



2021

ANNUAL REPORT

THE a2 MILK COMPANY LIMITED





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Growth has been impacted but we are in a strong position for recovery. We are moving forward, focusing on long-term goals and striving to be better.

GROUP PERFORMANCE *

\$1.21bn
Revenue ↓30.3%

\$123.4m
EBITDA ↓77.6%

\$80.7m
NPAT ↓79.2%

10.86c
Earnings per share
↓79.3%

\$875.2m
Cash on hand

\$89.4m
Operating cash flow

PRODUCT SEGMENT REVENUE *

\$240.5m
Liquid milk ↑8.3%

\$913.8m
Infant nutrition
↓35.8%

\$52.4m
Other nutrition
↓38.5%

REGIONAL PERFORMANCE *

ASIA PACIFIC

↑15.4%
China label
infant nutrition

↑10.8%
Australian milk sales

↓51.8%
English label¹
infant nutrition

22.8k
Store distribution

¹ Includes Hong Kong and Korea label

USA

↓3.7%
Revenue

26.8k
Store distribution

* From continuing operations



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.

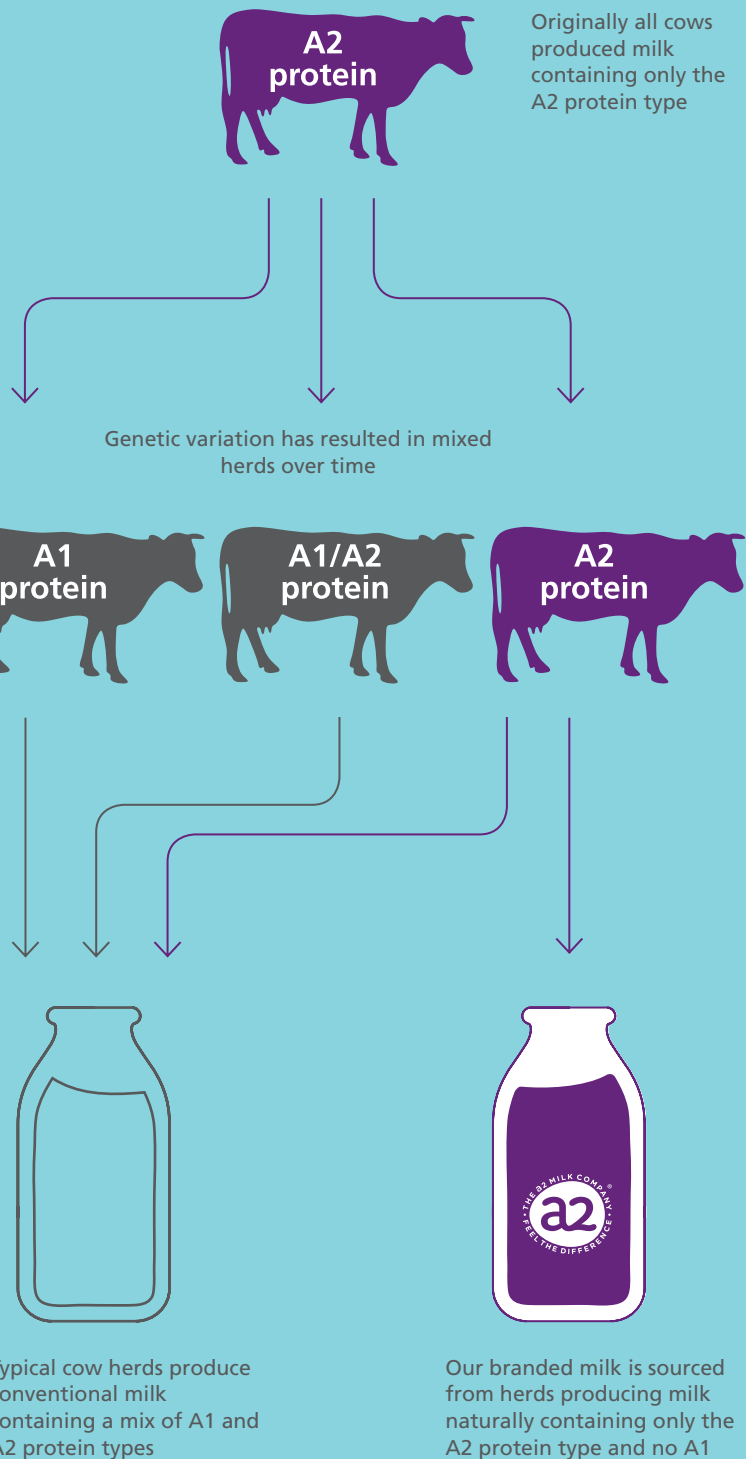
Our milk is comparable to conventional cows' milk in other respects.

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™.

