THE a2 MILK COMPANY®
FEEL THE DIFFERENCE

BUILDING FROM STRENGTH

2020 Annual Report

The a2 Milk Company Limited

ARBN: 158 331 965

HIGHLIGHTS

GROUP PERFORMANCE

$1.73bn
Revenue ↑32.8%

$549.7m
EBITDA ↑32.9%

$385.8m
NPAT ↑34.1%

52.39c
Earnings per share ↑33.5%

$427.4m
Operating cash flow

$854.2m
Cash on hand

PRODUCT SEGMENT REVENUE

$223.4m
Liquid milk ↑27.7%

$1.42bn
Infant nutrition ↑33.8%

$85.2m
Other nutrition ↑29.6%

REGIONAL HIGHLIGHTS

Asia Pacific

↑101.2%
China label infant nutrition

↑40.3%
English label[1] infant nutrition

19.1k
China store distribution

↑14.1%
Australian milk sales

USA

↑91.2%
Milk sales growth

20.3k
Store distribution

1 Includes Hong Kong and Korean label

GROWING RESILIENCE STRENGTHENING IMPACT

During this financial year we have continued to strengthen our brand and business foundations to enable us to build sustainable growth for future years.

Moving forward we have a heightened focus on living our purpose, to enrich lives through the nutritional wonders of nature, delivering to our financial ambitions, and to further improving the meaningful impact we can make on the broader communities and world in which we operate.

CONTENTS

OUR 20-YEAR JOURNEY[1]

Early in our 20-year history we had many false starts. However, we persevered to become the company we are today. Below are some of the highlights of the critical milestones that have marked our journey and are paving the way to continuing to realise our ambitions.

2000

Company founded in New Zealand by Dr Corrie McLachlan and Howard Paterson, armed with unique intellectual property and a growing belief of the effects different milk proteins have on human health

2003

a2 Milk™ begins selling in New Zealand and Australia via licensing arrangements

Cliff Cook invests in the company and later becomes Chairman of the Board 2004 to 2015

2004

Listed on NZX Alternative Market (NZAX)

2008

Major change in strategic direction, shifting from licensing model to branded operational model

a2 Milk™ relaunched in Australia with more focused brand and operational efforts

2011

Company records a Group profit of NZ$2.1m

2012

Transferred from NZAX to NZX Main Board

Formed a manufacturing agreement with Synlait Milk Limited (‘Synlait’)

Formed a strategic partnership with China State Farm Holding Shanghai Company (‘China State Farm’)

Commissioned a state-of-the-art milk processing facility in Sydney, Australia

2013

a2 Platinum® infant nutrition brand is launched in New Zealand, Australia and China

2014

The company name changes from A2 Corporation to The a2 Milk Company with a new brand identity

First human digestion clinical research is published supporting a digestive difference between A1 and A2 beta casein protein types

2015

Listed on ASX

a2 Milk™ is launched in USA

2016

Infant nutrition step-changes the business and now accounts for 60% of revenue

2017

Group revenue exceeds $0.5 billion for the first time

Acquired 8.2% equity of Synlait

2018

Renewed agreement with China State Farm

Comprehensive strategic relationship announced with Fonterra Co-operative Group

Increased Synlait shareholding to 17.4%

Australian fresh milk market share exceeds 10%

a2 Platinum® becomes Australia’s No. 1 infant nutrition brand

2019

Achieved broad national distribution in the US liquid milk market

Included in S&P/ASX100

Renewed agreement with Synlait

2020

Increased Synlait shareholding to 19.8%

Included in S&P/ASX50

Step-changed our investment behind our brand, our people and increased capabilities, to further strengthen our foundations for future growth

1 Financial year ending

OUR CHAIR

It is with great pleasure that I present to you, yet another outstanding year for The a2 Milk Company. This year, as we reflect over our 20-year history, I am reminded of what a remarkable journey it has been.

As a business with a proud New Zealand heritage we are also extremely pleased of how we have developed our Trans-Tasman markets, the tremendous growth we are achieving in China, and the additional opportunities we are developing in North America and other parts of Asia.

2020 was a year in which our business faced many changes and challenges. Despite this, we didn't deviate from delivering on our strategy. The resilience we have created within our company over many years has provided us a solid foundation on which to continue building from strength. We continue to invest in those aspects of the business that will create more growth opportunities in the future.

Focus areas for the year included:

- A heavy uplift in marketing investment behind our brand, especially in China
- Our continued expansion into more physical stores in China, and driving growth across all infant formula channels
- Expanding our distribution and presence in the USA
- Delivering strong performances in our key growth markets – China and the USA
- The continued investment in building our internal teams and capabilities.

Against the backdrop of the uncertainty and complexities caused by COVID-19, we recognise that we are fortunate to be supplying essential products that are well positioned and appealing to consumers. In addition, we have enjoyed good support from our manufacturing and logistics partners, our farmers, our in-market distribution partners and most importantly from our loyal and growing consumer base. It is the combination of all these that has allowed us to deliver growth across all our key markets and across all our product categories.

As well as delivering a record performance this year, we also deepened our understanding and commitment to building a more sustainable business. Focus areas included climate impact assessment, ethical supply chain and responsible sourcing, animal welfare improvements, farm environmental plans, assisting our communities to thrive and various initiatives and investments in our people.

Over the past several years, we have experienced rapid growth and, consequently, developed a robust balance sheet with significant cash reserves. This has created a wide range of options for us to fund our future growth. Our strong financial standing has allowed us to continue to invest heavily behind our brand and in the people and technological capabilities necessary to realise our full potential as a business. Our approach has generated strong results in the short term, as well as strengthening the essential building blocks that will drive the future success of our business.

As we noted in February 2020, as part of the Board's ongoing review of the most appropriate use of capital for the business, we continue to prioritise investment in growth and other strategic initiatives. We are committed to ensuring the optimum use of our financial resources and, at this point, believe maintaining flexibility for the long term is the more appropriate approach than a return of capital to shareholders in the short term.

Due to the increasing scale of our infant nutrition business, we are assessing participation in manufacturing capacity and capability to complement our existing supply chain relationships. We have explored a number of opportunities over the past six months and will update you in due course.

I would like to acknowledge our whole team for the contribution everyone has made to the business – FY20 was a year without comparison – we all had to do it differently to make it happen. On behalf of the Board, I commend the significant contribution to the company from our Chief Executive Officer, Geoffrey Babidge, who stepped back into the business in December 2019. I said at the time we were fortunate to have someone like Geoff who could assist in this way, and that could not be more accurate when we reflect on what transpired in the second half of the year.

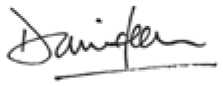
I would also like to express how excited we are to have announced the appointment of David Bortolussi as our Managing Director and Chief Executive Officer. He is expected to commence in the role early in the 2021 calendar year. David has many strengths that make him well suited to leading the company at this stage of its growth, including extensive international leadership experience in the consumer and retail sector.

I also wish to acknowledge the support provided by our Executive Committee, the management team and all our staff, including our partners, in ensuring we didn't miss a beat through perhaps the most challenging environment that most of us have ever had to face. On behalf of the Board I would therefore like to thank this group for their continued dedication and support for the business.

> **We are successfully navigating and safely operating our business during these challenging times always with the health and wellness of our employees and partners top of mind.**

I would also like to thank my fellow directors for the significant increase in workload this year. Our Board has been structured in such a way to ensure we have a high degree of diversity and experience with strong local insights into our markets. For better or worse, this also means we are geographically diverse and as such, it has required careful planning and flexibility to ensure our effectiveness through the challenges posed by COVID-19.

To all our shareholders and other stakeholders, thank you for your continued support for this business. Wherever you are, we hope you are safe and in good health.



David Hearn
Chair

18 August 2020

CEO'S YEAR IN REVIEW

STRENGTHENING EXECUTION

The a2 Milk Company has made significant gains in revenue and earnings, with strong performances in all key product segments and across all core markets.

PERFORMANCE OVERVIEW

RESULTS HIGHLIGHTS

FOR THE YEAR ENDED 30 JUNE 2020 (NZ$)[1,2,3]

Total revenue of
$1.73bn
↑ 32.8%

EBITDA[4] of
$549.7m
↑ 32.9%

Net profit after tax of
$385.8m
↑ 34.1%

Basic earnings per share (EPS) of
52.39c
↑ 33.5%

EBITDA to sales margin of
31.7%

Operating cash flow of
$427.4m
and a closing cash balance of **$854.2 million**

Marketing investment of
$194.3m[5]
targeting opportunities in China and the USA ↑ 45.1%

Group infant nutrition revenue of
$1.42bn
↑ 33.8%

China label infant nutrition sales of
$337.7m
and distribution expanded to ~**19.1k** stores

USA milk revenue growth of
91.2%
and distribution expanded to ~**20.3k** stores

1 All figures are in New Zealand Dollars (NZ$) unless otherwise stated.
2 All comparisons are with the 12 months ended 30 June 2019 (FY19), unless otherwise stated.
3 All figures are quoted based on all operations of the Group, including discontinued operations, unless otherwise stated.
4 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 111.
5 From continuing operations.

Our performance was strong throughout the year and we demonstrated significant resilience in the second half managing the business in the face of the COVID-19 global pandemic.

Geoffrey Babidge
Chief Executive Officer

Strong financial results and execution continuing

Summary of Group performance

The a2 Milk Company has made significant gains in revenue and earnings, with strong performances in all key product segments, and across all core markets.

Our performance was robust throughout the year and we demonstrated significant resilience in the second half managing the business in the face of the COVID-19 global pandemic.

Through these unprecedented times, we have been fortunate to continue experiencing strengthening levels of consumer demand and worked closely with our strategic partners and customers to ensure supply chains remained open and consumer needs continued to be met.

We estimate that COVID-19 had a modest positive impact on revenue and earnings for the year. Additionally, our business was favourably impacted by foreign exchange movements.

Our overall result reflects the continued growth in our **infant nutrition** segment with sales totalling $1.42 billion for the period – an increase of 33.8% on the prior corresponding period.

In line with our strategy, our growth in China label infant nutrition products was significant, with sales effectively doubling to $337.7 million. We achieved this while also continuing to achieve growth in our English label infant nutrition products with growth of 21.2%.

Our revenue in the third quarter was well above expectations due to the impact of changes in consumer purchase behaviour arising from the COVID-19 situation. This included an increase in pantry stocking particularly via online and reseller channels.

In our view, a proportion of consumer pantry stocking driven by COVID-19 unwound in the fourth quarter. However, this will remain a dynamic situation and we will continue to monitor changes in consumer behaviour moving forward.

We again achieved solid growth in our **liquid milk** businesses in Australia and the USA, with sales across the Group[1] totalling $222.0 million up 29.7%. Liquid milk sales in Australia were up 14.1% to $152.5 million and sales in the USA almost doubled during the year to $66.1 million, driven by improved sales velocity in established stores as well as an expanded store footprint.

Our **gross margin** percentage[1,2] increased to 56.0%, benefiting from an improved price yield and the positive effects of currency movements, partially offset by COGS increases related to infant formula.

During the year we invested $194.3 million[1] in marketing, to drive brand awareness and conversion to trial in our key growth markets. This was slightly lower than our forecasted $200 million due to efficiencies in media spend in the fourth quarter.

We delivered a full year **EBITDA margin** of 31.7% which was in line with the guidance we provided in April. Net **cash flow** from operating activities for the period was $427.4 million representing a high cash conversion rate.

1 From continuing operations.
2 Gross margin percentage is calculated as revenue less cost of goods sold, divided by revenue.

STRENGTHENING EXECUTION

Our **balance sheet** remains in a very robust position. Our closing cash position of $854.2 million reflects growth in revenue and earnings. This will continue to be important in the execution of our growth strategy, including potential participation in manufacturing.

We finished the year with inventory of $147.3 million. This was higher than prior years, in part reflecting our growing business, as well as the decision to carry a higher level of inventory as a safety buffer given the uncertainties of COVID-19. Additionally, at the end of the period, we have recognised a provision for a quantity of finished stock that is on-hold awaiting further testing to ensure it fully meets our standard of specification.

Delivering on our strategic priorities and business objectives

We have made significant progress on the execution of our strategic initiatives throughout the year.

We are committed to a focused approach to pursuing our strategic growth priorities:

1. Maximise growth from existing products in core markets;
2. Broaden our product portfolio in core markets; and
3. Expand in other targeted markets.

With the benefit of the comprehensive work undertaken during 2019 to enhance our understanding of the consumer and sales channels in our core markets, we have continued to increase levels of investment in marketing and capability to execute our growth plan.

In **Australia**, we have continued to build on our market leading positions in fresh milk and infant nutrition, whilst leveraging this to launch new products, such as *a2 Smart Nutrition*™, to drive further specialised nutritional products to consumers graduating from infant nutrition.

In **China**, we remain focused on strengthening our infant nutrition position in-market which we believe still has significant runway for growth. It is pleasing to see our investments in brand, trade activities and people driving strong sales momentum, in particular within our China label infant formula brand, *a2 至初*®, which now accounts for 24% of our total infant formula business.

In the **USA**, we continue to build brand awareness and drive towards meaningful scale.

Our targeted exploration of **new markets** continues. In October we launched a new Hong Kong label range of infant formula, in December we launched Stages 1-3 infant formula in Korea with our partner, YuhanCARE (Yuhan), and in March we entered into a new licensing agreement with AgriFoods in Canada to produce, market and distribute our fresh milk brand.

Work progressed during the year to expand our product portfolio in China. A growing range of long life milk and powder products targeting families is expected to become a meaningful growth engine over time.

Capital allocation framework
As we noted in February 2020, as part of the Board's ongoing review of the most appropriate use of capital for the business, we continue to prioritise investment in growth initiatives ahead of returning capital to shareholders.

As we have announced previously, due to the increasing scale of our infant nutrition business, we consider it now appropriate to assess participation in manufacturing capacity and capability to complement our existing supply chain relationships. Accordingly, we are presently evaluating opportunities to address this issue, with significant progress made during the year.

With our cash balance growing it has become increasingly important for the business to review our capital requirements going forward. A significant review of our capital allocation framework was commenced in the second half with a view to defining the discipline and prioritisation of our financial parameters in a way that optimises and supports our long-term plan.

With the benefit of the comprehensive work undertaken during 2019 to enhance our understanding of the consumer and sales channels in our core markets, we have continued to increase levels of investment in marketing and capability to execute our growth plan.

Leveraging our strategic partnerships
This year has again highlighted the importance of key strategic partnerships. This remains a core element of our capital-smart business model.

We acknowledge and thank all our suppliers and customers for their support and assistance throughout the year. In particular, we acknowledge our three key strategic partners China State Farm, Synlait Milk and Fonterra. We have refocused our relationship with Fonterra and look forward to potential new opportunities to provide meaningful benefits to both companies in the medium term.

STRENGTHENING EXECUTION

> **We have substantially increased our in-market capability with many new hires to the China team and further optimised our distributor arrangements which have allowed us to improve our in-market execution at both brand and retail levels.**

1. Deliver Asia Pacific sales strategy outcomes

Our Asia Pacific business revenue was $1.66 billion, up 31.5%, with EBITDA of $690.5 million, up 32.0%. This included:

- ANZ segment revenue of $965.7 million, up 14.6%, with EBITDA of $465.6 million, up 19.9%
- China & Other Asia segment revenue of $699.4 million, up 65.1%, with EBITDA of $224.9 million, up 66.7%.

Infant nutrition
Our Asia Pacific infant nutrition portfolio comprising predominantly China and English label products delivered $1.42 billion, up 33.8% on the prior corresponding period ("PCP"). China label infant nutrition products can be sold via mother and baby stores (MBS), modern supermarkets and domestic e-commerce retail channels. English label products can be sold through ANZ retailers, ANZ-sourced resellers and cross border e-commerce (CBEC) channels. We continue to leverage a multichannel approach to ensure we can cater to our consumers' differing shopping needs.

We have substantially increased our in-market capability with many new hires to the China team and further optimised our distributor arrangements which have allowed us to improve our in-market execution at both brand and retail levels.

Despite COVID-19 causing some disruptions and changing consumer behaviour across the marketplace, we managed to maintain our sales growth momentum. However, with a shift of sales from offline to online channels we chose to pause some of our marketing plans while we observed the impacts of these changes. As restrictions eased in China during the second half, we resumed the scale of our marketing programme including significant media investment and working with our distributors and retailers to improve our brand experience in-store. We are pleased with the impact this had on sales growth and brand awareness across all our key channels.

Infant nutrition – China label channels
We achieved sales of $337.7 million for *a2 至初*® China label infant nutrition, which was over 100% growth on PCP and 62.7% growth for the half. Our MBS value share was 2.0% compared to 1.7% at HY20, up from 1.3% at FY19.[3]

These results are an outcome of consistent investment in advertising, our strategy of pursuing distribution in high productivity stores and optimising in-store execution. These efforts are underpinned by increased data analytics capability to ensure our investments are optimised.

Offline store closures associated with COVID-19 disruptions during the third quarter meant we added fewer new stores to our offline footprint in the second half, increasing to 19.1k stores compared with 18.3k at the end of 1H20. However, we worked closely with our distributors and retail partners through these disruptions, including to fulfil orders via direct home deliveries, within the bounds of internal travel restrictions.

We launched a China label version of our Stage 4 product and introduced a tamper-evident lid for our Stages 1, 2 and 3 China label products in December, to further enhance product security and provide additional differentiation with our English label products. Our infant nutrition portfolio is complemented by our other nutritional products as we broaden our appeal to existing consumers and seek to connect with new consumers.

3 Source: Nielsen MBS – 12-month market value share.

Infant nutrition – Cross border e-commerce
We delivered *a2 Platinum*® English label infant nutrition sales of $341.1 million, up 40.3% and reached a CBEC value share for the financial year of 21.7%, up from 20.6% at HY20 and up from 18.6% at FY19.[4]

It was pleasing to see our expanded market share in this strategically important sales channel given heightened competitive activity across 2H20 and we continued to invest in driving demand across e-commerce platforms. There has been a concerted effort throughout the year to better track and understand the effectiveness of our digital marketing tools with an increased focus on data analytics to further refine and optimise our approach. This will continue in FY21.

