in 2018 we commenced a review of our processes and practices with regard to our people, remuneration and incentive structures.

Valuing the alignment of shareholders' interests with transparent and accountable remuneration practices and with the assistance of independent remuneration consultants, we identified a number of areas in which meaningful enhancements could be made to ensure management incentives are aligned with the execution of our strategy.

The remuneration framework has been developed to appropriately reflect market conditions with a balance of fixed and variable components; designed to drive short and medium term performance as well as long term value creation; and ensuring we can continue to retain, attract and incentivise the best people for the future.

The announcement of our revised remuneration framework coincides with our 2019 Annual Meeting.

Long Term Incentive Plans

Our Long Term Incentive (**LTI**) Plan is designed to reward performance in support of the achievement of our business strategy, targeting profitable, long term revenue growth, which requires appropriate investment.

The incentive is in the form of Performance Rights and governed by specific terms and conditions.

The new LTI structure moves away from a single hurdle which incentivises only earnings per share (**EPS**) growth as we believe this could encourage underinvestment in the brand and infrastructure and therefore limit future growth. The performance model being introduced now directly incentivises revenue growth but also safeguards bottom line financial performance with an EPS growth threshold.

Awards under the LTI Plan will vest if the minimum EPS and revenue growth thresholds have been met, while the quantum of vesting will be determined by reference to the quantum of revenue growth achieved. In other words, a minimum level of EPS growth must be achieved while also delivering strong revenue growth.

To the extent strong revenue growth is achieved that meets or exceeds the vesting threshold but EPS growth has not met the vesting threshold, no vesting will occur.

Similarly, if the EPS growth vesting threshold is achieved but the revenue growth vesting threshold is not, no vesting will occur.

The value of the Performance Rights offered is determined as a percentage of each participant's fixed annual remuneration, and the number of Performance Rights granted is determined by dividing the relevant percentage of the participant's fixed annual remuneration by the relevant volume-weighted average price of the Company's shares.

Participation in the LTI Plan is limited to the senior leadership team or individuals in critical senior management roles. The LTI Plan recognises the importance of aligning participants' and shareholders' interests.

FY19 LTI Plan

With the Board undertaking a review of the Company's remuneration practices in 2019 it was considered premature to issue Performance Rights for FY19. With the review now complete, the Company has today issued Performance Rights in respect of FY19 to the relevant LTI Plan participants.

These FY19 Performance Rights will be assessed against the two-year performance period from 1 July 2019 to 30 June 2021 (rather than the three year performance period from 1 July 2018 to 1 July 2021 that would have applied if the Performance Rights were issued at the usual time for FY19 LTI awards, being shortly following the Company's release of its FY18 full year results). As noted above, the quantum of grants has been set by reference to a fixed percentage of each participant's FY19 fixed annual remuneration.

While the delay of more than one year in the issue of Performance Rights under the FY19 LTI Plan has resulted in a performance period of only two years, it is considered appropriate in balancing shareholders' interests with offering performance-based incentives to eligible LTI participants and avoids any perception of setting targets with the benefit of hindsight.

There is also no change to the ultimate vesting date of these Performance Rights that would have applied had the rights been issued consistent with the usual timing, being shortly following the Company's release of its FY18 full year results (and with a three year performance period).

FY20 LTI Plan

The Company has also today issued Performance Rights to LTI Plan participants under the FY20 LTI Plan which will be assessed over the three-year performance period from 1 July 2019 to 30 June 2022.

Performance hurdles – FY19 and FY20 LTI plans

The vesting of any Performance Rights for the FY19 and FY20 LTI plans is subject to the Company achieving a compound annual growth rate (**CAGR**) in:

- normalised sales[1] (**S-CAGR**); and
- diluted earnings per ordinary share (**E-CAGR**),

in each case, from 1 July 2019 to 30 June 2022, of at least **15%**.

If these Performance Hurdles are achieved, the proportion of Performance Rights that will vest will be determined according to the relevant bands (as applicable) shown in the tables below:

[1] 'Normalised sales', in respect of a financial year, means sales *plus* such additional revenue or income items *less* such unusual and one-off items (in each case, as may be determined by the Board in its absolute discretion) based on relevant financial information reported in the annual report of the Company in respect of that financial year.