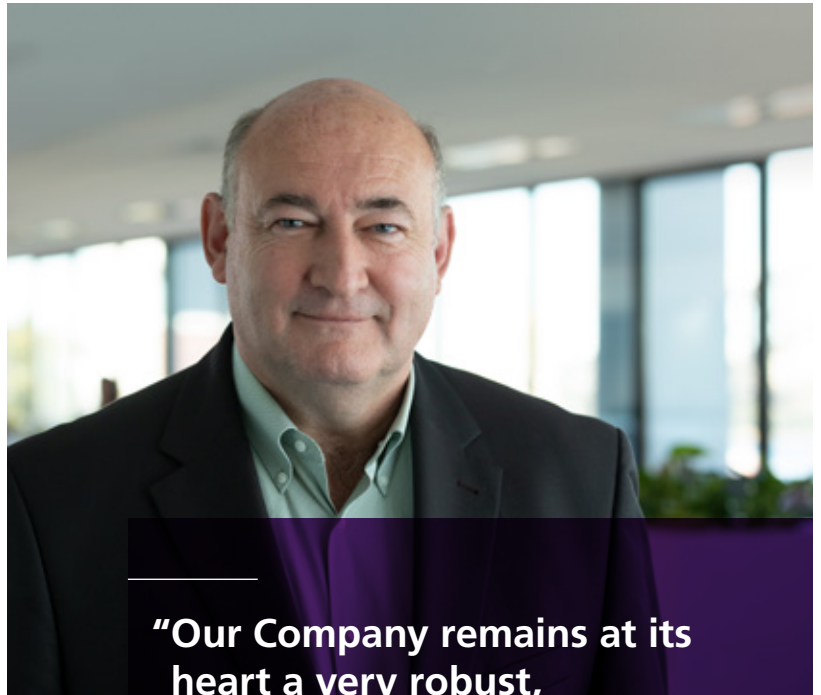
a2 Milk™ brand is much more than just a difference between A1 and A2 protein types. Our brand stands for a series of wonderful qualities from where we source our milk, the extra special care we take from cow to consumer, and how we educate and engage with our consumers.

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



OUR CHAIR

David Hearn



“Our Company remains at its heart a very robust, differentiated branded business with exceptionally strong financials.”

Dear Shareholder

There is no hiding from the fact that it has been a very challenging year for The a2 Milk Company. We also know that it was a challenging year for you, our shareholders, in many ways. We have been particularly disappointed, in that context, with our Company’s performance and the pressure this has put on our share price over the past year.

I don’t need to explain to you that we as a Company, along with all of us individually, have experienced an extended period of great uncertainty and volatility, including as a result of the COVID-19 pandemic. During this period of volatility, the normal behaviours of both our consumers and our trade customers changed, in some cases radically, by their reaction to the crisis, and this has had a profound and very challenging effect on many aspects of our business.

Across the early phase of the pandemic, and particularly in our infant nutrition business, there were highly unusual swings in demand as consumers tended to panic buy and pantry load, creating a large spike in sales, followed several months later by a gradual unwinding of these pantry stocks as things settled down. These dramatic swings in consumer behaviour subsequently drove equally significant changes in the behaviour of many of our trade customers as they tried to meet demand and also balance off their own challenges.

These swings in consumer demand were exacerbated by real concerns over the future availability of certain key infant nutrition ingredients, which are sourced from all over the world. In order to make sure that we were able to meet any further spikes in demand, in the early period of COVID-19 we chose to build our own inventory levels to ensure we were able to meet potential demand patterns without facing supply chain disruption. Whilst this was a rational decision to make at the time given the prevailing uncertainty, especially bearing in mind that we commit to production three months in advance, the anticipated demand for these increased orders didn’t materialise and as a result this led to increases in our own inventory.

As a result of these challenges, excess inventories built up right across our business both internally and externally throughout our distribution channels. To address the excess inventory levels, aggressive measures were put into place in the fourth quarter of the fiscal year.

These challenges impacted our English label infant nutrition business. In the first quarter of the fiscal year we were impacted by the flow-on effect of pantry destocking following the strong sales uplift in 3Q20 and lower than anticipated sales to retail daigous in Australia, due to multiple reasons including reduced tourism from China and international student numbers. By the end of the first quarter, we were experiencing increasing disruption to corporate daigou/reseller customers. With the effect of the disruption in the daigou channel, we shifted our focus to activating the CBEC channel in a manner which complemented our daigou business. By the end of the second quarter, it became clear that the disruption we were experiencing in the daigou channel was also impacting our CBEC business. Following a Board-initiated comprehensive inventory review undertaken by management in the second half, it became clear that the challenges in the daigou/reseller and CBEC channels were being exacerbated by a level of channel inventory which was higher than anticipated. This was primarily due to difficulties with the visibility that arises as a result of the highly complex and multi-layered Chinese distribution systems.