We performed well across the key e-commerce selling events throughout the year, including "11/11 singles day" in November and "6/18" in June. For the "6/18" event, our *a2 Platinum*® Stage 3 was the top selling infant nutrition product on JD.com. and, for the first time, we were the bestselling CBEC IMF brand overall. On Tmall, we were the second best selling CBEC IMF brand overall and the number one CBEC flagship store.

Infant nutrition – ANZ retailers and resellers
Our infant nutrition sales in ANZ grew 14.1% delivering $745.1 million in revenue for the year. We remain the market brand leader in Australian grocery and pharmacy channels and continue to invest behind our brand, with our level of advertising being the highest in the category. Despite positive growth, COVID-19 related travel restrictions negatively impacted the reseller channel due to reduced travel between Australia and China.

4 Source: Smartpath CBEC – 12-month market value share.

AUSTRALIA AND NEW ZEALAND

FY20 Revenue	Infant nutrition	Liquid milk	Other nutritional
$965.7m	$745.1m	$152.5m	$68.1m
↑ 14.6%	↑ 14.1%	↑14.1%	↑ 21.3%

STRENGTHENING EXECUTION

Infant nutrition – market share reporting
Our business continues to evolve as we grow, particularly for consumption of Stages 3 and 4 amongst children above three years of age, and increased penetration in lower tier cities.

In our view, tracking the MBS channel with Nielsen scan data, and the CBEC channel through Smartpath, more accurately reflects our performance and yields greater market insight. As such we will move to reporting against these sources externally, in line with industry practice.

Liquid milk
It is pleasing to report that our Australian fresh milk business continues to perform well with total revenue of $152.5 million. In our most mature category, we achieved double-digit revenue growth of 14.1%. Demand in the third quarter and start of the fourth quarter was particularly strong as consumers increased their in-home consumption during COVID-19 with many working from home for extended periods.

Furthermore, *a2 Milk*™ maintained a 12 month value share of 11.3%[5] despite the strong category value growth caused by the retail price increase of private label milk. *a2 Milk*™ continues to be the only fresh milk brand ranged in all major supermarket chains and the highest brand advertiser in the fresh milk category, maintaining very high brand awareness and loyalty which benefits the portfolio as a whole.

We have also recently entered into an arrangement to underwrite the expansion of the manufacturing facilities of our long-term fresh milk supply chain partner in Victoria, Kyvalley Dairy Group ("Kyvalley"), to support the ongoing growth of our liquid milk business.

Through this arrangement we will acquire Kyvalley's Kyabram milk processing facilities and fund its expansion and upgrade. Kyvalley will manage the assets under a lease and revised long-term supply agreement.

The arrangement would involve certified dairy farmers continuing to supply Kyvalley with raw milk.

The arrangement remains subject to Foreign Investment Review Board approval.

Other nutritional products
For all other nutritional products, sales increased 29.6% to $85.2 million.

The most significant proportion of our other nutritional segment remains *a2 Milk*™ whole milk and skim milk powder which is now available in ANZ and China, with further potential for growth across new channels, particularly in offline China retail channels.

a2 Smart Nutrition™ continues to show positive signs of becoming a meaningful extension of our infant and children's nutritional portfolio. There are encouraging indications of consumer acceptance, and a China label version of the product was launched in January 2020, initially with a focus on gaining distribution in MBS. A bigger roll-out, including a launch of 200mL *a2 Smart Nutrition*™ UHT will be conducted into modern trade during FY21 as part of a broader channel push to to engage families across a wider range of *a2 Milk*™ based products.

The re-launch of our nutritional product targeting mothers under new branding and a reformulation of *a2 Nutrition for Mothers*™ was successfully completed in 2H20.

a2 Milk™ powder blended with Mānuka honey continued to present some manufacturing challenges during the year, with the product to be reintroduced in 1H21.

5 IRI Australian Grocery Weighted Scan 12 months ending 30 June 2020.

CHINA & OTHER ASIA

FY20 Revenue	Infant nutrition	Other nutritional
$699.4m	$678.8m	$17.2m
↑ 65.1%	↑ 65.2%	↑ 78.1%

2. Reach meaningful scale in North America

USA
We delivered revenue in the USA of $66.1 million, representing growth of 91.2% compared to the prior corresponding period with brand awareness more than doubling, and conversion rates up significantly. Encouragingly, over 50% of our sales growth was driven from existing stores.

Our average velocities have grown within our key accounts in the range of 14% to 74%, with many of our key accounts with average units per store per week of greater than 20-25 and some above 40. Given increased investment in building brand awareness and distribution growth, we recorded an EBITDA loss of $50.5 million.

Distribution grew to approximately 20.3k stores, from 17.5k stores at the end of December 2019 and 13.1k stores as at end of FY19. Leveraging the consumer and channel insights obtained through a strategic review completed in 2019, we introduced new packaging and launched a new TV advertising campaign, both of which received positive feedback from consumers and the retail trade, and assisted in further building brand awareness and conversion to trial.

In July 2019, we launched *a2 Milk*™ Coffee Creamers which have been received positively and are performing to plan. As consumer demand for our products builds, and our distribution footprint strengthens, we expect opportunities to launch additional new products will emerge. Prior to COVID-19 our increased in-store merchandising efforts were delivering encouraging results in enhancing our sales velocities.

Whilst our consumption is up compared to the prior period, from March, in-store foot traffic during the pandemic reduced due to retailer safety policies; and purchasing limitations on milk per visit limited the growth that we may have otherwise seen for the brand. In the third quarter our plans to increase the utilisation of a merchandising team were impacted by COVID-19. However, merchandisers have returned to stores from July and are having a positive impact on retail distribution.

UNITED STATES

FY20 Revenue

$66.1m

↑ 91.2%

STRENGTHENING EXECUTION

The impact of COVID-19 in the USA market overall has been significant. We are seeing that consumers are becoming more value conscious given economic uncertainties, high unemployment rates, and have adjusted our FY21 sales and marketing plans accordingly.

Hence, in FY21, we will shift our focus away from broadcast advertising media to a greater emphasis on in-store price and activation to drive demand. We are planning promotional initiatives in conjunction with our key retail customers with the objective of further building our facings and sales velocity.

The outcome of this shift will be growth in volume accompanied by increased trade spend with net revenue broadly consistent with FY20. With lower overall marketing spend we anticipate an improved EBITDA result for FY21.

As we build towards reaching meaningful scale in the USA, our initial milestone for the business continues to be US$100 million of annualised sales.

Canada
In March, we entered into an exclusive licensing agreement with Agrifoods International Cooperative Ltd ("Agrifoods") for the production, distribution, sales and marketing of *a2 Milk*™ branded liquid milk for the Canadian market.

Since March, we have worked closely with Agrifoods, providing access to our intellectual property and marketing assets as well as our proprietary systems and know-how relating to the local sourcing and processing of *a2 Milk*™.

Agrifoods is leveraging its substantial capabilities in-market to establish distribution across Canada and has primary responsibility for funding this venture. The product has recently been launched to a number of customers in Western Canada.

3. Build towards sustainable brand leadership

Building brand value and increasing brand awareness through marketing investment remains an important focus. We invested $194.3 million[6] in marketing during the year, which represented a 45.1% increase on prior year driven primarily by increases in our China marketing investment.

We leveraged our deepened understanding of consumers and purchasing behaviour in China to continuously improve our marketing mix which includes consumer advertising, in-store and event activations, digital live streaming and the development of a new brand creative platform. While we had launched this new creative in December 2019, we decided to temporarily pause and adjust the plan in the third quarter due to COVID-19. However, we resumed the activity in May as COVID-19 restrictions in China began to ease.

In addition to consumer marketing, our brand value is supported by investment in research and development programmes, an increased focus on sustainability, as well as initiatives to support the communities in which we operate.

Supporting relevant independently managed scientific studies remains important as we build our long-term brand proposition. In September 2019, the results of a clinical trial from 75 Chinese children aged between five and six with mild to moderate milk discomfort or lactose intolerance (confirmed via a urinary galactose test) were published. The study reported that replacing conventional milk with *a2 Milk*™ "reduced gastrointestinal symptoms associated with milk intolerance" in many subjects and led to "a corresponding improvement in an aspect of cognitive performance" as measured using the Subtle Cognitive Impairment Test (SCIT)[7]. The study was independently peer reviewed and published in the USA based Journal of Pediatric Gastroenterology and Nutrition.

6 From continuing operations.
7 Xiaoyang S, Zailing L. Effects of Conventional Milk Versus Milk Containing Only A2 ß-Casein on Digestion in Chinese Children. J Pediatr Gastroenterol Nutr. 2019 Jul 9.

We significantly stepped up our contributions to the community in 1H20 with donations to the bushfire appeal in Australia to support regional and rural communities which are the heart of our milk supply in Australia.

We also contributed through a series of initiatives to support those impacted by COVID-19 including product donations to frontline medical workers and consumers in Wuhan, a cash donation to the Shanghai Red Cross and contributions to two leading Australian universities for research into a vaccine for COVID-19.

We are also pleased with the progress we have made in our sustainability initiatives in FY20. We have significantly improved the foundations on which we will build a meaningful and impactful strategy going forward. Central to this is the recent launch of *The a2 Impact Fund*™ which will be used to bring together many of the sustainability-related activities we undertake on a daily basis, as well as amplifying our progress against a number of identified environmental and social initiatives and for a range of important stakeholder groups.

4. Deliver the organisation of the future

To support the execution of our overall Group strategy, we continue to build capability within the organisation. This year we introduced a number of new roles to complement and extend our existing capabilities, particularly in-market in China, the USA, and within certain Group functions. We increased the size of our team to over 300 people, up 41.0% from last year.

To enhance our organisational alignment and enable the right ways of working to deliver on our strategy, we recently reorganised our most senior executive team to form our Executive Committee and formed a Senior Leadership Group which comprises the senior management of the business.

We also established several initiatives designed to enhance engagement and launched a revised remuneration framework to align with our strategic direction.

Over the next two years we will be implementing new information technology systems to support the existing organisation and provide for future growth.

We also utilised external resources to accelerate the delivery of certain outcomes and to complement existing internal capabilities. As we improve internal capability, the composition and level of external resourcing will moderate over time.

I would also like to take this opportunity to recognise the efforts of all our people this year. It was one that included a number of changes and unique challenges, but the team has continued to drive forward together, building from strength.

We are proud of what we have achieved commercially and of the way our people went about embracing change, managing challenges and looking after each other as well as the business – truly espousing the values of our big small company.

Outlook

FY21
Globally, there continues to be uncertainty resulting from COVID-19, and the potential for moderation of economic activity. This could impact consumer behaviour in our core markets, as well as participants within the supply chain, most notably in China.

Notwithstanding these uncertainties, overall for FY21, we anticipate continued strong revenue growth support by our regions supported by our continued investment in marketing and organisational capability.

FY21 EBITDA margin is expected to be in the order of 30% to 31% reflecting:

- Higher raw and packaging material costs partially offset by price increases
- Increase of marketing and investment
- FX benefit of prior year not expected to be replicated
- 3Q20 COVID-19 benefits not replicated.

FY21 Capex is currently expected to be $50 million due to our ERP investment and capital projects supporting fresh milk processing in Australia.

Medium-term target
As previously announced, the Board considers it appropriate that the company target an EBITDA margin in the order of 30% in the medium term. This assumes the market performance and mix of our products remains broadly consistent and the competitive environment evolves as anticipated. We will keep the balance between growth and investment under constant review.

Geoffrey Babidge
Chief Executive Officer

18 August 2020

SUSTAINABILITY

BUILDING A SUSTAINABLE FUTURE

Our integrated approach to building a sustainable business for the future recognises the needs and expectations of multiple stakeholders including our people, consumers, farmers, strategic partners and investors. We continue to embed this within our organisation, and in the business activities we undertake every day.

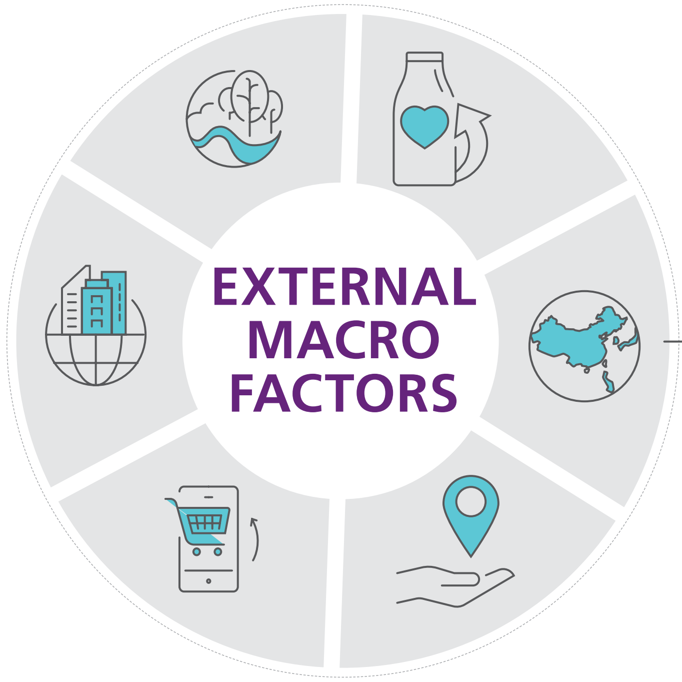
We recognise we are at the early stages of this journey. We are pleased with the progress we have made this year and know there is still much to do.

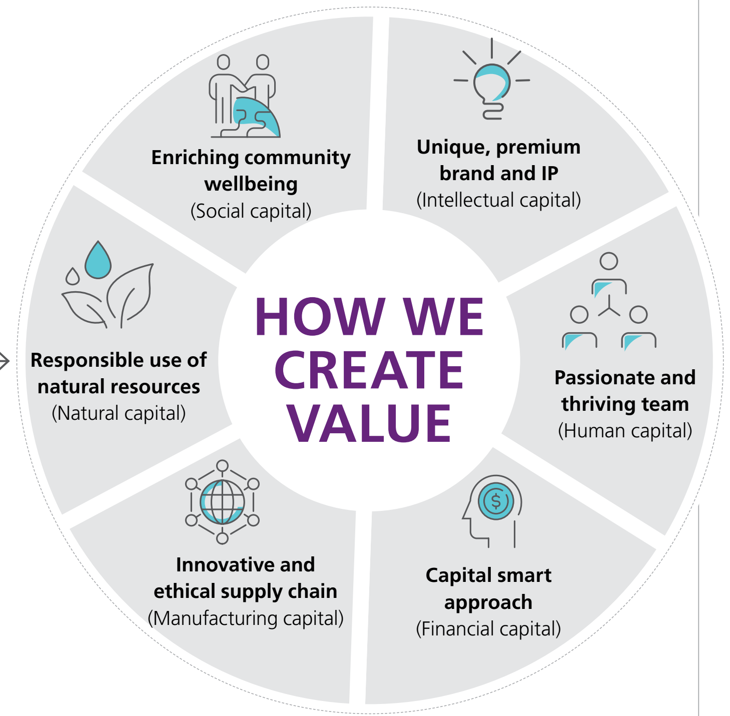
OUR INTEGRATED APPROACH

In 2019 we recognised the need to step up our focus and disclosure in sustainability and developed our approach, with the expectations of multiple stakeholders in mind.

With this as our starting point, we established an integrated approach to reporting through our "Six Capitals" framework, seeking to codify elements within our company that we believe contribute to our overall ability to create long term value.

Our integrated "Six Capitals" framework defines our unique way of how we can create value and enables us to prioritise how we can make a positive and meaningful impact across the community and environment in which we operate.





Growing consumer demand for health and wellness products
A growing awareness of the link between food and overall health, coupled with rising disposable incomes, and increased demand for both protein and gut health.

Rise of the middle class in Asia
Asia's unprecedented growth is creating large-scale opportunities for individuals, businesses and nations.

Growing focus on food safety, naturalness and provenance
Increasing consumer conscious of food safety and product origins.

Rapid pace of digitalisation
The rise of digital connectivity and innovation, and e-commerce generally, is changing consumer experiences and behaviours.

Complexity of doing business in international markets
Doing business across borders is becoming more complex and, more recently, harder to predict.

Challenge of climate change and pressure on agricultural systems.
The physical impacts of climate change are materialising with increased frequency and intensity. Creating value and addressing impacts on the environment and our climate are inextricably linked.

Our Purpose
Our purpose is to enrich lives by harnessing the nutritional wonders of nature.

Our Values
- Bold passion
- Pioneering spirit
- Humility
- Respect
- Integrity

Our Strategy

1	2	3
Maximise sustainable growth from existing products in core markets	**Broaden product portfolio in core markets**	**Expand in other target markets**

Building towards sustainable brand leadership

Delivering the organisation of the future

Our purpose is to enrich lives by harnessing the nutritional wonders of nature.

OUR SIX CAPITALS

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 are committed to maintaining and sustainably growing these assets with ongoing investment.

Our premium brand is strengthening in awareness, consumption and loyalty to varying levels across our key markets. We invest significantly to grow and protect our brand and its trade marks in all product categories and regions.

Through ongoing science and research and development programmes, we are deepening our expertise and advancing global understanding of the potential health benefits of *a2 Milk*™. In addition, we have a belief in the power of science and will continue to invest in research programmes that lead to the betterment of our community at large.

Metric	FY20	FY19	FY18
% revenue invested in marketing/R&D/IP	11.5%	10.9%	8.5%

1 We formed our Executive Committee in FY20. In FY19 and FY18, this shows equivalent membership in each of those groups.
2 Sub-total for senior leaders is the total of Directors, Executive Committee, Senior Leadership Group and Managers.
3 Calculated using average capital employed, including cash and investment in Synlait Milk Limited.