FY19 LTI Plan (participants other than CEO)				
Performance period	**1 July 2019 to 30 June 2021**			
Vesting[1] percentage	**0%**	**50%**	**85%**	**100%**
Performance hurdle • S-CAGR; and • E-CAGR	S-CAGR <15% OR E-CAGR <15%	S-CAGR 15% AND E-CAGR =>15%	S-CAGR 20% AND E-CAGR =>15%	S-CAGR 25% AND E-CAGR =>15%

FY20 LTI Plan (all participants including the CEO)				
Performance period	**1 July 2019 to 30 June 2022**			
Vesting[1] percentage	**0%**	**50%**	**85%**	**100%**
Performance hurdle • S-CAGR; and • E-CAGR	S-CAGR <15% OR E-CAGR <15%	S-CAGR 15% AND E-CAGR =>15%	S-CAGR 18.5% AND E-CAGR =>15%	S-CAGR 22% AND E-CAGR =>15%

[1] *For both FY19 and FY20 Performance Rights, vesting is on a straight-line basis between each relevant band (ie 50%>85% and 85%>100%)*

As previously disclosed, the Managing Director & Chief Executive Officer was granted Performance Rights for FY19 upon her appointment in July 2019. Further details about these Performance Rights, including the relevant performance hurdles, are set out on page 48 of the Company's 2019 Annual Report (available via the Company's website at https://thea2milkcompany.com/results/).

It is currently intended that the Company will satisfy its obligation to allocate ordinary shares upon the vesting of FY19 and FY20 Performance Rights (as well as all future grants of Performance Rights) by instructing the trustee of the newly established a2 Employee Share Trust to purchase shares on market and not, as has happened in the past, by dilutive issues of ordinary shares.

Details of the Performance Rights issued under the LTI Plans are included in filings lodged with the NZX and ASX today.

Short Term Incentive Plans

The purpose of our Short Term Incentive (**STI**) Plan is to build a results-focused culture, whilst increasing employee engagement.

STIs are paid in the form of a cash bonus to the employee on the achievement of key metrics.

FY20 STI Plan

Assessing the FY20 STI for the Managing Director & Chief Executive Officer and other executives will be undertaken as follows:

1. Achievement against a "Group Performance Scorecard"; and
2. Adjusted by an individual multiplier, calculated based on individual performance against the achievement of individual Objectives and Key Result Areas (**OKRs**). Outcomes can range between **0%** to **130%** of the individuals target.

Group Performance Scorecard

FY20 Group Objectives	**Metric**	**Weighting**
Group Financial Performance	Revenue growth Net profit after tax	**50%**
Business Performance		
1. Build China organisational capability to deliver Asia Pacific sales and strategy outcomes	Consumption market share (value) Revenue growth – China label	**20%**
2. Reach meaningful scale in the USA	Revenue growth	**10%**
3. Sustainable brand leadership	Prompted brand awareness – China Prompted brand awareness – USA	**10%**
4. Deliver the organisation of the future	People engagement (survey) Digital transformation milestones	**10%**
Total:		**100%**

Minimum Shareholding Requirement

With effect from 1 October 2019, we introduced a Minimum Shareholding Requirement (**MSR**) Policy to apply to the Managing Director & Chief Executive Officer and all of her direct reports (collectively, **Executives**). From time to time we may also identify additional employees to whom the MSR Policy will also apply.

The purpose of this MSR Policy is to strengthen the alignment between the interests of Executives and the interests of shareholders and encourage a focus on building long term shareholder value.

Executives are required to acquire and hold a minimum shareholding equivalent to 100 per cent of their fixed annual remuneration comprising base salary and compulsory employer superannuation contributions (or equivalent) before any tax or social security deductions (**FAR**).

Accordingly, the number of shares required to be held by an Executive will increase or decrease proportionally with any increase or decrease in the Executive's FAR.

Executives are expected to achieve the MSR by the end of five annual vesting periods for LTI grants, unless they have been the beneficiaries of earlier option plans. In the event that an Executive has been with the Company for three or more years and participated in these earlier option plans, the Executive will comply, and be expected to continue to comply, with the MSR once 100% of these options have vested.

We recognise that from time to time, it will be necessary for Executives to dispose of a portion of shares to meet personal financial commitments, including tax. Any such activity would always need to comply with our Securities Trading Policy.

From FY20, our Annual Report will include the details of the MSR and report on an aggregate basis the extent to which Executives have achieved the MSR.

Employee Share Plans

As announced on 21 October 2019, we are pleased to have introduced two general employee equity programs – an Employee Gift Offer and a Share Match Program – designed to give our employees an ownership interest in our Company and enable them share in the Company's success. These programs also help to recognise the vital role that our employees play in our organisation each day. These equity programs are detailed in our announcement on 21 October 2019.

Warwick Every-Burns
Chair Remuneration Committee & Non-Executive Director
The a2 Milk Company Limited

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