In the third quarter of the fiscal year, we announced a number of initiatives, particularly in these heavily affected channels, to address the issues. Specifically, we deliberately slowed down our own sales into the CBEC channel to reduce the inventory levels; we reduced our forward orders from our infant nutrition supplier Synlait to reduce our own internal stock levels; and we embarked on a series of promotional programmes designed to move product through these channels more quickly. Whilst these initiatives had some positive effect, we ultimately needed to take more aggressive action to address these issues fully.

As disclosed in our 10 May 2021 update, the Board made the difficult decision to address the inventory issues head-on and aggressively deal with the situation in a substantive way. This decision required significant inventory write-downs but we believe that those decisions are in the Company's best interests in order to put the business on the right course going forward.

I, along with the Board and the executive management team are confident that the approach we have taken, while painful in the short-term, will place the Company in a much better position to begin to return to a growth trajectory, primarily by continuing to build our strong brand from the solid base that we have created over the past several years.

There is no doubt that the whole world is changing as a result of the global pandemic and China's infant nutrition market is no exception. We will need to continue to develop new and appropriate strategies to succeed in the future, not by discarding the foundations on which we have built past success, but by building on them and developing them further to remain fit for purpose in this new world. It is for this reason, and because of our confidence in the underlying strength of the a2™ brand, that we will be continuing to invest behind the brand through this period of rebalancing and into the future.

We recognise that growth in the China infant nutrition market is slowing significantly, certainly in the short-term primarily as a result of government guidance around the risks associated with the COVID-19 vaccine in pregnancy, and that channel structures are evolving rapidly and a comprehensive review of our growth strategy and executional plans to respond to this new environment is underway. We will provide an update to the market on the strategic review prior to our Annual Meeting. You can be assured that your Board and the management team are focused single-mindedly on returning a2MC to growth and improving shareholder value.

In addition, as stated in the Company's announcement on 10 May 2021, the Board is actively reviewing capital management initiatives. That review is ongoing. While the business remains in a strong capital position, given the continued uncertainty and volatility in the markets which we operate, as well as opportunities to invest for growth which we continue to investigate, the Board has decided that, at least in the short-term, now would not be the right time to return capital or introduce a dividend.

There are other events and developments that we are pleased to update you on. Post year-end, we completed the acquisition of a 75% interest in Matura Valley Milk. There is further work to be done to integrate this world-class manufacturing asset into our business, and we are excited about the opportunities it opens up for us. We are also very excited about partnering with China Animal Husbandry Group. This partnership deepens our relationship with, and highlights our commitment to, China.

There has also been some change to the Board this year. In February 2021 we announced that Jesse Wu had retired from the Board. Jesse was an outstanding director from May 2017 and made a significant contribution to the Company's development not only in China but across the entire business. We are pleased to have retained Jesse in the ongoing role of special advisor to the Chair.

We are confident in the underlying strength of the a2™ brand, and will continue to invest in the brand through this period of rebalancing.



At the same time as announcing Jesse's retirement, we announced the appointment of Bessie Lee as an independent non-executive director of the Company. Bessie is a leader in the field of media and technology start-ups in China and brings a deep understanding of the Chinese culture, consumer behaviour and commercial environment. Bessie is already making a valuable contribution to the Board.

From a management perspective, there have been a number of changes to the Executive Leadership Team in the past year. On behalf of the Board, I would like to thank Geoff Babidge for returning to the Company in 2019 and for his leadership during a tumultuous year. In the second half of the fiscal year, we bid farewell to Lisa Burquest, Susan Massasso and Peter Nathan. We wish all of them every success in the future.

Given the unprecedented levels of uncertainty and volatility due to COVID-19 and the changes that our business has had to make in response, this year is a particularly opportune time to usher in a new management team and so we were pleased in February 2021 to welcome David Bortolussi as our new Managing Director and Chief Executive Officer. David's leadership and contribution has already been immense. Alongside a complete review of all aspects of the business, one of the many tasks David has needed to undertake has been a rebuild of the Executive Leadership Team. Consequently there have been a number of changes, promotions and new appointments which the Board is confident will set the business up strongly for the future. David and the Executive Leadership Team are continuing to focus on driving improved performance in the new financial year, while also developing and progressing the implementation of a revised longer-term growth strategy.

Finally, I want to leave you with two important thoughts.

Firstly, whilst the issues that arose in FY21 were undoubtedly a challenge, the business remains at its heart a very robust, differentiated branded business with exceptionally strong financials – which is indeed why we have weathered this period of volatility. We have built a solid foundation which has not been jeopardised by the short-term supply/demand imbalances and the future continues to offer many attractive opportunities for growth and expansion.

Secondly, I recognise the serious challenges created by the market conditions in the last year to you, our shareholders. I understand your pain and your concerns. I regret that, after an extended period of stellar performance, factors such as the global pandemic impacted our performance in FY21, but that only makes the Board and the management team all the more determined to make back the lost ground.