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 which is aligned and focused to deliver on our purpose and strategy.

Through our diversity and inclusion comes creativity and thinking that goes beyond the conventional. This is how we overcome challenges and unlock extraordinary opportunity.

Our Diversity Policy empowers and equips our people leaders to foster a diverse, inclusive and competent workplace. We of course believe that diversity includes differing beliefs, gender, age, ethnicity, physical abilities and cultural background; which when combined with an inclusive mindset, will enhance the business overall. During F20, we were focused on enhancing gender balance in our workforce, having set a target of a minimum of 40% women, and a minimum of 40% men, across leadership positions.

Metric	FY20	FY19	FY18
Female			
Directors	2	2	1
% of total	40%	33%	17%
Executive Committee[1]	2	5	1
% of total	22%	42%	10%
Senior Leadership Group[1]	9	8	8
% of total	36%	31%	38%
Managers	17	18	18
% of total	45%	49%	49%
Sub-total for senior leaders[2]	30	25	20
% of total	45%	45%	38%
Other staff	142	98	79
% of total	56%	57%	62%
Total	172	123	99
% of total	54%	54%	55%

Capital smart approach

Financial capital

Our business model is built on deep and long-term strategic partnerships both commercially and operationally. Our farmers 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.

Our 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.

Metric	FY20	FY19	FY18
Revenue ($bn)	$1.7	$1.3	$0.9
Return on capital employed[3]	56.3%	61.2%	70.4%
Operating cash flow	$427.4m	$289.1m	$231.1m

4 Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO_2e), have been estimated using the approach recommended by The GHG Protocol. Emissions and conversion 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. We expect data quality to improve over time as we continue to work with our partners.
5 Includes natural gas estimates and/or extrapolations for some information not yet available.

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.

We are committed to the global ambition of the Paris Agreement and a 2050 net zero emissions target, as are our key suppliers and strategic partners.

Whilst our total emissions have increased, that is a likely outcome of a high growth business. Despite this we recognise we need to make more tangible efforts, alongside our partners, to reduce our direct and indirect emissions over time.

Metric	FY20	FY19[10]	FY18
GHG Emissions[4] (tCO_2e)			
Total	488,852	413,233	409,464
Scope 1[5]	224	206	187
Scope 2[6]	1,609	1,507	1,502
Scope 3[7]	487,020	411,520	407,775
Direct operations[8] (Scope 1, 2 and 3)	3,858	4,923	3,930
Third party processing and freight	131,273	102,288	103,869
On-farm[9]	353,722	306,022	301,665

6 Includes electricity estimates and/or extrapolations for some information not yet available.

Innovative and ethical supply chain

Manufacturing capital

Complementing our own fresh milk production capability, we work 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 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. We fund a premium to all farmers for our milk, recognising their hard work to maintain our very high herd management and quality standards.

Metric	FY20	FY19
% of fully recyclable packaging	95.9%	95.5%
Smeaton Grange		
Total water usage ('000 litres)	27,662	24,744
Water efficiency (litres/litre of milk)	0.7	0.5
Waste water diverted to beneficial land application (litres)	919,900	516,500
Waste produced (tonnes)	28.9	25.6
Waste diversion	97.1%	95.4%
Energy consumption (kWh)	1.7m	1.7m

7 Due to the nature of Scope 3 emissions occurring outside of areas under 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 or where data was not yet released. 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.
8 Includes our own fresh milk processing facility and corporate operations.
9 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 estimated based on our proportion of total output.
10 GHG emissions have been restated to reflect updated external modelling used to calculate GHG emissions in New Zealand, improved land use efficiency and improved herd productivity.

Enriching community wellbeing

Social capital

We take our responsibility to the communities in which we operate very seriously.

We recognise our responsibility to support the resilience of our farming communities. In addition we also are making increasing investments within our broader communities to support their health and wellbeing, and enable them to both survive and thrive.

As we continue to grow, we are committed to doing more to support the communities in which we operate.

Metric	FY20	FY19
Donations of cash and products ($NZ)	2.80m	0.94m

OUR FOCUS AREAS

In FY20 we identified a number of focus areas to enhance our efforts to become a more sustainable business for the future. These included: our people, our farms, understanding climate impacts, doing business the right way and supporting our communities to thrive.

While we are pleased with our progress, we recognise we are on a journey and have more work to do. Over the coming year we will continue to advance our efforts within these focus areas.

We are also pleased to announce that we will be creating *The a2 Impact Fund*™. The aim of the fund is to take an umbrella approach to coordinating all the investments and efforts we are making in developing a more sustainable business.

In the following sections, we provide more detail on our approach to our focus areas, including our next steps.

Human capital

7 AFFORDABLE AND CLEAN ENERGY

1. OUR PEOPLE

We are a company proud of our New Zealand origin and proud that we take our products to the world. Our roots are embedded in a pioneering spirit and we seek to make a fundamental difference in people's lives.

Our focus is to build the organisation of the future through capability, performance and engagement. We are working to protect our culture and foster an environment of inclusion, passion and agility; whilst increasing our capability and head count to support our growth.

We delivered a comprehensive programme of activities throughout the year to drive culture, promote inclusion and connect our people with the business.

We conducted our first all of company engagement survey with a participation rate of 83% and an engagement score of 84%. We will continue to monitor this metric year on year, to gauge the effectiveness of our activities and to ensure we are evolving our organisation and its people to deliver on our strategic fundamentals.

Building capacity and capability across the organisation

To enable our strategy, we continue to focus on ensuring the right operating model and organisational design. In FY20 we grew our workforce by 41% to deliver the capability needed in our growth markets but also to enhance the development of key areas in our Group functions.

To enhance our organisational alignment and enable the right ways of working to deliver on our strategy, we recently reorganised our most senior executive team to form our Executive Committee. This did however result in a decline in gender diversity at this level due to the re-allocation of roles to new levels.

Length of service

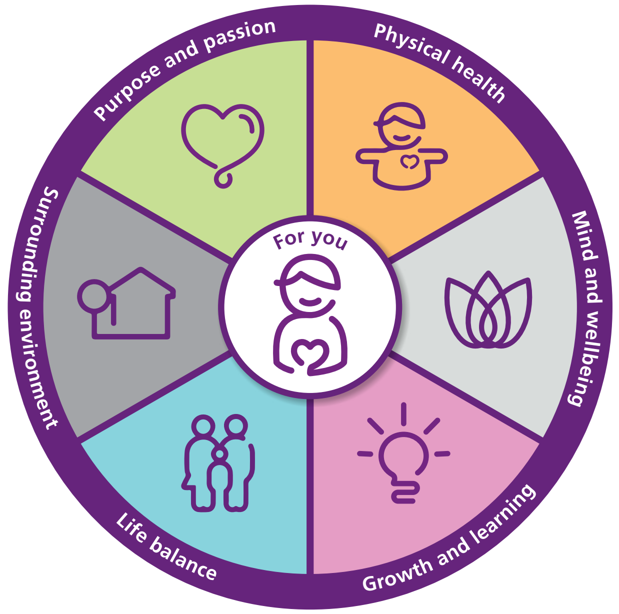
5+ years	11%
2-5 years	20%
0-2 years	69%

Age group

Over 50	23%
30-50	65%
Under 30	12%

Female composition

Total employees	54%
Senior leaders	45%



In FY20 we focused on a capability "buy" and "build" strategy where we recruited a number of new people to the organisation but also introduced a number of professional development and coaching initiatives to develop technical and leadership capabilities across the business to support growth as well as succession planning.

Investing in our people

In FY20 we invested more in our people than ever before. We launched our integrated people experience programme, ***a2 For You™ – helping you be your best self***. It is a framework that allows us to articulate the employee value proposition and assist employees to navigate all programmes and support so that they can be their best self when they come to work.

Key programmes launched under ***a2 For You™*** in FY20 included:

- The a2 Milk Company culture programme to align people to our purpose, values and strategy
- Our performance and development programmes, including the launch of a2 University
- A new remuneration and reward policy and programmes
- Our health and wellbeing programme
- A number of new or revised people policies including recruitment, diversity and inclusion, and flexible working and
- Upgrading of our online governance and compliance training.

Embedding safety, ethics and compliance systems

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

We continue to invest in our people and systems to build capability to meet our strict product quality and food safety standards. Further, we have embedded monitoring and compliance systems specific to the regulatory environments in each market we operate in.

In FY20 we implemented a new global Safety Management System to support the education, leadership and governance of workplace health and safety across all our sites and operations.

We undertook an assessment of human rights and other ethical risks in our value chain to ensure alignment of our supply chain management approach with our fundamental values of respect and integrity. We have provided details in the following case study "Doing business the right way".

We revised or developed a number of policies within the business to facilitate an inclusive environment. This included our recruitment policy which clearly articulates the importance of equality and our flexible working policy which articulates various work arrangement options to cater for the various life and work responsibilities of our people.

As such, we continue to build a diverse and inclusive community of great people throughout the company and at all levels of the organisation.

Ensuring engagement through COVID-19

One of our key business objectives is to deliver the organisation of the future, and this goal remains unchanged during these unprecedented times.

Given the challenges caused by COVID-19, the way we delivered against this objective needed to be adjusted in FY20. We needed to be agile, and this required that our teams work differently, relying on their resilience to balance and juggle the competing demands of life and work.

Keeping our team safe during these times has been a priority.

We were already remote-ready, and as different offices moved to work from home, we had laptops, virtual meeting infrastructure and IT support already in place. Being agile and flexible was crucial to the success of keeping everyone connected with business running as usual.

We have also been able to supply teams with personal protective equipment and sanitiser. We also adjusted the working environments to cater to social distancing in preparation for return to the office (desk dividers, temperature checks, sanitiser and splitting of team attendance in offices).

We conducted regular surveys to check in with our people – seeking to understand primary concerns so that we are best placed to support them in those areas.

OUR FOCUS AREAS

2. OUR FARMS

The relationships we have with our farmers are pivotal to our business. We are proud to have always paid a premium for our milk but want to ensure we don't stop there. We are on a journey to improve the animal welfare and environmental plans we have in place at each and every farm.

Animal welfare

Central to the responsible sourcing of our products are best practice standards for animal welfare on our farms. This year we've been investing in and building on our global animal welfare programme, which goes above and beyond in ensuring the proper care for animals on our supplier farms.

The programme meets globally recognised standards set by the World Organisation for Animal Health and upholds the Five Freedoms framework for animal welfare. The latest evolution of our animal welfare programme includes further transparency, measurability, risk mitigation and efficiency.

In FY20, we built a number of extensions into the programme, supporting our farmers to establish systems for continuous improvement in animal welfare. We will continue to monitor our approach and always be seeking to identify ways to further improve our programmes beyond the industry standard.

Our target is for 100% of our farms to be certified under our upgraded programme by 2023.

Farm environmental plans

We are developing a globally consistent framework for our Farm Environmental Plans. More than 65% of farms supplying us milk already have a Farm Environmental Plan in place, and the new framework will ensure consistency in measurement and standards across our global farm network.

The principles of the framework address the most material aspects of environmental management in the dairy industry:

1. Lowering GHG emissions
2. Managing water quality and efficiency
3. Managing soil quality
4. Boosting on-farm biodiversity
5. Improved nutrient (effluent) management

Our Farm Environmental Plans will be a critical foundation for our on-farm sustainability initiatives. Consistent standards and data will help us to identify priority areas for investment, measure improvement, and reward positive performance.

What's next?

We will be applying new learnings to our animal welfare approach, and will continue to refine the programme in FY21, with a particular focus on meaningful training opportunities for our farmers and scaling the use of technology on farm to enable real time visibility.

We will be continuing to consult with our strategic supply partners, farmers and industry experts to further develop and improve our Farm Environmental Plans.

We will be working with farmers to roll out these new plans in FY21.

We will continue to iterate and improve these plans moving forward.

3. UNDERSTANDING CLIMATE IMPACT

The impact of climate change has the potential to drive significant structural transformation across the dairy sector. The sector will need to take concerted action to manage the risks and opportunities associated with a move towards a lower carbon footprint. The risks include regulatory, such as carbon pricing, and market risks, such as changes in consumer preferences.

In addition, the sector's reliance on natural systems and vulnerability to changes in temperature and rainfall will also drive mounting physical risks across agriculture. There will also be extraordinary opportunity for the sector to realise increased productivity and efficiency through new technologies and practices that lower emissions and environmental impact throughout the supply chain.

We recognise that how we position ourselves in response to these climate risks and opportunities will determine how "future fit" our business is. We would like to take a proactive approach to integrating climate considerations into our strategic decision making, but we are only at the start of this journey. By taking a more concerted approach we will aim to reduce disruption to our business and yield long term benefits for both ourselves and the environment in totality.

As part of our ongoing commitment to TCFD[1] implementation, in FY20 we performed climate scenario analysis for the first time. We assessed transition and physical risk under a 2°C and 4°C change in temperature scenarios. The scenarios were developed to be consistent with global best practice, including the TCFD principles. Our analysis combined internal and external data and assessed impacts on an unmitigated basis. It has enabled us to model the potential financial impacts of climate change on our business, taking a longterm view out to 2050, to inform strategic and financial planning today.

Our preliminary assessment of first order impacts indicates that, relative to the global dairy industry, our business model has some positive levels of resilience to transition and physical climate-related risks. Further work will be undertaken in FY21 to further understand potential impacts to our product categories (notably infant formula and liquid milk) and will include stress testing of our resilience against second-order structural impacts and risk inter-dependencies.

1 TCFD: Task force on Climate-related Financial Disclosure

What's next?

The next steps in our TCFD journey include developing short, medium and long-term targets, deepening our scenario analysis in specific impact areas, structural impacts and risk interdependencies.

In FY19 and again for FY20, we elected to purchase carbon credits to offset our greenhouse gas ("GHG") emissions across all our direct and indirect operations.

For FY21 we will reduce the amount of carbon credits we purchase to only cover our "direct operations" (Scope 1,2 & 3). We will redirect the value of our indirect GHG emissions into *The a2 Impact Fund*™ for investment in tangible climate-related programmes that will create a positive impact on the planet, and will also benefit our business over time.

We are committed to measuring and reducing our direct and indirect emissions, and will continue to report on all our GHG emissions as we progress towards our 2050 net zero emissions target.

One example of where we will focus our investment is in a recent agreement to become a research partner with Sea Forest Pty Ltd ("Sea Forest").

Sea Forest is a leader in the development of Asparagopsis (a type of seaweed) as a natural feed supplement to cows in order to actively reduce their methane emissions. This partnership aims to unlock new research and trials required to test the viability, scalability and positive impact that an Asparagopsis feed supplement could have on the environment. While the science is still in its infancy, we see that this could be a game-changer for the industry. We have provided our commitment of up to $500,000 in year one for an initial programme of research.

In addition, at our milk processing facility in Smeaton Grange, we will be installing solar on our new roof space, and converting the lighting in our expanded facility to LED lights. Combined, these initiatives will save 164,000 kilograms of carbon dioxide emissions per year.

OUR FOCUS AREAS

Natural capital | Manufacturing capital | Intellectual capital | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

4. DOING BUSINESS THE RIGHT WAY

Integrity is one of our core values – doing the right thing is our promise to our people, consumers and strategic partners and is critical to our long-term success.

As our company evolves, we continue to improve on our internal processes and approach to responsible business. Building on these processes, an area of particular focus has been pro-active engagement across our broader industry and value chain. Responsible sourcing and responsible marketing continue to be priorities.

Review of our supply chain
In FY20 we undertook a detailed review of our supply chain, to ensure that throughout our value chain we are upholding our commitment to sustainability and ethical business. Our review concluded with a number of governance initiatives, including strengthened policies and standards for our company and our suppliers and training for our employees and farmers. Furthermore, to strengthen our long-term commitment to sustainable packaging, we recently became a signatory to the Australian Packaging Covenant, committing to meet Australia's 2025 National Packaging Targets.

Responsible marketing
Our approach to marketing infant nutrition aligns to the core principle that we support breastfeeding as the primary form of infant nutrition.

We have developed a premium, high quality range of infant nutrition products to provide parents an alternative when breastfeeding is not an option.

Marketing of Infant Formulas (MAIF Agreement) and Infant Nutrition Council
We are a signatory to the Marketing in Australia of Infant Formula: Manufacturers and Importers Agreement (MAIF Agreement). We are also a member of the Infant Nutrition Council, which represents the major manufacturers and marketers of infant formula in Australia and New Zealand. All members abide by a Code of Conduct including the MAIF Agreement and The Infant Nutrition Council Code of Practice for the Marketing of Infant Formula in New Zealand (INC Code of Practice).

Social capital | Intellectual capital | 3 GOOD HEALTH AND WELL-BEING | 8 DECENT WORK AND ECONOMIC GROWTH | 15 LIFE ON LAND

5. SUPPORTING OUR COMMUNITIES

We continue to seek to improve and increase the support we provide the communities in which we do business – this is important to us and linked to our purpose and values. This takes the form of funds to help our communities to survive and thrive. In addition, we also believe science plays an important role in enhancing the health and wellbeing of our communities over time.

Research to assist children's health and well-being
Cure Kids was founded in 1971 by Sir Robert (Bob) Elliott and Rotary New Zealand, as a Child Health Research Foundation. Cure Kids is the largest funder of child health research outside the New Zealand government. We are proud to have been financially supporting the world-class research of Professor Andrew Day, into digestive health and irritable bowel diseases amongst children, over the last three years to a total investment value of $600,000.

Supporting our rural communities in need
In the summer of 2019-20, much of Australia was devastated by ongoing bushfires. The bushfires impacted businesses, livelihoods and the environment, particularly in regional communities. We supported affected communities by donating $200,000 to help those in need; $150,000 direct to the Red Cross Disaster Relief and Recovery fund and the balance to go towards product donations. Our partners at Foodbank coordinated the distribution of our products to fire-affected communities in Victoria and New South Wales.

Supporting Chinese families in the early outbreak of COVID-19
During the period we also provided support for Chinese families affected by the early outbreak of COVID-19. China, and Chinese families, in particular, are at the heart of our business. We donated *a2 Milk*™ dairy products with our strategic partner China State Farm, who assisted with the dispatch of these products to front-line medical teams and families affected by COVID-19. We also donated RMB 5 million to the Shanghai Red Cross to support the areas and people severely affected by the disease.

COVID-19 research support for a vaccine
We made additional contributions to help fund independent research to find a vaccine and stop the spread of the disease. We proudly donated $500,000 to each of The University of Queensland's School of Chemistry and Molecular Biosciences and the Peter Doherty Institute for Infection and Immunity (Doherty Institute) – a joint venture between the University of Melbourne and the Royal Melbourne Hospital. The research teams at each of these organisations are playing a leading role in the international effort to develop a vaccine for the virus. As of July 2020, The University of Queensland's COVID-19 vaccine research has progressed significantly, with the research efforts moving out of the lab and into human trials.

cure kids big research for little lives | Doherty Institute | The University of Queensland Australia

INTRODUCING
The a2 Impact Fund™

a2 THE IMPACT FUND

We are creating *The a2 Impact Fund*™ as our vehicle to fund and manage our intended investments in pursuit of our sustainability goals.

- **Protecting and improving our environment for future generations**
- **Enabling happy and healthy cows**
- **Advancing wellness with scientific, health-related research and IP**
- **Supporting communities**
- **Creating a workplace where our people are passionate and thrive**

From FY21, we will redeploy (at a minimum) the financial contribution that was to fund our carbon credits offsets for our indirect GHG emissions, into environmental programs that are more tangible in actively reducing our emissions over time and improving our overall climate impact.

We will also invest additional funds to further support our animal welfare, people and community programs.

Our guiding principles:

- Initiatives will need to build and maintain value across one or more of the Six Capitals
- Impact – today or its future potential – is material
- Global framework will be adapted for local impact
- *The a2 Impact Fund*™ will be underpinned by transparent and robust governance, and will have oversight by our Board and Executive Committee.

By integrating funding initiatives under one umbrella – we believe they can create a greater positive impact overall and improve the sustainability of our business into the future.

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 events, helping to drive informed and consistent decision making and 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 processes, systems and culture. A copy of the Risk Management Policy is available at www.thea2milkcompany.com/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 our business. This approach facilitates a comprehensive assessment of potential risk events 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. It also summarises how we are responding to those risks.

Sources of risk and potential risk events	How we are responding
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, our 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, disruption to business activities, and overall damage to our brand and reputation.	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 finished product); • testing of distributed products in selected markets; • employment of product innovation and technology to improve product security e.g. tamper-evident lids; • product recall and crisis management systems; and • consumer support systems.
High-growth business in competitive markets Our business has experienced significant growth in recent years, driven predominantly 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 intellectual property rights resulting from third-party conduct or claims against such IP, which may lead to protracted litigation and/or erosion of our brand assets.	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 IP applications and activity; • monitoring infringement of our IP and taking action to protect it; and • documenting and embedding proprietary know-how across systems and processes.
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 geopolitical and regulatory environments in which government actions influence or restrict international trade in products and/or channels to market. 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 • a failure to renew the company's China label infant formula SAMR product registration[1] beyond its expiry in September 2022, with this expiry date potentially being subject to a grace period.	Our efforts to effectively navigate the complexities of international markets are supported by: • strong understanding of local standards, regulations and guidelines combined with sophisticated expert monitoring of evolving regulatory requirements in all markets in which we operate; • recent appointment of a Group Head of Government and Regulatory Affairs to build connections across government in all markets and further develop strategic understanding of regulatory environments; • close partnership with our infant formula manufacturer, Synlait Milk, which holds: – GACC[2] registration for its Dunsandel manufacturing facility, allowing canned infant formula to be exported to China; and – SAMR product registration for the importation of the company's China label infant formula through to September 2022; • strong and experienced local management teams in our core markets of Australia, China and the US; and • a multi-product, multi-channel route to market strategy for the sale of infant formula into China.
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 maintain our position in existing markets or enter new markets.	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, ethical, long-term commercial relationships with multiple supply chain partners in different geographic locations; • due diligence on supply chain partners before entering into commercial agreements; • 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; • a strong partnership with China State Farm Holding Shanghai Co., Ltd, our exclusive import agent for our China label products; • contracts providing access to milk pools that exceed our current usage requirements; and • multiple milk processors contracted in Australia and US, mitigating reliance on a single processor in these regions.

1 Registration achieved by Synlait Milk and given by China's State Administration of 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

Sources of risk and potential risk events	How we are responding
Climate change and reliance on natural resources As a business that is heavily dependent on agricultural inputs, we are exposed to short, medium and long-term climate and environmental risks. These include both supply and demand side risks including: • physical risks resulting from acute and chronic changes in climate. The productivity of our agricultural base could be impacted by changes in temperature and rainfall resulting from climate change, generating potential supply chain disruptions or greater volatility in input costs; • transition risks resulting from regulatory or market pressures associated with on-farm emissions. On-farm emissions account for 72% of The a2 Milk Company's GHG emissions footprint. These emissions could be exposed to carbon pricing, generating increased input costs or shifts in consumer preferences due to growing environmental concerns; and • other environmental risks such as deforestation, animal disease outbreak, biodiversity impacts, soil and air quality impacts, water use and animal welfare. The growth of conscious consumerism and increasing expectations around the environmental responsibility of consumer products means that exposure to these risks could negatively affect our brand reputation. This is particularly significant as demands for transparency around these issues increase and supply chains come under greater scrutiny.	We are responding to growing demands for transparency by integrating the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into our strategic planning and risk management processes, with the intention of adopting the full TCFD disclosure by the end of FY22. More detailed information regarding TCFD and scenario analysis can be found in the case study on climate risk analysis on page 31. We are managing our exposure to climate and environmental risks by: • assessing baselines and short, medium and long-term targets[3] across GHG emissions, energy and water consumption, waste-to-landfill and product packaging within our direct operations and 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 within New Zealand, Australia and the US and incorporating climate impacts into future sourcing strategies; • sourcing milk from farms in close proximity to our processing facilities wherever practicable, 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.
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 potential loss of their teams, could also have a material effect on our operating and financial performance; • resource constraints resulting from business growth out-pacing talent acquisition; and • building organisational capability through the recruitment of external hires carries with it the potential for transition risk.	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: • a rigorous recruitment and selection process, followed by thorough induction and onboarding; • an effective employee retention strategy combining both short and long-term financial incentives with career development opportunities to motivate and engage key personnel; • strong cultural values – bold passion, pioneering spirit, humility, respect and integrity – which assist both the company and employees in achieving their goals; • 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.
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 systems and potential data theft, data loss or corruption. Such a compromise could result in economic or reputational loss.	We remain focused on further strengthening our governance, processes and technology controls to protect the integrity and privacy of data and maintain compliance with regulatory requirements. We continue to build our cyber resourcing capability and improve our cyber security systems and protections, including restricting access to sensitive data, conducting regionally-specific cyber security audits and maintaining cyber security insurance. We have also identified the need to complete third party cyber risk reviews and are currently agreeing scope and timing with identified parties. We are implementing our new enterprise resource planning (ERP) software with a view to not only improve our overall IT infrastructure but also reducing the number of different applications in use across the organisation, allowing the protection protocols in place to be streamlined.
Ongoing impacts from the COVID-19 global pandemic The COVID-19 pandemic has caused unprecedented social and economic disruption globally. Until the pandemic is contained, the business remains exposed to several possible COVID-19 related consequences, including: • a weakened global economy – characterised by elevated levels of unemployment and reduced disposable income – resulting in disruptions to consumer buying patterns and/or softening consumer demands in key markets; • a possible unwinding of FY20 consumer pantry stocking for infant formula, which had some positive impact on FY20 sales; • disruptions to sales channels – including the effect of ongoing travel restrictions on reseller channels between Australia and China; the impact of weakened economic conditions on the viability of some off-line distribution networks within China; and trading restrictions for retailers, including limitations on product purchasing and in-store foot traffic, and access restrictions for merchandising teams; and • a second wave of infection through key markets of Australia, New Zealand, China and the US, which could result in disruptions to supply chains, retail trading conditions, consumer buying patterns and sales growth in these markets.	The Company has to date demonstrated resilience in the face of the COVID-19 pandemic, supported by a strong underlying demand for the company's products, and the focus of senior management on key initiatives, including: • the adoption of robust health and safety protocols in line with all relevant government requirements, including across our Smeaton Grange liquid milk processing facility; • flexible working arrangements for staff combined with enhanced remote working technologies; • continued close cooperation with Synlait Milk to maintain continuity of infant milk formula supply; • active management of supply chain routes to market (including use of air freight where appropriate); • increased levels of safety stock to mitigate future supply chain disruption; • agile approach to the execution of marketing programmes, adjusting where appropriate to reflect shifts in consumer buying patterns and channel dynamics; and • contributions to support COVID-19 vaccine research.

3 The business is currently in the process of determining targets to manage climate-related risks and opportunities, in line with the recommendations of the TCFD framework.

CORPORATE GOVERNANCE

CONTENTS

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 extensive 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, United Biscuits Europe and Asia, Pepsico Foods Europe,and Del Monte UK.

Latterly, David was the CEO for the marketing services group, Cordiant Communications Group. In addition to his a2MC Company directorship, David is also a director of SafeStore Holdings PLC, Robin Partington & Partners Limited, Committed Capital Limited and his own company Lovat Partners 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, a body designed to support the standard setting process of the New Zealand External Reporting Board, and is the Vice President of the New Zealand Institute of Directors.

In addition to her company directorship, Julia is Deputy Chair of Watercare Services Limited, and a director of Port of Tauranga Limited, Auckland International Airport Limited and Meridian Energy 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.

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$14 billion).

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 global leader in dispensing systems.

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.

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.

OUR EXECUTIVE COMMITTEE

Leadership

To enhance our organisational alignment and enable the right ways of working to deliver on our strategy, we recently reorganised our most senior executive team to form our Executive Committee and formed a Senior Leadership Group which comprises the senior management of the business.

Geoffrey Babidge
Chief Executive Officer

Bachelor of Economics

Geoffrey was appointed CEO from 9 December 2019. He was previously Managing Director and CEO of the company from July 2010 until July 2018; he was also an Executive Director of the Board during this time. Geoffrey has more than 30 years' senior management experience working in the Australian FMCG industry. Geoffrey has previously held senior executive roles with a number of companies in Australia including Freedom Foods Group Limited, Bunge Defiance and National Foods. Prior to these roles he was a practising chartered accountant and partner at Price Waterhouse.

Race Strauss
Chief Financial Officer

Fellow of CPA Australia (FCPA)

Bachelor of Business (Griffith University, QLD)

Executive MBA (INSEAD, Singapore)

Race joined the Group in January 2020. He is responsible for the finance, legal, IT, investor relations and strategy functions across the group. Race is an experienced finance executive with a strong packaged goods background as well as relevant international experience, particularly in China and other Asian regions. Race spent over 20 years at Unilever where he held a variety of senior roles including Chief Financial Officer of Unilever Australasia and Vice President of Finance for South East Asia and Australasia. More recently Race spent seven years in Chief Financial Officer roles with the Qantas Group, including at Jetstar and at Qantas Airlines.

Susan Massasso
Chief Growth and Brand Officer

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

Susan has over 20 years' experience in the packaged goods industry. Susan is responsible for all activities associated with brand development and communications, including overseeing the marketing function, internal and external communications, government and regulatory affairs, and new growth engines for our business across new products, channels and markets. Susan originally joined the Group in September 2013 as Group Chief Marketing Officer with leadership of marketing and brand development across all markets. Prior to this, Susan held several senior leadership and commercial positions across the Campbell Arnott's business including Asia Pacific Regional Marketing Director, Marketing Director Arnott's ANZ, General Manager Campbell's ANZ and Marketing Director Campbell's ANZ. In addition, Susan spent a number of years at Unilever where she held a variety of marketing, consumer insight and logistics roles. Susan attended the University of Sydney under scholarship from accounting firm PriceWaterhouseCoopers where she gained undergraduate employment throughout her degree.

Lisa Burquest
Chief People, Safety and Sustainability Officer

Bachelor of Business, Logistics, Materials and Supply Chain Management

Lisa joined the Group in November 2018 as Chief People Officer.
Lisa is responsible for driving our people strategy as well as for our safety and sustainability functions, leveraging her previous experience leading the development of safety management systems and developing and executing integrated sustainability programmes. Lisa has over 26 years' experience across a wide breadth of human resources roles including previous senior positions at BHP Billiton, Origin Energy, Jetstar and most recently Qantas Airlines. She has experience working across a variety of geographies, particularly Asia, and is very comfortable in a dynamic, fast paced company culture.

Shareef Khan
Chief Operations Officer

Bachelor of Science, CSCP, APICS

Shareef joined the Group in June 2012. He is directly responsible for all supply chain, quality and operations across the Group in each of our geographies, from farmers through to strategic processing and distribution partners and ultimately distribution to our customers. Shareef has over 15 years' senior management experience as a qualified supply chain professional. He is experienced across a number of industries, including fast moving consumer goods, infant nutrition, office products and construction.

Peter Nathan
Chief Executive Asia Pacific

Bachelor of Business (Marketing)

Peter joined the Group in 2008 and in 2010 took on the role of Chief Executive of the Australia and New Zealand region. From 1 July 2017, Peter was appointed Chief Executive of the Asia Pacific region. During his time with the company, Peter has led the successful relaunch of branded *a2 Milk*™ in the Australian market from 2007 with the JV entity, and has been instrumental in launching and establishing the *a2 Platinum*® infant formula brand in Australia and more recently China. Peter has over 28 years' experience working in the FMCG industry, as evidenced by his previous senior marketing and sales roles for Gillette and Colgate Palmolive in Australia and Asia, as well as his involvement with Freedom Foods Group Limited as General Manager. Peter is responsible for our operations across Australia, New Zealand, Greater China and other Asia.

Li Xiao
Chief Executive Greater China

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

Li Xiao joined the Group in April 2019. Li Xiao is responsible for maximising the significant opportunities that the Greater China market presents for the company, delivering against our strategy and putting the right capabilities in place to deliver to these future growth opportunities.

Li Xiao has substantial experience building successful businesses in China across a diverse range of multinational and local fast growth consumer driven companies including Mars, Nike, Burger King China, and most recently CEO and President of Wanda Kids Group and SVP of Wanda Group.

Blake Waltrip
Chief Executive USA

BA Economics (University of California at San Diego)

Masters of Business Administration (Anderson Graduate School of Management, UCLA)

Blake joined the Group in May 2016, assuming the role of Chief Executive of the USA region. Blake is responsible for leading our Northern American business as well as managing our supply chain partnerships and performance for his region. Blake has a strong marketing and general management skill set. Blake was previously the CEO of Quinoa Corporation Inc, (The Ancient Harvest Brand) based in Boulder, Colorado. His previous roles have included VP and CMO of the beverage division of the Hain Celestial Group, Managing Partner of a marketing services and strategy group, Growth Ventures, President Americas of Lowe Alpine, and an earlier extensive marketing career with Nestlé USA beverage brands.

Jaron McVicar
General Counsel and Company Secretary

Bachelor of Laws

Jaron joined the Group as General Counsel and Company Secretary in November 2016, having already provided legal advice to the Group over a number of years in his previous role with a leading New Zealand law firm. Prior to joining the Group, Jaron worked in private practice for 15 years as a corporate and commercial lawyer, including seven years working in London. Jaron is a qualified solicitor in New Zealand and England and Wales. Jaron is responsible for the Group's legal function and works closely with the Board on governance in his capacity as Company Secretary.

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 company has updated its governance arrangements in a number of respects during the year so that they will be consistent with the fourth edition of the ASX Principles, which took effect for the company from 1 July 2020.

For the financial year ended 30 June 2020 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 the CEO should be different people).

The roles of Chair and CEO are not exercised by the same individual. From 1 July to 9 December 2019, the role of CEO was held by the Managing Director, Jayne Hrdlicka, and from 9 December 2019, Geoffrey Babidge has held the role of CEO (on an interim basis).

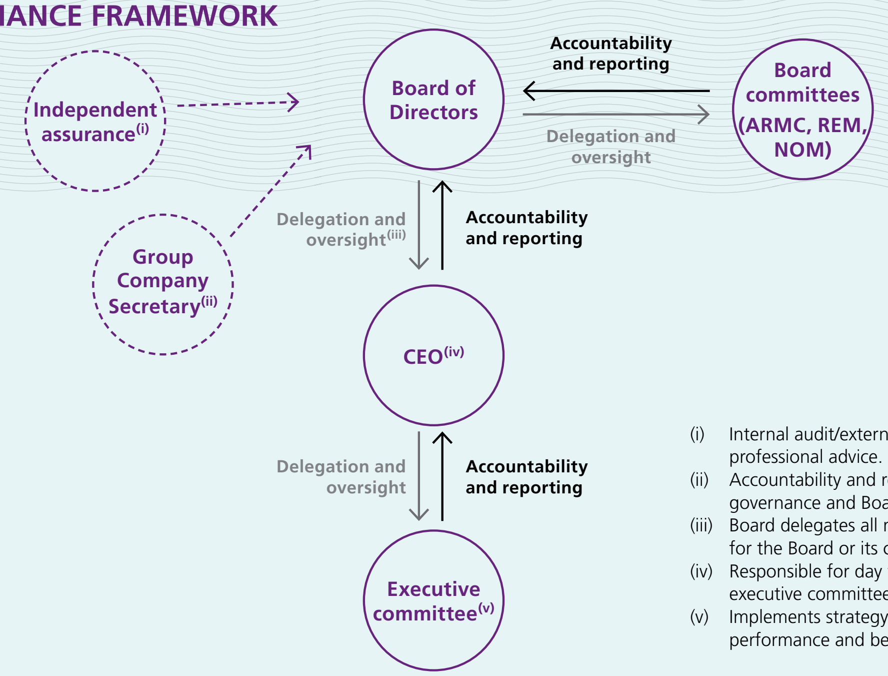
However, the Board did not consider the company's Chair, David Hearn, to be an independent director in this financial year for the purposes of the ASX Principles. This is because of David's previous limited executive role, which ceased in December 2018, under which the CEO previously had the capacity to call on David from time to time to support the company's business in Europe and the UK. David also held executive options during this financial year, which were exercised in full during the year.