I look forward to updating you at our annual shareholders' meeting in November.

In the meantime, may I take this opportunity to wish you and your family the best of health as the world hopefully begins to navigate its way out of this tragic COVID-19 crisis.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'David Hearn', with a horizontal line underneath.

David Hearn
Chair

25 August 2021

CEO'S YEAR IN REVIEW

THINKING BEYOND

"I am delighted to have joined The a2 Milk Company and am excited about the strength of the brand and our future."

DAVID BORTOLUSSI
MANAGING DIRECTOR AND CEO



CEO'S YEAR IN REVIEW

David Bortolussi

Challenging year impacted by COVID-19 Channel inventory dynamics improving and growth strategy review underway

The a2 Milk Company experienced a very challenging year in FY21 impacted by unprecedented levels of uncertainty and volatility due to the prolonged impact of COVID-19 and a rapidly changing China infant nutrition market. Over the past year China market growth has reduced significantly from globally high rates to be flat, and cross-border trade has been disrupted significantly which has had a profound impact on the Company's results.

While certain areas of the business performed well, with market share gains in China label infant nutrition and Australian fresh milk, the Company was impacted by a significant decline in cross-border English label infant nutrition and other nutritional sales through daigou/reseller and e-commerce channels. This created substantial demand and supply volatility, which caused material excess inventory issues that exacerbated the impact.

In response to the dramatic change in circumstances, the Company took significant action, particularly from 4Q21, to address excess inventory issues, rebuild the management team, increase brand investment to drive demand, commence a review of its growth strategy and review options to deploy available capital. These actions have put the Company in a far better position now than it would have been otherwise to navigate the challenges ahead and enable it to return to growth in the medium-term.

The Board and management are confident in the underlying fundamentals of the business and that the growth opportunity in core markets remains strong. Coupled with opportunities for product innovation, category expansion and new markets, and supported by a healthy brand and strong balance sheet, the long-term outlook is positive. However, the outlook for FY22 remains challenging and uncertain and it will take time to recover.

Key points¹

- Revenue and EBITDA² margin was within the guidance range provided in May
 - Revenue down 30.3% to \$1.21 billion
 - Earnings before interest tax depreciation and amortisation (EBITDA) down 77.6% to \$123 million inclusive of \$109 million in stock write-downs and \$10 million in Matura Valley Milk (MVM) acquisition costs
 - EBITDA to sales margin of 10.2% or 11.1% excluding MVM acquisition costs
- Net profit after tax down 79.1% to \$80.7 million (including discontinued operations)
- Actions taken from 4Q21 to address excess inventory are proving effective with channel inventory levels reducing, product freshness improving and market pricing increasing – rebalancing of channel inventory is expected to continue through 1Q22
- Executive Leadership Team appointments and Asia Pacific division reorganisation to build capability and provide more dedicated management focus completed
- Brand health metrics remain strong overall with some improvements in recent tracking research following a significant 4Q21 marketing campaign in China
- MVM acquisition and strategic partnership with China Animal Husbandry Group completed in July
- Growth strategy review underway to respond to rapidly changing China market dynamics – update to be provided at the investor strategy day in October
- The Board has carefully considered capital management initiatives and has decided not to return capital to shareholders at this point in time, preferring instead to preserve balance sheet strength having regard to market volatility and potential opportunities to reinvest in growth and supply chain

¹ All figures are in New Zealand Dollars (NZ\$) and based on continuing operations of the Group, unless otherwise stated.

² 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 at the end of this document.

Group financial performance^{3,4,5}

The a2 Milk Company experienced a challenging year with **revenue** for the Group declining 30.3% to \$1.21 billion which was within the guidance range provided in May. As stated in the Company's announcement on 10 May 2021, a2MC's performance was impacted by unprecedented levels of uncertainty and volatility due to COVID-19, challenges experienced in the English label infant nutrition channels, and the actions then required in the second half to rebalance channel inventory.

Gross margin percentage⁶ decreased to 42.3%. This was significantly lower than the prior year primarily due to recognising stock write-downs of \$108.6 million. Gross margin was also impacted by higher cost of goods sold driven by an increase in raw milk prices, lower volumes and adverse mix driven by a higher proportion of liquid milk to infant nutrition sales and a relative increase in China label sales as a proportion of overall infant nutrition sales. Foreign currency movements also negatively impacted gross margin, particularly in 2H21. Excluding the stock write-downs, the full year gross margin was 51.3%.

³ All figures are in New Zealand Dollars (NZ\$) unless otherwise stated.

⁴ All comparisons are with the 12 months ended 30 June 2020 (FY20), unless otherwise stated.

⁵ All figures are quoted based on continuing operations of the Group, unless otherwise stated.

⁶ Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.





“Our consumers as well as our employees have been impacted by the pandemic and our biggest concern has been the safety and well being of both ensuring our consumers are able to access the freshest, premium products and our employees are supported during this crisis.”

EBITDA decreased by 77.6% during the period to \$123.4 million (\$133.8 million excluding MVM acquisition costs). This reflected lower revenue and gross margins, one-off costs of \$9.7 million associated with the implementation of a new cloud-based enterprise resource planning (ERP) system, and \$10.4 million of MVM acquisition costs. This was partially offset by lower employee incentive payments, lower consulting costs and a reduction in discretionary costs, whilst continuing to invest in brand marketing and internal capability building.

This resulted in an **EBITDA to sales margin** of 10.2%. Excluding MVM acquisition costs, EBITDA to sales margin was within the guidance range provided in May at 11.1%.

The **effective tax rate** of 32.4% was marginally higher than the prior year due to the proportional increase in USA losses (which are not tax effected) to the overall Group profit and the MVM acquisition costs being non-deductible for tax purposes, partly offset by a prior period adjustment. **Net profit after tax** was \$80.7 million, a decrease of 79.1% on the prior year including discontinued operations.

The **balance sheet** remains in a strong position with closing **net cash** of \$875.2 million. **Operating cash flow** of \$89.4 million was significantly lower than the prior year primarily due to lower earnings combined with a marginal reduction in net working capital. The Company also invested in the Kyvalley Dairy Group (Kyvalley) acquisition and lease-back, the Synlait capital raising and the ERP implementation. Post year end, the Company completed the acquisition of MVM for \$268.5 million.

Inventory at the end of the period was \$112.2 million, reflecting the impact of the \$108.6 million stock write-down which includes associated disposal costs. As stated in the Company’s announcement on 10 May 2021, this write-down was a result of the Board-initiated inventory review undertaken by management in 2H21, which indicated that the level of channel inventory was higher than anticipated. The elevated inventory was a consequence of managing the uncertainties and complexities of COVID-19 impacting supply chains, compounded by lower sales, particularly in English label infant nutrition. Actions were taken in 4Q21 to address excess inventory which included a reduction in planned sell-in across the daigou/reseller, CBEC and China label channels, as well as working with customers and distributors to improve the dating of inventory to improve freshness across all labels and channels. These actions are proving to be effective with early signs of price stabilisation in the CBEC channel and some recovery in the daigou/reseller channel. Channel inventory in CBEC and daigou/reseller channels are now at target levels, with China label expected to reach target levels by the end of 1Q22.

China infant nutrition market dynamics

As noted in the Company's announcement on 10 May 2021, the China infant nutrition market structure is changing rapidly. In volume terms, the overall infant nutrition market in China decreased⁷ in FY21 in volume driven by a significant reduction in the birth rate impacting early-stage products, partially offset by increased product penetration.

Although market performance varied by channel and segment, overall, value growth was flat⁸ as the impact of premiumisation (driven primarily through consumers trading-up and new product innovation) was partially offset by increased promotional activity resulting from heightened competitive intensity. Local players continue to gain share against the traditional multinational brands, driven both by the strength of local brands in domestic channels, as well as an overall mix shift from cross-border to domestic channels.

The increasingly competitive environment compounded by macro factors and evolving market dynamics reiterates the importance of the Company's current growth strategy review.

Regional performance

1. China & Other Asia

China & Other Asia revenue of \$583.4 million was down 16.6%, with EBITDA of \$75.6 million, down 66.4%. Lower revenue was primarily due to challenges experienced in the CBEC channel and a rebalancing of inventory with distributors.

The reduction in EBITDA margin was due to the higher proportion of China label sales relative to CBEC sales with the former being a higher cost to serve channel, resulting in a lower gross margin. It also reflected the continued investment in brand and capability. The proportion of the inventory write-down allocated to the China & Other Asia segment was \$50.3 million.

Despite the disruption and challenges experienced during the year, the Company continued to record strong brand health metrics in China overall – China label metrics improved consistently while English label metrics weakened somewhat but improved partially in 4Q21 following the marketing campaign and other initiatives.

Infant nutrition – China label channels

Sales in a2 至初[®] China label infant nutrition of \$389.9 million were achieved, an increase of 15.4% which was an encouraging result in a challenging market. The growth rate relative to FY20 was reflective of the substantial uplift in the prior period due to COVID-19 related pantry stocking, a reduction in the birth rate, and the increasing competition from domestic brands. Foreign currency movements (stronger NZD relative to USD/RMB) also created headwinds, particularly in 2H21. The 2H21 decrease in sales of 7.4% was also impacted by the actions taken in 4Q21 to reduce channel inventory.

⁷ Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities) for the 52 weeks ending 18 June 2021.

⁸ Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities) for the 52 weeks ending 18 June 2021.