Considering his limited executive role during the first half of last financial year, and the options exercised by David during this financial year, the Board considered it appropriate that David should retain his non-independent status during this financial year.

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.

GOVERNANCE FRAMEWORK



(i) Internal audit/external audit/legal and other professional advice.
(ii) Accountability and reporting of corporate governance and Board related matters.
(iii) Board delegates all matters except those reserved for the Board or its committees.
(iv) Responsible for day to day operations; leads the executive committee.
(v) Implements strategy and business plans; directs performance and behaviour of workforce.

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, or act in the best interests of the company and represent the interests of the company's security holders generally.

Based on these measures, and the considerations discussed on page 44 of this Annual Report the Board considers that Julia Hoare, Warwick Every-Burns, Jesse Wu and Pip Greenwood are independent directors.

Corporate Governance Statement

Our Corporate Governance Statement, which is current as at 30 June 2020 and approved by the Board, can be found at www.thea2milkcompany.com/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/corporate-governance.

The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, Remuneration Committee, and Nomination Committee). The diagram on the previous page 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.

GOVERNANCE

Remuneration Committee (REM)
This committee 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)
This committee 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 of the implementation of the company's Diversity Policy.

The Nomination Committee assisted the Board by managing the recruitment process for the recently announced appointment of David Bortolussi as Managing Director and CEO.

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/corporate-governance.

Board size, skills and structure

During the entire reporting period, the Board comprised four independent non-executive directors and one non-executive director. In the period 1 July to 9 December 2019 the Managing Director and CEO (executive director) was also a member of the Board. 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 the current Board composition, is as follows:

Skills and experience	Board representation (out of five directors)
Executive leadership – experience as a senior executive in one or more substantial commercial businesses	100% (5)
Non-executive board membership – experience as a non-executive director of a number of listed or other widely-held companies	100% (5)
Governance – experience in setting and implementing corporate governance policies, practices and standards	100% (5)
Consumer products and nutritional industries – experience as a senior executive in, or as a professional advisor to, consumer products or nutritional industry businesses	60% (3)
E-commerce – experience as a senior executive in, or as a professional advisor to, businesses engaged in e-commerce activities	80% (4)
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	40% (2)
Sustainability – experience in identifying economic, social and environmentally sustainable developments, and setting and monitoring sustainability aspirations	60% (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% (5)
Financial acumen – experience in financial accounting, taxation, external and/or internal audit and reporting	20% (1)
Risk management – experience in identifying and mitigating risk	100% (5)
Remuneration – experience in developing and/or implementing executive remuneration programmes, including incentive-based remuneration	80% (4)

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 2020, was as follows:

Members	Independent	Non-executive
Audit and Risk Management Committee		
Julia Hoare (Chair)	✓	✓
Warwick Every-Burns	✓	✓
Jesse Wu	✓	✓
Nomination Committee		
Pip Greenwood (Chair)	✓	✓
Julia Hoare	✓	✓
David Hearn	×	✓
Remuneration Committee		
Warwick Every-Burns (Chair)	✓	✓
Pip Greenwood	✓	✓
Jesse Wu	✓	✓

GOVERNANCE

Attendance at Board and committee meetings

Director attendance at Board and Committee meetings during the year ended 30 June 2020 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	–	–	–	–	13	13
Julia Hoare (Deputy Chair)	12	12	5	5	–	–	13	13
Jayne Hrdlicka[1] (Managing Director and CEO)	5	5	–	–	–	–	–	–
Warwick Every-Burns	12	12	5	5	3	3	–	–
Jesse Wu	12	12	5	5	3	3	–	–
Pip Greenwood	12	11	–	–	3	3	13	13

Held: meetings held during the period for which the person was a director or Committee member.
1 Resigned as Managing Director & CEO on 9 December 2019

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/corporate-governance:

- Code of Ethics;
- Continuous Disclosure Policy;
- Diversity Policy. The company's diversity policy is discussed on page 26 of this Annual Report;
- Risk Management Policy. The company's risk management policy is discussed on pages 34 to 37 of this Annual Report;
- Securities Trading Policy;
- Shareholder Communications Policy;
- Global Whistleblower Policy;
- Global Anti-Bribery & Anti-Corruption Policy; and
- Ethical Sourcing 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

Our success depends on the quality and contribution of our people, with their talents enabling us to achieve our short and long-term strategic objectives.

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.

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

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.

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 2020, 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.

Remuneration for FY20

During FY19 a revised remuneration policy for the Group was finalised; and announced in November 2019. This new framework delivers a high performance remuneration framework with higher at-risk components than the previous framework, with the aim of more closely aligning remuneration with the company's strategic direction, as set out below.

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, appropriate to the results delivered by the Group and the individual performance of the employee, based on the principle of reward for performance. A significant portion of senior executive remuneration is at risk.

REMUNERATION

The following table illustrates the relative percentages of fixed remuneration and at risk STI and LTI for FY20.

	Fixed	STI (at target)	LTI (face value)
CEO	29%	29%	42%
Executive Committee	30%-34%	25%-28%	38%-45%

Short-Term Incentive (STI) plan

The purpose of our STI plan is to build a results-focused culture, whilst increasing employee engagement. STI values and performance targets are approved by the Remuneration Committee at the start of each financial year.

The STI is paid in the form of a cash bonus to employees based on the achievement of the Group Performance Scorecard and adjusted by an individual performance multiplier of 0% to 130% – calculated based on the employee's performance against the achievement of personal objectives ("OKRs"). Funding of the bonus program in FY20 was established by aggregating, for all employees, the amount of their target incentive, as referenced against their fixed annual remuneration and adjusted by the performance of the Group Performance Scorecard.

	Group performance scorecard		Personal OKRs
STI weightings	Financial performance	Business performance	
CEO and Officers	50%	50%	0-130%

Group Performance Scorecard

FY20 Group Objectives	Metric		Weighting
Group Financial Performance	Revenue growth Net profit after tax		50%
Business Performance			50%
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%	
At target			**100%**

Long-Term Incentive (LTI) plan

Participation in the LTI plan is by invitation only, at the sole and absolute discretion of the Board. The 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 consistent with creating long-term shareholder value.

The company grants performance rights (Awards) to eligible participants under the plan, governed by specific terms and conditions. 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 Board may forfeit performance rights for fraud, dishonesty or wilful breach of duties.

The new LTI structure operative in FY20 moves away from a single hurdle which incentivises only earnings per share (EPS) growth as we believed this could encourage underinvestment in the brand and infrastructure and therefore limit future growth. The new performance model 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 revenue growth achieved. 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.

Performance rights granted in FY20

As a result of the Board undertaking a review of the company's remuneration practices in 2019, no performance rights were issued for FY19. With the review completed, the company issued performance rights in respect of FY19 to the relevant LTI plan participants during FY20. These 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). The quantum of grants is 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.

To accommodate the suspension of the LTI programme in FY19, the performance rights issued during FY20 are in two tranches, with differing performance periods and performance hurdles as set out below, with Tranche 1 reflecting the FY19 deferral.

The performance rights vest subject to:

- Continuing employment.
- Minimum performance hurdles of both:
  - A minimum diluted earnings per share (EPS) compound annual growth rate (CAGR) increase of 15% over the performance period (E-CAGR); and
  - A minimum normalised sales CAGR increase of 15% over the performance period (S-CAGR).
- No awards will vest if E-CAGR or S-CAGR is less than 15% over the respective performance periods.
- 50% of the awards will vest if E-CAGR and S-CAGR of 15% is achieved, up to a maximum of 100% of the award vesting if S-CAGR of either 22% or more, or 25% or more is achieved, as follows:

Performance rights grants:	Performance period	EPS hurdle	Normalised sales hurdles		
			50% vests	85% vests	100% vests
Tranche 1	2 years to 30 June 2021	15%	15%	20%	25%
Tranche 2	3 years to 30 June 2022	15%	15%	18.5%	22%

Vesting is on a straight-line basis between each band.

Diluted earnings per share are as reported in the company's Annual Report in respect of that financial year.

Normalised sales in respect of a financial year, are 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 company's Annual Report in respect of that financial year.

It is currently intended that, subject to applicable law, the company will satisfy its obligation to allocate ordinary shares upon the vesting of performance rights granted in FY20 (as well as all future grants of performance rights) by instructing the trustee of the newly established a2MC Group Employee Share Trust to purchase shares on market so as to avoid, where possible, dilutive issues of ordinary shares.

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

Minimum Shareholding Requirement

Executives

With effect from 1 October 2019, a Minimum Shareholding Requirement (MSR) Policy applies to the CEO and all of the CEO's direct reports (collectively, Executives). From time to time we may also identify additional employees to whom the MSR Policy will 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% of their fixed annual remuneration comprising base salary and compulsory employer superannuation contributions (or equivalent) before any tax or social security deductions.

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.

All Executives are currently expected to achieve the MSR within the timeframe required by the policy.

REMUNERATION

Directors' remuneration

Non-executive director's remuneration is paid in the form of director's 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, approved by shareholders at the company's Annual Meeting of Shareholders held on 20 November 2018, is capped at $1,365,000.

Directors' fees structure	$ annual
Base board fees:	
Chair of the Board (refer below)	165,000
Deputy Chair	210,000
Non-executive director	165,000
Audit and Risk Management Committee:	
Chair	35,000
Committee member	16,500
Remuneration Committee:	
Chair	35,000
Committee member	16,500
Nomination Committee:	
Chair	22,000
Committee member	11,000

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 (an entity controlled by David Hearn), under the company's LTI plan. Each option had an exercise price of NZ$0.63. During the financial year, 3,200,000 options, that had previously vested or vested in the period, were exercised by David in order to avoid them lapsing. 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. At the time that the current level of the Chair's fees was set it recognised the contribution to total remuneration of this benefit at that time.

Remuneration paid to non-executive directors of the Group for the year ended 30 June 2020 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]	165,000	–	–	–	165,000	17,951	182,951
Julia Hoare (Deputy Chair)	210,000	35,000	–	11,000	256,000	–	256,000
Pip Greenwood	165,000	–	16,500	22,000	203,500	–	203,500
Warwick Every-Burns	165,000	16,500	35,000	–	216,500	–	216,500
Jesse Wu	165,000	16,500	16,500	–	198,000	–	198,000
Total	**870,000**	**68,000**	**68,000**	**33,000**	**1,039,000**	**17,951**	**1,056,951**
Subsidiary companies							
William Keane[2]	39,880	–	–	–	39,880	–	39,880
Total	**909,880**	**68,000**	**68,000**	**33,000**	**1,078,880**	**17,951**	**1,096,831**

1 Other benefits received include the annual non-cash accounting charge for options issued under the LTI plan of $17,951. The value of options exercised by David Hearn during the year was $62,554,000.

2 William Keane is included as a director of The a2 Milk Company Limited (UK), he resigned as a director on 31 March 2020. No other director of a subsidiary company was remunerated in their capacity as a director.

Remuneration of CEO – Geoffrey Babidge

Geoffrey commenced his appointment as Interim CEO on 9 December 2019. Details of the remuneration arrangements are set out below:

Term

There is no fixed term, employment is ongoing until terminated by either Geoffrey or the company.

Total fixed remuneration

A$1,600,000 per annum, including superannuation.

STI

A bonus in the amount of between 20% and 40% of total fixed remuneration is payable entirely at the discretion of the Board at the end of his tenure as CEO.

LTI

Geoffrey does not participate in the company's LTI plans.

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

	2020 A$
Fixed remuneration	903,030
STI paid	–
Total remuneration received	**903,030**

STI is payable at the end of Geoffrey's tenure, based on total fixed remuneration paid during the period of tenure.

Geoffrey's KPI's have been set and his award will be calculated taking into account the achievement of these.

Remuneration of the former CEO – Jayne Hrdlicka

Jayne was employed under an employment agreement with the company as Managing Director and CEO from July 2018. On 9 December 2019, Jayne agreed to step down from the role, but remained an employee of the company until 30 June 2020.

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

	2020 A$
Fixed remuneration	1,466,667
Other payments	2,285,787
Total remuneration received	**3,752,454**

Fixed remuneration was reviewed by the Board and increased from A$1,500,000 to A$1,600,000 per annum for FY20. Fixed remuneration was paid for the period 1 July 2019 to 31 May 2020. Other payments included STI paid for FY20, statutory leave entitlements and an additional cash payment.

The remaining tranche of 90,914 time-based rights, granted to Jayne as a transition benefit on commencing employment with the company in July 2018 were exercised during the period, and subsequently sold.

All performance rights granted to Jayne under the LTI plan (comprised of 164,312 performance rights granted in November 2019, and 245,787 performance rights granted previously) were subsequently forfeited on the cessation of Jayne's employment.

The STI paid to Jayne for FY19 was A$1,897,500.

FINANCIAL STATEMENTS

CONTENTS

DIRECTORS' APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 2020.

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 2020 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 judgments 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

Julia Hoare
Deputy Chair and Chair of the
Audit & Risk Management Committee

18 August 2020

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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 page 60 to 101, which comprise the consolidated statement of financial position of the Group as at 30 June 2020, 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 60 to 101 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020 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 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) 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.

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

Building a better working world

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.

Discounts and rebates provided to customers

Why significant	How our audit addressed the key audit matter
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.	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. ▶ Understood 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

INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

Building a better working world

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.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the Company, 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/. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied. 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

Ernst & Young
Sydney
18 August 2020

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
Continuing operations			
Sales	B1	1,730,696	1,300,590
Cost of sales		(762,122)	(587,295)
Gross margin		968,574	713,295
Other revenue	B1	435	160
Distribution expenses		(42,564)	(30,750)
Administrative expenses		(96,035)	(69,536)
Marketing expenses		(194,309)	(133,902)
Other expenses		(88,380)	(61,062)
Operating profit		547,721	418,205
Interest income		6,129	4,240
Finance costs	B5	(448)	(114)
Net finance income		5,681	4,126
Profit before tax		553,402	422,331
Income tax expense	B7	(165,235)	(127,798)
Profit from continuing operations		388,167	294,533
Discontinued operation			
Loss from discontinued operation, net of tax	B3	(2,330)	(6,792)
Profit for the year		385,837	287,741
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation profit/(loss)		2,863	(4,319)
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	C6	(56,083)	(62,390)
Total comprehensive income		332,617	221,032
Earnings per share			
Basic (cents per share)	B6	52.39	39.25
Diluted (cents per share)	B6	52.12	38.78
Earnings per share – continuing operations			
Basic (cents per share)	B6	52.71	40.17
Diluted (cents per share)	B6	52.43	39.70

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

Year ended 30 June 2020	Foreign currency translation reserve $'000	Fair value revaluation reserve $'000	Employee equity settled payments reserve $'000	Treasury shares reserve $'000	Total reserves $'000	Retained earnings $'000	Share capital $'000	Total equity $'000
Balance 1 July 2019	(15,341)	59,723	20,535	–	64,917	578,442	144,495	787,854
Profit after tax for the period	–	–	–	–	–	385,837	–	385,837
Foreign currency translation differences – foreign operations	2,825	–	–	–	2,825	–	–	2,825
Listed investment – fair value movement	–	(56,083)	–	–	(56,083)	–	–	(56,083)
Income tax	38	–	–	–	38	–	–	38
Total comprehensive income for the period	2,863	(56,083)	–	–	(53,220)	385,837	–	332,617
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	–	–	–	–	–	–	2,509	2,509
Share issue costs	–	–	–	–	–	–	(71)	(71)
Treasury shares acquired	–	–	–	(12,655)	(12,655)	–	–	(12,655)
Treasury shares transferred	–	–	(436)	436	–	–	–	–
Share-based payments	–	–	8,331	–	8,331	–	–	8,331
Income tax	–	–	13,289	2,188	15,477	–	–	15,477
Total transactions with owners	–	–	21,184	(10,031)	11,153	–	2,438	13,591
Balance 30 June 2020	(12,478)	3,640	41,719	(10,031)	22,850	964,279	146,933	1,134,062

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
Balance 1 July 2018	(11,022)	122,113	12,351	123,442	290,701	141,566	555,709
Profit after tax for the period	–	–	–	–	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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
Assets			
Current assets			
Cash and short-term deposits	D3	854,178	464,805
Trade and other receivables	C1	70,700	66,248
Prepayments		56,336	49,693
Inventories	C2	147,332	108,453
Total current assets		1,128,546	689,199
Non-current assets			
Property, plant and equipment	C4	14,206	10,296
Right-of-use assets	D7	16,144	–
Intangible assets	C5	13,640	12,985
Other financial assets	C6	252,580	286,807
Deferred tax assets	B7	28,201	7,683
Total non-current assets		324,771	317,771
Total assets		1,453,317	1,006,970
Liabilities			
Current liabilities			
Trade and other payables	C3	281,919	173,748
Customer contract liabilities	B2	3,773	1,431
Lease liabilities	D7	3,407	–
Income tax payable		16,328	43,710
Total current liabilities		305,427	218,889
Non-current liabilities			
Trade and other payables	C3	392	227
Lease liabilities	D7	13,436	–
Total non-current liabilities		13,828	227
Total liabilities		319,255	219,116
Net assets		1,134,062	787,854
Equity attributable to owners of the Company			
Share capital	D5	146,933	144,495
Retained earnings		964,279	578,442
Reserves	D6	22,850	64,917
Total equity		1,134,062	787,854

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		1,726,947	1,304,430
Payments to suppliers and employees		(1,107,394)	(885,738)
Interest received		6,135	4,277
Interest paid		(389)	–
Taxes paid		(197,888)	(133,901)
Net cash inflow from operating activities	D4	427,411	289,068
Cash flows from investing activities			
Payments for property, plant and equipment	C4	(5,800)	(2,653)
Payments for intangible assets	C5	(1,422)	(709)
Payment for listed investment	C6	(21,856)	(162,335)
Net cash outflow from investing activities		(29,078)	(165,697)
Cash flows from financing activities			
Payments of lease principal	D7	(1,775)	–
Purchase of treasury shares	D6	(12,655)	–
Proceeds from issue of equity shares	D5	2,438	2,929
Net cash (outflow)/ inflow from financing activities		(11,992)	2,929
Net increase in cash and short-term deposits		386,341	126,300
Cash and short-term deposits at the beginning of the year		464,805	340,455
Effect of exchange rate changes on cash		3,032	(1,950)
Cash and short-term deposits at the end of the year	D3	854,178	464,805

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Contents		Page

NOTES TO THE FINANCIAL STATEMENTS – BASIS OF PREPARATION FOR THE YEAR ENDED 30 JUNE 2020

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 2020 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 18 August 2020.

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's) 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.

Certain comparative amounts have been restated to conform with the current period's presentation.

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 16: *Leases* 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 B7: Deferred tax assets and liabilities – Recovery of deferred tax assets
  - Note C2: Inventories – Estimation of net realisable value
  - Note C5: Intangibles assets – Impairment review of goodwill and intangibles
  - Note D7: Leases – Determination of lease term

NOTES TO THE FINANCIAL STATEMENTS – BASIS OF PREPARATION FOR THE YEAR ENDED 30 JUNE 2020

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. Other than the adoption of NZ IFRS 16: *Leases*, noted below, their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2020.

Adoption of NZ IFRS 16: *Leases*

The Group has adopted this standard from 1 July 2019, using the modified retrospective transition method, under which the cumulative effect of initial application, if any, is recognised in retained earnings at 1 July 2019, with no restatement of prior periods.

The standard introduces a single, on-balance sheet accounting model for lessees. Right-of-use assets are recognised representing the lessee's right to use the underlying leased assets, together with lease liabilities representing the obligation to make lease payments.

The Group previously recognised operating leases for office and industrial premises, motor vehicles and equipment. On transition to NZ IFRS 16 the Group recognises right-of-use assets and lease liabilities on balance sheet for most of these leases, but has elected not to recognise on balance sheet leases of low-value assets and those leases with a remaining life on transition of less than 12 months.

Transition

On transition lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets were measured at an amount equal to the lease liability, less accrued lease payments as at 30 June 2019.

The Group used the following practical expedients when applying NZ IFRS 16:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on transition

The impact of transition to NZ IFRS 16 is summarised below:

$'000	1 July 2019
Right-of-use assets recognised	7,869
Lease accruals as at 30 June 2019, set off against right-of-use assets	236
Lease liabilities recognised	(8,105)

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rates at 1 July 2019. The weighted-average rate applied was 3.29%.

NOTES TO THE FINANCIAL STATEMENTS – BASIS OF PREPARATION FOR THE YEAR ENDED 30 JUNE 2020

Adoption of NZ IFRS 16: *Leases* (continued)

Impacts on transition (continued)

$'000	1 July 2019
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	10,145
Discounted using incremental borrowing rates as at 1 July 2019	(1,370)
Recognition exemption for leases with less than 12 months of lease term at transition	(670)
Lease liabilities recognised at 1 July 2019	8,105

The Group's lease accounting policies are included in Note D7.

New standards and interpretations not yet adopted

There are no new standards and interpretations that are issued, but not yet effective as at 30 June 2020, that are expected to have a material impact on the Group in current or future reporting periods.

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

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 along with a corporate function, and has 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 (discontinued operation, refer Note B3).

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.

From 1 July 2019, infant formula sales previously reported in the UK segment are allocated to the China and Other Asia segment. Comparative information for the year ended 30 June 2019 has been restated to reflect the change in allocation.

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B1. Operating segments (continued)

	Continuing operations				Discontinued operation	
2020	**Australia and New Zealand $'000**	**China and Other Asia $'000**	**USA $'000**	**Total $'000**	**UK $'000**	**Total $'000**
Consolidated sales	965,232	699,396	66,068	1,730,696	1,396	1,732,092
Other revenue	435	–	–	435	–	435
Reportable segment revenue	965,667	699,396	66,068	1,731,131	1,396	1,732,527
Reportable segment results (Segment EBITDA)	465,633	224,857	(50,523)	639,967	(2,301)	637,666
Corporate EBITDA				(87,947)	–	(87,947)
Group EBITDA				552,020	(2,301)	549,719
Reconciliation to consolidated statement of comprehensive income						
Interest income						6,135
Interest expense						(389)
Depreciation and amortisation						(4,393)
Income tax expense						(165,235)
Consolidated profit after tax						385,837

	Continuing operations				Discontinued operation	
2019	**Australia and New Zealand $'000**	**China and Other Asia $'000**	**USA $'000**	**Total $'000**	**UK $'000**	**Total $'000**
Consolidated sales	842,543	423,487	34,560	1,300,590	3,746	1,304,336
Other revenue	152	8	–	160	–	160
Reportable segment revenue	842,695	423,495	34,560	1,300,750	3,746	1,304,496
Reportable segment results (Segment EBITDA)	388,234	134,906	(43,980)	479,160	(6,632)	472,528
Corporate EBITDA				(58,918)	–	(58,918)
Group EBITDA				420,242	(6,632)	413,610
Reconciliation to consolidated statement of comprehensive income						
Interest income						4,277
Depreciation and amortisation						(2,176)
Income tax expense						(127,970)
Consolidated profit after tax						287,741

One customer within the Australia and New Zealand segment contributed revenue in excess of 10% of Group revenue of $375,812,000 (2019: $259,973,000).

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B1. Operating segments (continued)

Other segment information

2020	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	UK $'000	Corporate $'000	Total $'000
Additions to non-current assets	6,324	6,552	366	–	4,333	17,575
Depreciation and amortisation	2,081	1,002	225	36	1,049	4,393
2019						
Additions to non-current assets	2,118	178	38	36	992	3,362
Depreciation and amortisation	1,312	218	91	25	530	2,176

The majority of the Group's revenue generated from customers, and the majority of its non-current assets (other than financial instruments and deferred tax assets), are sourced and 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.

	Continuing operations				Discontinued operation	
2020	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000	UK $'000	Total $'000
Infant formula:						
China label	–	337,715	–	337,715	–	337,715
English and other labels[1]	745,055	341,120	–	1,086,175	–	1,086,175
Liquid milk	152,539	3,400	66,068	222,007	1,396	223,403
Other	68,073	17,161	–	85,234	–	85,234
	965,667	699,396	66,068	1,731,131	1,396	1,732,527

	Continuing operations				Discontinued operation	
2019	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000	UK $'000	Total $'000
Infant formula:						
China label	–	167,842	–	167,842	–	167,842
English and other labels [1]	652,864	243,110	–	895,974	–	895,974
Liquid milk	133,704	2,906	34,560	171,170	3,746	174,916
Other	56,127	9,637	–	65,764	–	65,764
	842,695	423,495	34,560	1,300,750	3,746	1,304,496

(1) Revenue is allocated based on management responsibility and usually reflects the geographical location of the Group's wholesale customers. It is understood that a significant portion of the infant formula sales to customers in the Australia and New Zealand segment are ultimately consumed in China.

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B2. Revenue (continued)

Contract balances

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

	Note	2020 $'000	2019 $'000
Receivables	C1	63,595	58,013
Customer contract liabilities		(3,773)	(1,431)

Customer contract liabilities are payments received in advance from customers. The amount of $1,431,000 recognised in customer contract liabilities at 30 June 2019 was recognised as revenue in the year ended 30 June 2020.

Remaining performance obligations at 30 June 2020 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 2020

B3. Discontinued operation

On 20 August 2019, the Board announced its decision to withdraw from fresh milk operations in the UK (reported in the UK segment) 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.

All the UK fresh milk trading operations ceased in the period to 31 December 2019.

	2020 $'000	2019 $'000
Results		
Revenue	1,396	3,746
Expenses	(3,730)	(10,399)
Results from operating activities	(2,334)	(6,653)
Net finance income	4	33
Income tax	–	(172)
Results from operating activities, net of tax	(2,330)	(6,792)
Earnings per share		
Basic (cents per share)	(0.32)	(0.93)
Diluted (cents per share)	(0.31)	(0.92)
Cash flow		
Operating	(4,452)	(6,826)
Investing	–	(36)
Net cash outflow for the period	(4,452)	(6,862)

B4. Expenses

	2020 $'000	2019 $'000
Profit before income tax includes the following significant items:		
Salary and wage costs	69,830	47,977
Equity settled share-based payments (refer note F2)	8,331	8,184
Directors' fees and expenses	1,079	1,012
Audit fees (refer note F3)	970	701
Bad and doubtful debts	79	(17)
Professional service fees	29,070	27,628
Depreciation and amortisation	4,393	2,176
Net foreign exchange loss/ (gain)	1,434	(198)
Impairment of intangible assets	–	2,059
Carbon credits – emissions offset	4,876	–

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B5. Finance costs

	2020 $'000	2019 $'000
Interest expense – lease liabilities	389	–
Finance costs	59	114
	448	114

B6. Earnings per share (EPS)

	2020	2019
Profit/(loss) attributable to members of the Company:		
Continuing operations	388,167	294,533
Discontinued operation	(2,330)	(6,792)
Profit attributable to members of the Company used in calculating basic and diluted EPS ($'000)	385,837	287,741
Weighted average number of ordinary shares ('000) for basic EPS	736,467	733,145
Effect of dilution due to partly paid ordinary shares, share options and time-based and performance rights ('000)	3,879	8,772
Weighted average number of ordinary shares ('000) for diluted EPS	740,346	741,917
Earnings per share		
Basic EPS (cents)	52.39	39.25
Diluted EPS (cents)	52.12	38.78
Earnings per share – continuing operations		
Basic EPS (cents)	52.71	40.17
Diluted EPS (cents)	52.43	39.70

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 2020

B7. Income taxes

	2020 $'000	2019 $'000
Income tax recognised in profit or loss		
Current tax	183,171	133,985
Deferred tax origination and reversal of temporary differences	(11,277)	(2,891)
Adjustments in respect of current income tax of previous year	(6,659)	(3,124)
Total tax expense	165,235	127,970
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from continuing operations	553,402	422,331
Loss from discontinued operation	(2,330)	(6,620)
Accounting profit before income tax	551,072	415,711
Income tax expense calculated at 28% (2019: 28%)	154,300	116,399
Difference in income tax rates: UK (19%; 2019: 19%), Australia (30%, 2019: 30%), USA (24%; 2019: 24%), and China (25%, 2019: 25%)	7,263	6,430
Non-deductible expenses	1,500	5,680
Prior period adjustment to tax expense	(5,975)	(4,243)
Deferred tax impact to tax expense for permanent establishments	(339)	114
Unutilised foreign tax credits forfeited	294	1,429
Income tax recognised in equity	5,554	–
Deferred tax asset not recognised	2,638	2,161
Total tax expense	165,235	127,970
Income tax expense – continuing operations	165,235	127,798
Income tax attributable to discontinued operation	–	172
	165,235	127,970

Income tax recognised directly in equity

Current tax	(6,274)	–
Deferred tax	(9,241)	69
Tax (benefit)/expense in equity	(15,515)	69

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B7. 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.

2020	Opening balance $'000	Charge to comprehensive income $'000	Charge to equity $'000	Closing balance $'000
Gross deferred tax assets				
Patents	72	(1)	–	71
Accrued expenses	7,562	9,047	–	16,609
Tax losses	284	21	–	305
Employee share scheme	–	901	9,203	10,104
Other	189	1,298	–	1,487
	8,107	11,266	9,203	28,576
Gross deferred tax liabilities				
Property, plant and equipment	(424)	49	–	(375)
Net deferred tax	7,683	11,315	9,203	28,201
Charge to profit or loss		11,277		
Charge to other comprehensive income		38		
		11,315		

2019	Opening balance $'000	Charge to comprehensive income $'000	Closing balance $'000
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 other comprehensive income		(69)	
		2,822	

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B7. Income taxes (continued)

Deferred tax balances (continued)

Net deferred tax balances recognised in the financial statements	**2020 $'000**	**2019 $'000**
Net deferred tax assets	28,201	7,683
Net deferred tax liabilities	–	–
Net deferred tax	28,201	7,683

Tax losses

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

	2020 $'000	**2019 $'000**
United Kingdom	–	52,620
United States of America	42,517	31,582
Australia	2,493	273
Total	45,010	84,475

Following discontinuation of the UK liquid milk operations, the UK tax losses are no longer available for use.

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:

	2020 $'000	**2019 $'000**
Imputation credits	43,987	44,190
Franking credits	406,265	251,973

NOTES TO THE FINANCIAL STATEMENTS – GROUP PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

B7. 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 or equity, in which case that tax is recognised in other comprehensive income or equity respectively; 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 2020

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

	2020 $'000	2019 $'000
Trade receivables from contracts with customers	63,595	58,013
Allowance for impairment	(99)	(20)
Other receivables	7,204	8,255
	70,700	66,248

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

	2020 $'000	2019 $'000
Raw materials	10,306	9,933
Finished goods	68,457	59,556
Goods in transit	68,569	38,964
Total inventories at the lower of cost and net realisable value	147,332	108,453

The inventory balance reflects our growing business, as well as the decision to carry a higher level of inventory as a safety buffer given the uncertainties of COVID-19.

During the year, $3,773,000 (2019: $1,550,000) 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.

NOTES TO THE FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES FOR THE YEAR ENDED 30 JUNE 2020

C3. Trade and other payables

Trade and other payables – current

	2020 $'000	2019 $'000
Trade payables	129,951	84,152
Rebates and promotional allowances	34,420	13,500
Accrued charges	91,632	59,177
Employee entitlements	25,916	16,919
	281,919	173,748

Trade and other payables – non-current

	2020 $'000	2019 $'000
Employee entitlements	392	227

Recognition and measurement

Trade 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.

Accrued charges represent amounts payable for supplies and services received but not invoiced at the reporting date.

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 2020

C4. Property, plant and equipment

2020	Office and computer $'000	Furniture and fittings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Carrying amount 1 July 2019	330	250	496	9,220	10,296
Additions	1,013	131	3,443	1,213	5,800
Disposals	–	–	(143)	–	(143)
Depreciation	(343)	(74)	(320)	(1,227)	(1,964)
Net foreign currency exchange differences	4	6	31	176	217
Carrying amount 30 June 2020	1,004	313	3,507	9,382	14,206
Cost	1,724	538	4,347	17,235	23,844
Accumulated depreciation	(720)	(225)	(840)	(7,853)	(9,638)
Carrying amount 30 June 2020	1,004	313	3,507	9,382	14,206

2019	Office and computer $'000	Furniture and fittings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
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

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:

Office and computer equipment	2–10 years
Furniture and fittings	5–10 years
Leasehold improvements	2–12 years
Plant and equipment	10–15 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.

NOTES TO THE FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES FOR THE YEAR ENDED 30 JUNE 2020

C5. Intangible assets

2020	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Goodwill $'000	Total $'000
Carrying amount 1 July 2019	835	3,187	341	665	7,957	12,985
Additions	52	245	181	944	–	1,422
Disposals	–	–	(100)	(665)	–	(765)
Amortisation	(72)	–	(111)	–	–	(183)
Net foreign currency exchange differences	–	–	–	13	168	181
Carrying amount 30 June 2020	815	3,432	311	957	8,125	13,640
Cost	1,346	3,432	1,890	970	8,125	15,763
Accumulated amortisation and impairment	(531)	–	(1,579)	(13)	–	(2,123)
Carrying amount 30 June 2020	815	3,432	311	957	8,125	13,640

2019	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Goodwill $'000	Total $'000
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 and impairment	(459)	–	(1,613)	(3,619)	–	(5,691)
Carrying amount 30 June 2019	835	3,187	341	665	7,957	12,985

Trademarks are allocated to the following cash-generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand $323,000 (2019:$268,000); China and Other Asia $2,984,000 (2019: $2,817,000); USA $125,000 (2019: $102,000).

During the year the total value of research and development costs expensed was $4,332,000 (2019: $3,392,000).

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 2 to 3 years.

NOTES TO THE FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES FOR THE YEAR ENDED 30 JUNE 2020

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 5 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 Australia and New Zealand CGU, being the lowest level within the Group at which goodwill is monitored by internal management.

The movement in Australia and New Zealand goodwill is attributable to foreign exchange movements.

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.

NOTES TO THE FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES FOR THE YEAR ENDED 30 JUNE 2020

C5. Intangible assets (continued)

Annual impairment testing as at 30 June 2020

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 4-year forward plans supplied by management.

Key assumptions

- Discount rates (pre-tax): 6.8% to 7.0% (2019: 7.4% to 9%)
- Terminal growth rate: 2.0%. (2019: 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 FY21, 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 2020, 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 FY21 budget and 4-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 4-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.

As at 30 June 2020, the recoverable amount of the Group's CGUs 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, no impairment write downs are considered necessary.

NOTES TO THE FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES FOR THE YEAR ENDED 30 JUNE 2020

C6. Other financial assets

	2020 $'000	2019 $'000
Listed investment at fair value	252,580	286,807

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 (2019: $nil)

In March 2020 the Company made a further investment in Synlait, acquiring 4,400,000 shares for $21,856,000, increasing its total holding in Synlait to 19.84% (2019: 17.39%).