As measured by Nielsen, retail sales for mother and baby stores (ie sales from stores to consumers by value) for the overall market were up 9% for the year and up 13% for 2H21⁹. a2MC's 12-month rolling market value share in MBS was 2.5% at the end of June 2021, versus 2.4% at the end of December 2020 and 2.0% at the end of June 2020⁸. Distribution increased to 22.8k stores, from 21.8k at the end of December 2020 and 18.2k stores at the end of June 2020¹⁰. Importantly, a2 至初[®] was one of a few international brands that gained share in the year, providing a solid base to build on in the future.

As measured by Smart Path, retail sales for domestic online ("DOL") platforms (by value) for the overall market were up 19% for the year and up 11% for 2H21¹¹. The Company's 12-month rolling market value share in DOL was 2.0% at the end of June 2021, versus 2.0% at the end of December 2020 and 1.9% at the end of June 2020¹⁰.

Channel inventory was slightly higher than target levels at the end of the period and will be further reduced in 1Q22 by careful on-going stock management. The actions taken to replace distributor inventory with fresher stock is well progressed with the impact in store starting to be seen. It is expected that inventory freshness will improve significantly in FY22 compared to FY21.

The Company continued to invest behind the brand to drive consumer demand. For FY21, this was weighted to the second half, including a significant marketing campaign in China in 4Q21.

The strategic importance and size of the channel, and the strong resonance the brand has with consumers, means the mother and baby store channel remains the Company's biggest opportunity to gain market share. A key element of the growth strategy review is focussing on maximising this opportunity as well as gaining share in domestic online channels.

⁹ Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). FY21 versus FY20 and 2H21 versus 2H20.

¹⁰ a2MC internal data tracking of stores with active sales in the past 6 months. Restated store numbers for December 2020 and June 2020 reflecting enhanced data capture and updated internal tracking methodology.

¹¹ Smart Path China IMF online market tracking: domestic online platform sales (by value). FY21 versus FY20 and 2H21 versus 2H20.



Infant nutrition – Cross-border e-commerce (CBEC)

a2 *Platinum*[®] English and other label infant nutrition revenue of \$166.9 million was down 51.1%. First half sales were impacted by pantry destocking from 2H20. In the second half, sales of \$63.4 million were down 64.9% on 2H20 primarily as a result of cycling a high comparative period and as a result of the actions taken in 2H21 to rebalance inventory within the channel. Foreign currency movements also created headwinds for CBEC sales, which are denominated in US dollars. The second half result also reflected limited price discounting during the “618” sales promotion event and no sales of Hong Kong label, which has ceased due to COVID-19 restrictions.

As measured by Smart Path, retail sales (by value) for the overall CBEC market were up 3% for the year and down 5% for 2H21¹². The Company's 12-month rolling market value share in CBEC was marginally down at 21.1% at the end of June, versus 22.2% at the end of December 2020 and 21.7% at the end of June 2020¹¹. This performance reflected actions taken in 2H21 as referenced above, as well as a significant amount of cross selling and reselling from the daigou/reseller and retail channels. These dynamics may continue to put pressure on a2MC's short-term CBEC market share, as measured by Smart Path.

2. ANZ

Revenue in the ANZ segment was impacted by the infant and other nutrition challenges experienced in the daigou/reseller and retail channels but was partly offset by strong performance in liquid milk in Australia. ANZ segment revenue of \$559.7 million was down 42.0%, with EBITDA of \$148.8 million, down 68.0%. ANZ segment revenue of \$242.5 million for 2H21 was down 52.0%, with EBITDA of \$31.4 million for 2H21, down 86.8% primarily due to the actions taken in 4Q21 to rebalance the daigou/reseller channel partly offset by growth in Australian fresh milk.

Infant nutrition – daigou/resellers and retail

Infant nutrition revenue in ANZ decreased by 52.1% to \$357.0 million for the year. This significant decrease was due mainly to prolonged impacts emanating from COVID-19 volatility.

In July and August 2020, the business was impacted by the unwinding of pantry loading that had occurred in early 2020 due to COVID-19, initially impacting retail daigou sales. At the end of September, it was evident that daigou/reseller customers were also being impacted by COVID-19 related restrictions. Measures were taken to address the prevailing situation and there were initial signs of improvement. However, there was further impact to CBEC sales later in 2Q21 which had a flow on impact on demand, reflecting the interrelationship between the daigou/reseller and CBEC channels. Actions taken in 3Q21 and in April to address the challenges in the daigou/reseller and CBEC channels had limited impact. Following a Board-initiated comprehensive review by management of inventory in the trade in 2H21, it was clear that the level of channel inventory was higher than had been anticipated and there were difficulties with channel inventory visibility and demand and supply planning.

A number of initiatives were put in place to address this decline in performance and, importantly to put the business on a firmer footing. These included:

- Incurring a significant stock write-down to reduce excess and ageing inventory
- Swapping out older distributor inventory with more recent stock to improve on-shelf product freshness
- Reducing channel inventory levels by restricting sales in 4Q21 to stabilise pricing and improve inventory flow
- Increasing wholesale prices to rebalance pricing across channels and mitigate margin loss due to higher cost of goods sold pressures

The initial results of these actions have been encouraging with product freshness and market pricing starting to improve. English label product freshness is expected to improve significantly in FY22 compared with FY21. Although market pricing is improving, CY21 English label inventory remaining in the market and being sold by certain wholesale traders and online players is depressing visible pricing in the market. The amount of this inventory remaining in the market is difficult to quantify, but it is expected that it will have largely cleared by the end of the “11/11” peak trading period.

¹² Smart Path China IMF online market tracking: for CBEC only retail sales (by value). FY21 versus FY20 and 2H21 versus 2H20. (Prior periods restated for updated data.)

Notwithstanding these actions, the Company estimates it lost market share in the daigou channel during the year, particularly in Stage 1 infant nutrition. Kantar data has recently been expanded and a more representative consumer age range now being captured¹³. Whilst there are still some inherent limitations for measuring the Company's performance using Kantar data, it remains the only single source for tracking daigou consumer sales. Kantar data suggests daigou consumer sales in the market were down 42% for FY21 and down 35% for 2H21¹⁴ and that a2MC's daigou share declined but less dramatically to 22% at the end of June 2021 compared to 24% at the end of June 2020¹².

Given the role of the daigou/reseller channel, including in new user recruitment in an increasingly competitive market, some continued pressure on consumer demand is expected. A key focus is working with distribution partners to increase distribution and new user activation, as well as optimising CBEC execution. In addition, a key element of the Company's growth strategy review is considering the route-to-market and management model of English label infant nutrition.

Liquid milk

Australian fresh milk revenue increased by 10.8% to \$169.0 million. The business also achieved a record market value share of 12.2% at the end of June 2021¹⁵, primarily driven by increased levels of in-home consumption during 1H21 lockdowns associated with COVID-19. Growth moderated in 2H21 to 5.5% as restrictions eased and a greater amount of out-of-home consumption was experienced prior to recent lockdowns in Australia. During the year the Company acquired the manufacturing facilities of Kyvalley. The purchase and upgrade of Kyvalley is a strategic investment to ensure quality of products and processing capacity.

Other nutritional products

The disruption experienced in the daigou/reseller channel also impacted all products in this segment with revenue decreasing 50.5% to \$33.7 million. As with infant nutrition products, the Company is examining the product and channel approach as part of the growth strategy review to drive demand and ensure other opportunities are explored to maximise the full potential of the segment.

3. North America

USA revenue decreased 3.7% to \$63.6 million. An improved EBITDA result was delivered, with a significantly reduced loss of \$33.5 million, representing a \$17.0 million improvement on FY20. USA segment revenue of \$29.4 million for 2H21 was down 22.8%, with an EBITDA loss of \$21.9 million for 2H21 representing a \$1.4 million improvement compared to 2H20.



FY21 represented a shift in execution approach for the USA business with lower marketing investment and increased price investment to improve conversion and household penetration. The business leveraged trade investment to bring price to an affordable premium as well as increasing range, facings and improving overall shelf positioning. This resulted in a significant percentage of key accounts increasing product facings and improving shelf position which is expected to benefit the business over time.

The decline in FY21 revenue reflects higher planned trade spend in line with the businesses revised pricing strategy, the loss of certain regions of a major club channel customer, and unfavourable foreign exchange, with each of these factors more heavily weighted to 2H21. Additionally, the US business benefited from a lift in in-home consumption related to COVID-19 lockdowns during 2H20, presenting a more challenging 2H21 comparative. On a constant currency basis, net revenue increased 5.5% to \$69.7 million during the year. Underlying volume growth for the year was 13%, or 26% excluding the major club channel customer. The improved EBITDA loss in FY21 reflected a substantial reduction in marketing investment associated with the above noted shift in execution, along with the positive benefits of currency exchange on business expenditure.

Average velocities grew within key accounts and distribution grew to 26.8k stores, from 24.0k stores at the end of June 2020¹⁶. In 2H21¹⁷, a2 Milk™ grew ahead of the premium liquid milk category and was the strongest performing premium brand over the period.

While marketing investment in FY21 was lower than the prior year, key marketing and public relations activities continued which resulted in driving improvements in brand health metrics, with prompted awareness demonstrating a significant increase. Additionally, the a2 Milk™ brand was one of the top two leading brands in the category for brand loyalty.

¹³ Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.

¹⁴ Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities) for the 52 weeks ending 18 June 2021.

¹⁵ IRI Australian Grocery Weighted Scan 12-months ending 30 June 2021.

¹⁶ Updated prior year comparison due to expanded data set now being supplied.

¹⁷ Based on data available to 15 May 2021.



The USA is an important market, and the Company continues to evaluate product, distribution and supply chain opportunities to increase the scale and profitability of the business.