A fair value loss of $56,083,000 (2019: loss $62,390,000) 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 2020

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 objective when managing its capital is to safeguard the Group's ability to continue as a going concern and to continue 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 before announcing results.

D2. Financial risk management

Financial risk management objectives

Exposure to credit risk, market risk (including currency risk, commodity price 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 risks 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.

	2020 $'000	2019 $'000
Maximum exposures to credit risk at balance date:		
Cash and short-term deposits (counterparty risk)	854,178	464,805
Trade receivables (customer credit risk)	63,595	58,013
	917,773	522,818

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

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, JP Morgan Chase 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 2020 24% of sales with credit terms were to three customers. (2019: 37% 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 2020 $'000	Impairment 2020 $'000	Gross 2019 $'000	Impairment 2019 $'000
Not past due	58,424	–	50,153	–
Past due up to 90 days	3,729		7,860	(20)
Past due 91 to 180 days	1,388	(45)	–	–
Past due 181 days to one year	54	(54)	–	–
More than one year	–	–	–	–
	63,595	(99)	58,013	(20)

The average credit period on sales is 16 days (2019: 22 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2020 $'000	2019 $'000
Balance at beginning of year	20	37
Amount charged to the statement of comprehensive income	79	(17)
Provisions reversed	–	–
Net foreign currency exchange differences	–	–
	99	20

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

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 change in foreign currency exchange rates to the NZ dollar. Prices charged by manufacturers (including pricing of whole and skim milk powders) are subject to movements in commodity milk pricing. 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, 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. As at 30 June 2020 approximately 80% of the Group's cash and short-term deposits were held in NZ dollars to assist in managing risk associated with NZ dollar 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	Impact on pre-tax profit or (loss)	
2020 Movement on exchange rate	**$'000 –**	**$'000 +10%**	**$'000 –10%**
AUS Dollar	361	40	(33)
US Dollar	31,310	3,478	(2,847)
Chinese Yuan Renminbi	(16,503)	(1,834)	1,500

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

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	
	2020	**2019**	**2020**	**2019**
AUS Dollar	0.9480	0.9401	0.9355	0.9552
US Dollar	0.6350	0.6724	0.6444	0.6679
Chinese Yuan Renminbi	4.4772	4.5911	4.5612	4.5944

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

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 2020, the exposure to the listed investment at FVOCI was $252,580,000 (2019: $286,807,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of $25,258,000 (2019: $28,681,000) 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 (2019: Nil)

Contractual maturities of financial liabilities

The Group's financial liabilities consist entirely of trade payables and accruals, with no interest payable.

Financial liabilities	2020 $'000	2019 $'000
Trade payables	129,951	84,152
Rebates and promotional allowances	34,420	13,500
Accrued charges	91,632	59,177
	256,003	156,829

Maturity profile of the group's payables and accruals

	2020 $'000	2019 $'000
Payable:		
Less than 3 months	254,664	156,829
3 to 6 months	1,339	–
	256,003	156,829

The maturity analysis of future undiscounted lease liability payments is included in Note D7.

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 (equaling 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 2020 on the New Zealand Stock Exchange; and
- cash and short-term deposits, trade and other receivables and payables – carrying amount equals fair value

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

D3. Cash and short-term deposits

	2020 $'000	2019 $'000
Cash at banks and on hand	413,032	193,472
Short-term deposits	441,146	271,333
	854,178	464,805

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 67,039,000 (2019: AUD 40,470,000), GBP 3,396,000 (2019: GBP 3,267,000), USD 40,158,000 (2019: USD 14,310,000), and RMB 134,648,000 (2019: RMB 112,997,000).

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

	2020 $'000	2019 $'000
Net profit for the year	385,837	287,741
Adjustments for non-cash items:		
Depreciation and amortisation	4,393	2,176
Loss on disposal	905	–
Impairment of goodwill, and trademarks	–	2,059
Share-based payments	8,331	8,184
Net foreign exchange gain	(573)	(1,732)
Deferred tax	(5,040)	(2,822)
Changes in working capital:		
Trade and other receivables	(4,452)	(7,117)
Prepayments	(6,643)	(13,676)
Inventories	(38,879)	(44,352)
Trade and other payables	108,572	64,920
Customer contract liabilities	2,342	533
Income tax payable	(27,382)	(6,846)
Net cash inflow from operating activities	427,411	289,068

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

D5. Share capital

	2020		2019	
Movements in contributed equity:	**Number of shares**	**Share capital $'000**	**Number of shares**	**Share capital $'000**
Fully paid ordinary shares:				
Balance at beginning of year	735,048,405	144,495	730,039,067	141,566
Movements in the period:				
Exercise of options	3,800,000	2,394	3,000,998	1,890
Vesting of performance rights	848,000	–	–	–
Vesting of time-based rights	122,184	–	508,340	–
Gift shares	3,693	–	–	–
Share match programme	7,869	115	–	–
Partly paid shares fully paid	–	–	1,500,000	1,080
Share issue costs	–	(71)	-	(41)
	4,781,746	2,438	5,009,338	2,929
Balance at end of year	739,830,151	146,933	735,048,405	144,495
Partly paid ordinary shares:				
Balance at beginning of year	–	–	1,500,000	–
Partly paid shares fully paid	–	–	(1,500,000)	–
Balance at end of year	–	–	–	–
Total ordinary shares on issue	739,830,151	146,933	735,048,405	144,495

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. Nature and purpose of reserves

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.

Treasury shares reserve

The treasury shares reserve comprises the cost, net of any tax effects, of the Company's shares purchased and held by the trustee of the a2MC Group Employee Share Trust to be available solely for participants in Group employee share plans. When shares are subsequently released from the trust to employees to satisfy share rights that have vested under employee share plans, the carrying value of the released shares is transferred to the employee equity settled payments reserve. During the year the Trust acquired 770,747 shares on-market at an average price of $16.42. As at 30 June 2020 the Trust held 743,676 of the Company's shares (2019: Nil).

Movements on these reserve accounts are set out in the Consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

D7. Leases

The Group has entered into leases for office and industrial premises, motor vehicles and equipment. 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 with options to renew contain market review clauses in the event that an option to renew is exercised.

The Group adopted NZ IFRS 16 *Leases* from 1 July 2019, using the modified retrospective transition method, with no restatement of prior periods.

Right-of-use assets

Carrying amounts of right-of-use assets recognised and movements during the period:

2020	**Leased property $'000**	**Office & computer $'000**	**Plant & equipment $'000**	**Total $'000**
1 July 2019	7,499	56	314	7,869
Additions	10,174	73	106	10,353
Depreciation	(2,068)	(18)	(160)	(2,246)
Net foreign currency exchange differences	159	4	5	168
Carrying amount 30 June 2020	15,764	115	265	16,144
Cost	17,817	133	427	18,377
Accumulated depreciation	(2,053)	(18)	(162)	(2,233)
Carrying amount 30 June 2020	15,764	115	265	16,144

Lease liabilities

Carrying amounts of lease liabilities and movements during the period:

	2020 $'000
1 July 2019	8,105
Additions	10,353
Accretion of interest	389
Payments	(2,164)
Net foreign currency exchange differences	160
As at 30 June 2020	16,843
Current	3,407
Non-current	13,436
	16,843

Maturity analysis of future undiscounted lease liability payments:

	2020 $'000	**2019 $'000**
Not longer than 1 year	3,977	2,505
Longer than 1 year and not longer than 5 years	9,174	4,064
Longer than 5 years	6,566	3,576
Total undiscounted lease liabilities	19,717	10,145

The Group has a lease contract that has not yet commenced as at 30 June 2020. The future lease payments for this non-cancellable lease contract are $nil within one year, $1,646,000 within five years and $1,368,000 thereafter.

NOTES TO THE FINANCIAL STATEMENTS – CAPITAL AND FINANCIAL RISK MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2020

D7. Leases (continued)

Amounts recognised in profit or loss

	2020 $'000
Depreciation expense – right-of-use assets	2,246
Interest expense – lease liabilities	389
Expenses relating to short-term leases (included in Other expenses)	1,264
Expenses relating to low-value assets (included in Other expenses)	23
Total amount recognised in profit or loss	3,922

Cash flows for leases

	2020 $'000
Total cash outflows	1,775
Non-cash additions to right-of-use assets and lease liabilities	10,353

Recognition and measurement

A right-of-use asset and a lease liability are recognised at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation as the asset is written off over the term of the lease, impairment losses, and any adjustments for remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments payable from the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised.

Key estimates and judgements

Determination of the lease term

Judgement is applied to determine the lease term for those lease contracts that include renewal or termination options. This assessment impacts the lease term, which may significantly affect the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term consideration is given to all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

D8. Capital expenditure commitments

As at 30 June 2020, there were no capital expenditure commitments (2019: $nil).

D9. Contingent liabilities

As at 30 June 2020, there were no material contingent liabilities (2019: $nil).

NOTES TO THE FINANCIAL STATEMENTS – GROUP STRUCTURE FOR THE YEAR ENDED 30 JUNE 2020

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 2020 are as follows:

	Parties to Deed of Cross Guarantee (Note E2)*	Principal place of business	Proportion of ownership interest	
			2020	2019
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%	100%
a2MC Group Employee Share Trust	–	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.
# a2 Infant Nutrition Limited is the subject of an ASIC declaration notice under section 601 CK(7) of the *Corporations Act 2001* (Cth, Australia), providing relief from the requirement to prepare and lodge an audited financial report in Australia.

The a2MC Group Employee Share Trust was established in December 2019. 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 Limited (UK), The a2 Milk Company LLC, and a2 Infant Nutrition (Shanghai) Co., Ltd which have a balance date of 31 December.

NOTES TO THE FINANCIAL STATEMENTS – GROUP STRUCTURE FOR THE YEAR ENDED 30 JUNE 2020

E1. Consolidated entities (continued)

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 eligible for relief from the *Corporations Act 2001* (Cth, Australia) 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* (Cth, Australia) . 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 2020 are set out as follows:

Consolidated statement of comprehensive income and retained earnings for the year ended 30 June 2020

	2020 $'000	2019 $'000
Revenue	1,667,201	1,254,926
Expenses	(1,157,359)	(844,540)
Finance income (net)	5,594	4,121
Profit before tax	515,436	414,507
Income tax expense	(159,790)	(123,919)
Profit after tax	355,646	290,588
Other comprehensive income	2,322	(4,212)
Total comprehensive income for the year	357,968	286,376
Retained earnings at beginning of the year	614,385	323,797
Transfers to and from reserves	(2,322)	4,212
Retained earnings at end of year	970,031	614,385

NOTES TO THE FINANCIAL STATEMENTS – GROUP STRUCTURE FOR THE YEAR ENDED 30 JUNE 2020

E2. Deed of cross guarantee (continued)

Consolidated statement of financial position as at 30 June 2020

	2020 $'000	2019 $'000
Assets		
Current assets		
Cash and short-term deposits	799,370	414,177
Trade and other receivables	84,944	69,783
Prepayments	55,282	49,018
Inventories	143,498	106,396
Total current assets	1,083,094	639,374
Non-current assets		
Property, plant and equipment	12,206	9,942
Right-of-use assets	12,580	–
Intangible assets	13,437	12,901
Other financial assets	297,981	304,252
Deferred tax asset	24,314	5,059
Total non-current assets	360,518	332,154
Total assets	1,443,612	971,528
Liabilities		
Current liabilities		
Trade and other payables	273,133	158,831
Customer contract liabilities	3,773	1,431
Lease liabilities	1,952	–
Income tax payable	13,753	42,942
Total current liabilities	292,611	203,204
Non-current liabilities		
Trade and other payables	392	228
Lease liabilities	10,954	–
Total non-current liabilities	11,346	228
Total liabilities	303,957	203,432
Net assets	1,139,655	768,096
Equity		
Share capital	146,933	144,495
Retained earnings	970,031	614,385
Reserves	22,691	9,216
Total equity	1,139,655	768,096

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

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:

	2020 $'000	2019 $'000
Short-term employee benefits	7,697	6,576
Other long-term benefits	32	36
Termination payments	1,776	916
Share-based payments	1,715	5,693
	11,220	13,221

Key management personnel include the following senior executives:

Chief Executive Officer

Chief Financial Officer

Chief Executive, Asia Pacific

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.

	Sales		Other transactions		Outstanding receivables/ (payables)	
Related parties	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
a2 Holdings UK Limited – consultancy fees paid 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	–	–

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 2020 and 2019 financial years.

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

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.

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

During FY19 a revised remuneration policy for the Group was finalised. This review resulted in the temporary deferral of the LTI plan for participating Group employees in the 2019 financial year.

During the year the Board authorised the issue of 1,057,914 performance rights, and 238,229 time-based rights to senior employees and contractors under the LTI plan.

Performance rights granted in FY20

To accommodate the deferral of the LTI programme in FY19, the performance rights issued in the period are in two tranches, with differing performance periods and performance hurdles as set out below, with Tranche 1 reflecting the FY19 deferral.

The performance rights vest subject to:
- Continuing employment.
- Minimum performance hurdles of both:
  - A minimum diluted earnings per share (EPS) compound annual growth rate (CAGR) increase of 15% over the performance period (E-CAGR); and
  - A minimum normalised sales CAGR increase of 15% over the performance period (S-CAGR).
- No awards will vest if E-CAGR or S-CAGR is less than 15% over the respective performance periods.
- 50% of the awards will vest if E-CAGR and S-CAGR of 15% is achieved, up to a maximum of 100% of the award vesting if S-CAGR of either 22% or more, or 25% or more is achieved, as follows:

Performance rights grants:	Performance period	EPS hurdle	Performance hurdles		
			50% vests	85% vests	100% vests
Tranche 1					
390,440 rights	2 years to 30 June 2021	15%	15%	20%	25%
Tranche 2					
667,474 rights	3 years to 30 June 2022	15%	15%	18.5%	22%

Diluted earnings per share are as reported in the Company's Annual Report in respect of that financial year.

Normalised sales in respect of a financial year, are 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 Company's Annual Report in respect of that financial year.

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

F2. Share-based payments (continued)

Time-based rights granted in FY20

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

Number of time-based rights granted:	Grant dates	Vesting dates
9,868	19 Nov 2019	21 Aug 2020
94,219	19 Nov 2019	24 Aug 2020
94,219	19 Nov 2019	23 Aug 2021
7,550	24 Apr 2020	20 Sep 2020
10,221	24 Apr 2020	20 Feb 2021
7,551	24 Apr 2020	20 Sep 2021
14,601	24 Apr 2020	20 Feb 2022
238,229		

Fair value of performance and time-based rights granted during the period

The fair value of services received in return for performance and share-based rights granted to employees is measured by reference to the fair value of the rights 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 simplified Black-Scholes option pricing model.

Fair value of performance and time-based rights granted during the period and assumptions	Performance rights					Time-based rights	
	Tranche 1		Tranche 2				
Grant date	19-Nov-19	11-Jun-20	19-Nov-19	24-Apr-20	11-Jun-20	19-Nov-19	24-Apr-20
Fair value at measurement date	$14.03	$18.83	$13.86	$19.34	$18.60	$14.08	$18.99
Share price at grant date	$14.12	$18.95	$14.12	$19.70	$18.95	$14.12	$19.70
Performance rights life	1.75yrs	1.19yrs	2.76yrs	2.33yrs	2.19yrs	Various	Various

Performance rights granted in previous years

The FY18 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:

		Performance hurdles		
Number of rights as at 30 June 2020:	**Performance period**	50%	100%	**Fair value**
FY18				
320,000 rights	3 years	EPS CAGR 15%	EPS CAGR 20%	$5.75
297,300 rights	2 years	EPS CAGR 15%	EPS CAGR 25%	$12.65

Time-based rights granted in previous years

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

Number of time-based rights granted:	Grant dates	Vesting dates	Fair value
31,270	1-Aug-18	1-Aug-20	$12.75
31,269	1-Aug-18	1-Aug-21	$12.75
62,539			

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

F2. Share-based payments (continued)

Options granted in previous years (legacy scheme)

The options granted in 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. Each exercised option is an entitlement to one fully paid share in the Company.

LTI outstanding as at 30 June 2019	Number	Grant Dates	Vesting Dates	Expiry Dates
Performance rights – FY18 grants	617,300	28-Sep-17 & 6-Mar-18	1-Sep-20 & 6-Mar-21	28-Jun-21 & 6-Dec-21
Performance rights – FY20 grants	866,574	19-Nov-19, 24-Apr-20 & 11-Jun-20	20-Aug-21 & 21-Aug-22	20-Aug-21 & 21-Aug-22
	1,483,874			
Time-based rights – FY19 grants	62,539	13-Jul-18 & 1-Aug-18	28-Aug-19 to 1-Aug-21	28-Aug-19 to 1-Aug-21
Time-based rights – FY20 grants	238,229	19-Nov-19 & 24-apr-20	21-Aug-20 to 20-Feb-22	21-Aug-20 to 20-Feb-22
	300,768			
Options – FY16 grants	3,200,000	12-Aug-15	12-Aug-16 to 12-Aug-20	12-May-21
	3,200,000			

Performance rights movements:	Number 2020	Number 2019
Outstanding at the beginning of the year	1,738,087	1,612,200
Forfeited during the period	(437,127)	(119,900)
Granted during the period	1,057,914	245,787
Vested during the period	(875,000)	–
Outstanding at the end of the year	1,483,874	1,738,087

The weighted average remaining contractual life of performance rights is 1.2 years (2019: 1.1 years)

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

F2. Share-based payments (continued)

Time-based rights movements:	Number 2020	Number 2019
Outstanding at the beginning of the year	184,723	–
Granted during the period	238,229	693,063
Vested during the period	(122,184)	(508,340)
Outstanding at the end of the year	300,768	184,723

The weighted average remaining contractual life of time-based rights is 0.7 years (2019: 0.6 years)

Options movements:	Weighted average exercise price 2020	Number 2020	Weighted average exercise price 2019	Number 2019
Outstanding at the beginning of the year	$0.63	7,000,000	$0.63	12,400,998
Forfeited during the period	–	–	$0.63	(2,400,000)
Granted during the period	–	–	–	–
Exercised during the period	$0.63	(3,800,000)	$0.63	(3,000,998)
Outstanding at the end of the year	$0.63	3,200,000	$0.63	7,000,000
Exercisable at the end of the year		1,400,000		2,400,000

The weighted average remaining contractual life of options is 0.1 years (2019: 0.7years)

The weighted average share price on exercise of the options in the period was $19.55.

Other employee equity schemes

In the period, employees not participating in the LTI plan were invited to participate in the following new schemes:

- Gift offer: employees received Company shares to the value of approximately A$500 each.
- Share Match Programme: employees undertaking to purchase Company shares for a minimum value of A$200 to a maximum value of A$2,000 up to 30 September 2020 from their after-tax pay will receive matching shares from the Company equal to the number of shares acquired and retained under the scheme, subject to continuing employment up to September 2021.

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2020, a $8,331,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2019: $8,184,000).

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.

NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2020

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:	2020 $'000	2019 $'000
An audit or review of the financial report of the Group	970	701
Other services:		
Market research	182	79
Sustainability reporting advisory	23	40
	1,175	820

F4. Subsequent events

No 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.

OTHER INFORMATION

CONTENTS

COMPANY DISCLOSURES

1. Substantial product holders

The shares of the Company are quoted on the 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 2020 (such disclosure being required by the *Financial Markets Conduct Act* 2013 (NZ)) and as at 3 August 2020 (such disclosure being required by the ASX Listing Rules):

	As at 30 June 2020		As at 3 August 2020	
Name	**Number of ordinary shares in the Company in which a Relevant Interest is held**	**% of ordinary shares held**	**Number of ordinary shares in the Company in which a Relevant Interest is held**	**% of ordinary shares held**
The Vanguard Group, Inc	51,494,591	6.96	51,494,591	6.96
Mitsubishi UFJ Financial Group, Inc.	47,255,990	6.39	47,255,990	6.39
Commonwealth Bank of Australia	46,904,625	6.34	46,904,625	6.34
Blackrock, Inc. and related bodies corporate	38,298,101	5.18	38,298,101	5.18

The total number of voting shares on issue as at 30 June 2020 was 739,830,151 and the total number of voting shares on issue as at 3 August 2020 was 739,861,421.

2. Voting rights

During the period 1 July 2019 to 30 June 2020, 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. All votes cast at shareholder meetings are 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 3 August 2020 are listed below:[1]

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	141,253,096	19.09%
HSBC Nominees (New Zealand) Limited	54,221,466	7.33%
Citibank Nominees (NZ) Ltd	47,576,766	6.43%
JPMorgan Chase Bank	47,297,005	6.39%
HSBC Nominees (New Zealand) Limited	39,694,328	5.37%
J.P. Morgan Nominees Australia Pty Limited	38,412,332	5.19%
Citicorp Nominees Pty Limited	28,568,198	3.86%
Accident Compensation Corporation	19,364,224	2.62%
Tea Custodians Limited	19,261,687	2.60%
National Nominees Limited	18,104,499	2.45%
Citicorp Nominees Pty Limited	13,769,882	1.86%
Cogent Nominees Limited	13,593,277	1.84%
New Zealand Superannuation Fund Nominees Limited	12,611,261	1.70%
BNP Paribas Nominees (NZ) Limited	10,923,014	1.48%
HSBC Custody Nominees (Australia) Limited	10,739,171	1.45%
National Nominees New Zealand Limited	9,825,434	1.33%
BNP Paribas Nominees Pty Limited	9,633,819	1.30%
Premier Nominees Limited	8,653,719	1.17%
BNP Paribas Noms Pty Ltd	5,813,228	0.79%
FNZ Custodians Limited	4,865,707	0.66%
Total	554,182,113	74.90%

COMPANY DISCLOSURES (CONTINUED)

4. Spread of security holders as at 3 August 2020 and number of holders

a) Fully paid ordinary shareholders

Size of shareholding	Number of holders	Number of shares	%
1 to 1,000	29,033	10,040,271	1.36
1,001 to 5,000	11,560	27,469,571	3.71
5,001 to 10,000	2,202	16,344,123	2.21
10,001 to 100,000	1,670	42,487,443	5.74
100,001 shares or more	152	643,520,013	86.98
	44,617	739,861,421	100.00

As at 3 August 2020, the number of holders with between 1 and 48 ordinary shares (being less than a minimum holding under the NZX Listing Rules based on the closing market price) was 237 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 490.

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	4	3,200,000	100.00
	4	3,200,000	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	6	44,742	3.02
10,001 to 100,000	30	931,579	62.78
100,001 performance rights or more	1	507,553	34.20
	37	1,483,874	100.00

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

Size of holding	Number of holders	Number of rights	%
5,001 to 10,000	1	9,868	3.66
10,001 to 100,000	3	71,192	26.42
100,001 time-based rights or more	1	188,438	69.92
	5	269,498	100.00

5. Directors' relevant interests & 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 2019 to 30 June 2020:

Registered holder	Beneficial/ Non-beneficial	Acquired/ (Disposed)	Class of financial product	Date	Consideration paid/(received) NZ$
Jayne Hrdlicka					
Carla Jayne Hrdlicka	Beneficial	(90,914)	Time-based rights[1]	24 Aug 19	N/A
Carla Jayne Hrdlicka	Beneficial	90,914	Ordinary shares[1]	24 Aug 19	N/A
Carla Jayne Hrdlicka	Beneficial	164,312	Performance rights	19 Nov 19	N/A
Carla Jayne Hrdlicka	Beneficial	(146,684)	Ordinary shares	25 Nov 19	($2,178,286.74)
David Hearn					
Lovat Partners Limited	Beneficial	(100,000)	Options[2]	25 Nov 19	N/A
David Hearn	Beneficial	100,000	Ordinary shares[2]	25 Nov 19	$63,000
David Hearn	Beneficial	(100,000)	Ordinary shares[2]	25 Nov 19	($1,483,010)
Lovat Partners Limited	Beneficial	(3,100,000)	Options[2]	24 Apr 20	N/A
David Hearn	Beneficial	3,100,000	Ordinary shares[2]	24 Apr 20	$1,953,000
David Hearn	Beneficial	(280,857)	Ordinary shares[2]	24 Apr 20	($5,555,351.46)
David Hearn	Beneficial	(1,614,143)	Ordinary shares[2]	28 Apr 20	($31,621,061.37)

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

Directors of the Company as at 30 June 2020 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			
David Lovat Gordon Hearn	Beneficial	1,305,000	Ordinary shares
Julia Hoare			
Julia Cecile Hoare	Beneficial	50,000	Ordinary shares
Pip Greenwood			
Pip Greenwood	N/A	–	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

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 2020 is as follows:

- On 19 November 2019, NZX granted the Company a waiver from NZX Listing Rule 5.1.1. 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.

COMPANY DISCLOSURES (CONTINUED)

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 2020 as follows:

- The Company has arranged and paid for policies for directors' liability insurance which ensure that the directors 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.
- Pip Greenwood's spouse owns an adviser entity which provides financial and transaction consulting services to a range of organisations, including from time to time to participants in the dairy sector (other than the Company). While Ms Greenwood has no involvement in that entity, or its clients, she has disclosed that interest as that entity may from time to time consult to entities with which the Company may transact. The Company and Ms Greenwood have agreed a protocol whereby Ms Greenwood abstains from all Board discussions and decisions involving that entity or its clients, and does not receive relevant Board papers, where this occurs.

During the reporting period ended 30 June 2020, directors advised the Company of the following changes or additional entries in the Company's interests register:

Name of Director	Entity	Position
Julia Hoare	Meridian Energy Limited	Director
Julia Hoare	New Zealand Post Limited	Ceased to be a director
Julia Hoare	AWF Madison Group Limited	Ceased to be a director
David Hearn	Safestore Holdings Plc	Director
David Hearn	Lumyna Investments Limited	Director
Pip Greenwood	Vulcan Steel Limited	Director
Pip Greenwood	Fisher & Paykel Healthcare Corporation Limited	Director
Pip Greenwood	Spark New Zealand Limited	Director
Pip Greenwood	Westpac New Zealand Limited	Director
Pip Greenwood	Auckland Writers Festival Trust	Trustee
Pip Greenwood	Milbrook 7th Trust	Trustee
Pip Greenwood	Oriental Trust	Trustee
Pip Greenwood	Portia Trust	Trustee
Pip Greenwood	Rakino Trust	Trustee
Pip Greenwood	Theresa Gattung Investment Trust	Trustee

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

8.2. Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2020.

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (Export) Limited	New Zealand	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Infant Nutrition Limited	New Zealand	Geoffrey Babidge (Appointed: 9 December 2019)
		Peter Nathan
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Holdings UK Limited	New Zealand	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (New Zealand) Limited	New Zealand	Julia Hoare
		Geoffrey Babidge (Appointed: 9 December 2019)
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Australian Investments Pty. Limited.	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Botany Pty Ltd	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
The a2 Milk Company (Australia) Pty Ltd	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Peter Nathan
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Infant Nutrition Australia Pty Ltd	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Peter Nathan
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Exports Australia Pty Limited	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned:28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
The a2 Milk Company (Nutrition) Pty Limited	Australia	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned:28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
The a2 Milk Company Limited	British Columbia, Canada	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
The a2 Milk Company Limited	Scotland, UK	David Hearn
		William Keane (Resigned: 31 March 2020)
The a2 Milk Company	Delaware, USA	David Hearn
		Geoffrey Babidge (Appointed: 9 December 2019)
		Jayne Hrdlicka (Resigned: 9 December 2019)
The a2 Milk Company LLC	Delaware, USA	Geoffrey Babidge (Appointed: 9 December 2019)
		Race Strauss (Appointed: 28 April 2020)
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)
a2 Infant Nutrition (Shanghai) Co., Ltd.	China	Li Xiao
The a2 Milk Company (Singapore) Pte. Ltd.	Singapore	Race Strauss (Appointed: 28 April 2020)
		Shaun Singh
		Craig Louttit (Resigned: 28 April 2020)
		Jayne Hrdlicka (Resigned: 9 December 2019)

No employee of the Company appointed as a director of the Company or its subsidiaries receives remuneration or other benefits in their role as a director. 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.

COMPANY DISCLOSURES (CONTINUED)

8.3. 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:

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 NZ$2,803,295 during the year ended 30 June 2020 (2019: NZ$944,057).

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 2020 and 30 June 2019 is as follows:

	At 30 June 2020	At 30 June 2019
Directors	5	6
Females	2	2
Males	3	4
Officers	8	9
Females	2	4
Males	6	5

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 2020.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range $ (gross)	Number of employees in the year ended 30 June 2020 (based on actual payments)	Value of options and performance rights included in remuneration range
$100,000 – $109,999	13	
$110,000 – $119,999	11	
$120,000 – $129,999	7	
$130,000 – $139,999	12	
$140,000 – $149,999	7	
$150,000 – $159,999	8	
$160,000 – $169,999	8	
$170,000 – $179,999	4	
$180,000 – $189,999	2	
$190,000 – $199,999	2	
$210,000 – $219,999	7	
$220,000 – $229,999	2	
$240,000 – $249,999	1	
$250,000 – $259,999	4	
$260,000 – $269,999	4	
$270,000 – $279,999	3	
$290,000 – $299,999	3	
$300,000 – $309,999	1	
$330,000 – $339,999	1	
$370,000 – $379,999	1	
$380,000 – $389,999	2	
$390,000 - $399,999	2	
$410,000 - $419,999	1	
$440,000 – $449,999	1	230,400
$470,000 – $479,999	2	
$480,000 – $489,999	1	
$500,000 – $509,999	1	268,800
$520,000 – $529,999	1	
$530,000 – $539,999	1	268,800
$550,000 – $559,999	1	552,541
$600,000 – $609,999	1	
$660,000 – $669,999	1	434,700
$680,000 – $689,999	1	
$780,000 – $789,999	1	
$830,000 – $839,999	2	1,075,200
$840,000 – $849,999	1	
$880,000 – $889,999	1	537,600
$930,000 – $939,999	1	
$950,000 – $959,999	1	
$1,060,000 – $1,069,999	1	645,120
$1,100,000 – $1,109,999	1	
$1,150,000 – $1,159,999	1	814,080
$1,230,000 – $1,239,999	1	844,800
$1,360,000 – $1,369,999	1	890,880
$1,390,000 – $1,399,999	1	921,600
$1,500,000 – $1,509,999	1	921,600
$1,670,000 – $1,679,999	1	1,228,800
$2,030,000 – $2,039,999	1	1,459,200
$3,010,000 – $3,019,999	1	1,996,800
$3,140,000 – $3,149,999	1	2,526,000
$6,237,000 – $6,239,999	1	5,632,000
Total	136	21,248,921

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 and performance rights. The table does not include amounts paid after 30 June 2020 relating to FY20, 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 2020.

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.

	June 2020 $'000	June 2019 $'000
Group EBITDA	549,719	413,610
Depreciation and amortisation	(4,393)	(2,176)
EBIT	545,326	411,434
Interest income	6,135	4,277
Interest expense	(389)	–
Income tax expense	(165,235)	(127,970)
Net profit after tax	385,837	287,741

CORPORATE DIRECTORY

Company	The a2 Milk Company Limited
New Zealand share registry	Link Market Services Limited PO Box 91976 Victoria Street West Auckland 1142 New Zealand Telephone: +64 9 375 5998
Australian share registry	Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia Telephone: +61 1300 554 474
Registered offices	Level 10 51 Shortland Street Auckland 1010 New Zealand Level 4 182 Blues Point Road McMahons Point NSW 2060 Australia Telephone: +61 2 9697 7000
Auditor	Ernst & Young 200 George Street Sydney NSW 2000 Australia
Company Secretary	Jaron McVicar
Corporate website	www.thea2milkcompany.com

Our a2 Milk™ difference

Conventional 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.

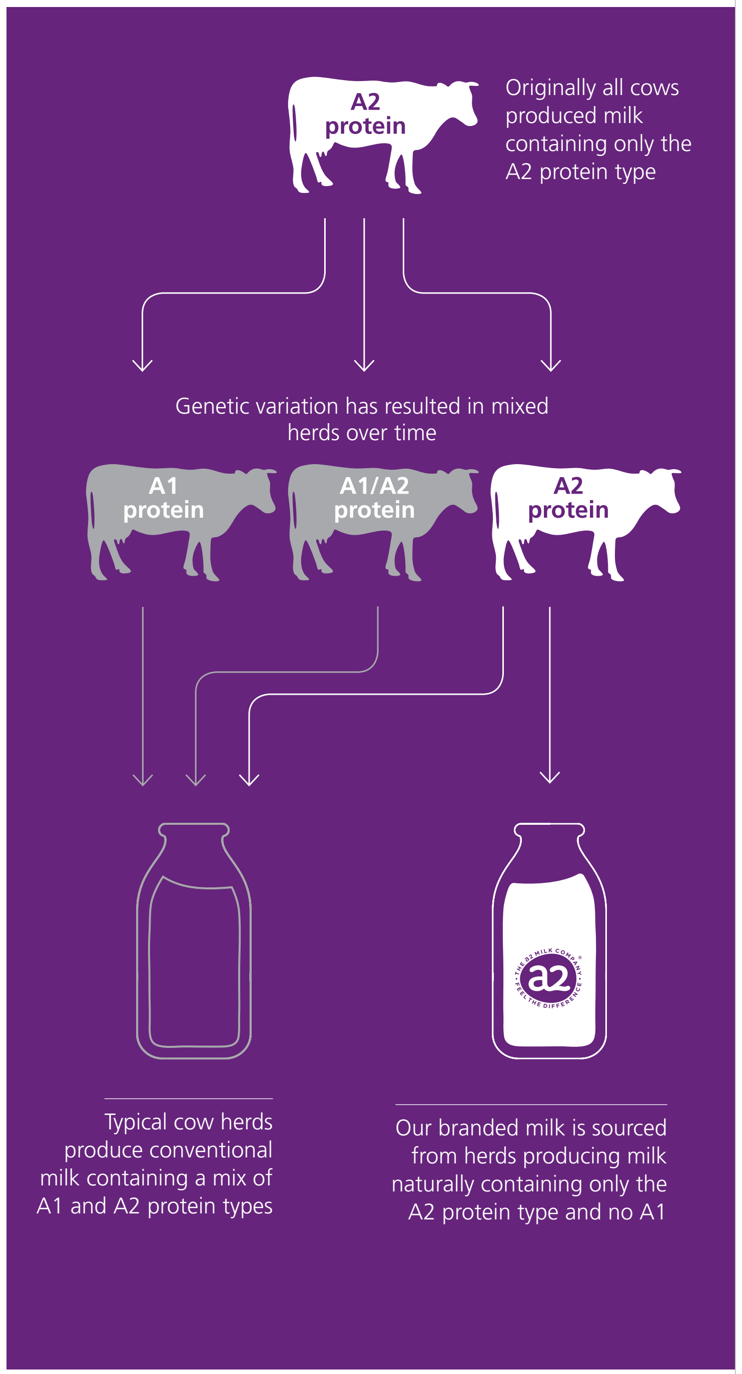
Our milk is comparable to conventional cows' milk in other respects.

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

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

a2 Milk™ brand is much more than just a difference between A1 and A2 protein types. Our brand stands for a series of wonderful qualities from where we source our milk, the extra special care we take from cow to consumer, and how we educate and engage with our consumers.

That's why there is only one *a2 Milk*™ from *The a2 Milk Company*.



THE a2 MILK COMPANY® FEEL THE DIFFERENCE

thea2milkcompany.com

The a2 Milk Company Limited (Australian Registered Body Number 158 331 965 – Incorporated in New Zealand)