In Canada, products were first launched in July 2020, initially focusing on Western Canada with subsequent distribution expansion. The Company continues to work closely with Agrifoods, leveraging the Company's intellectual property and marketing assets as well as proprietary systems and know-how relating to local milk sourcing and processing.

Completion of acquisition of MVM

On 30 July 2021, the Company completed the acquisition of a 75% interest in Matura Valley Milk (MVM), a dairy nutrition business located in Southland, New Zealand, in partnership with China Animal Husbandry Group.

The strategic intent of the acquisition remains intact. The acquisition provides the opportunity to participate in nutritional products manufacturing and the potential to pursue additional China label registrations and product innovation opportunities in the future. It strengthens relationships with key strategic partners in China, achieves supplier and geographic diversification, and over time will offer access to insourced manufacturing margins.

It had previously been expected that post acquisition, MVM would process additional third-party volumes which is now uncertain in terms of execution and timing. In addition, a2MC has now revised down its volume assumptions for product to be transferred to MVM during the transitional period (FY22-24). Consequently, MVM is exploring further business development opportunities and will seek to work with additional third parties to improve the financial performance of MVM during the transitional period. The Company still expects MVM will return a positive EBITDA during FY25. Additional financial details for FY22 are provided in the outlook section.

Growth strategy review

Whilst the actions taken have undoubtedly given the business a stronger platform going forward, the dynamic and challenging market conditions over the past year have highlighted the need to review and adapt elements of the Company's long-term strategy and execution going forward.

The Company recognises that the China infant nutrition market structure is changing rapidly. While consumers still have a strong preference for premium infant nutrition, market growth is being impacted by a more pronounced reduction in the birth rate. In addition, the shift towards China label infant nutrition continues, the rate of new product innovation has ramped up, channels to market are changing and competitive intensity is increasing, with domestic players continuing to gain market share.

It is also clear that the daigou/reseller channel has been impacted by COVID-19, regulatory and other structural factors. Whilst the daigou/reseller channel will continue to play an important role, the Company needs to further evolve its routes to market and brand marketing programmes in parallel in order to adjust to the changing environment in which it operates.

Accordingly, the Company recognises the need to change its approach in light of the significant market changes and a comprehensive process to review its growth strategy is underway. The scope of this review includes the Company's approach to driving infant nutrition growth in both China label and English label channels; its infant nutrition product portfolio and innovation strategy; adjacent growth opportunities; and its brand positioning to ensure continued resonance and distinctiveness amongst an evolving consumer base.

An update on this review will be provided at an investor strategy day currently scheduled for late October.

“Acknowledging that 2021 has been a very difficult year for the business, I am confident that these challenges can be addressed with the benefit of a strong brand and new leadership team to capture the full potential of our business.”

Capital management

The Company's balance sheet remains strong. Despite the current challenges being faced, the Board is confident in the strength of the brand, the underlying fundamentals of the business, and the Company's long-term growth potential.

Capital planning is an ongoing activity of the Board, guided by the Company's strategy and capital allocation framework. This framework prioritises investment in growth initiatives ahead of returning capital to shareholders.

The current capital planning process is considering how to maximise the value of the Company's strong capital position in line with its growth strategy. This includes further investment to strengthen the business as well as potential acquisitions to complement existing operations. The Board also considers it prudent to maintain a conservative cash reserve in uncertain times. This is particularly relevant in the context of volatile consumer markets, which continue to be impacted by COVID-19.

Several mechanisms are available to the Company when considering the return of excess capital to shareholders. The effectiveness of these options is impacted by the Group's ownership structure and taxation profile, which are relevant factors when considering how best to utilise the Group's capital. For any potential on-market share buyback, consideration would need to be given to the Company's available subscribed capital, which at end of FY21 was in the order of NZ\$175 million.

Notwithstanding the above considerations, the Board is currently of the view that there is greater opportunity to create value by investing in the business and through potential acquisition than by returning capital to shareholders either via a buyback or by introducing a dividend at this stage in the Company's development. Capital management options will continue to be an important consideration in the broader capital planning process and will continue to be reviewed by the Board on an ongoing basis.

Significant progress in sustainability

In FY20, the Company identified a number of focus areas to enhance its efforts to become a more sustainable business for the future. In FY21, significant progress was made in several focus areas including enhancing its approach to animal welfare and its farm environmental plans; continuing to invest, engage and support local communities; as well as advancing several initiatives under its people strategy, responsible sourcing and ethical supply chain.

The Company is committed to investing in tangible climate-related programmes that will create a positive impact on the planet. In FY21 funding was redeployed to advance and support critical research and projects in the supply chain as follows:

- Progressed a research project to assess the potential of asparagopsis in reducing methane produced by A2/A2 cows
- Contributed to Synlait's conversion of its current coal boiler to biomass fuel
- Committed to converting or replacing MVM's coal boiler in the future
- Installed solar panels at the Smeaton Grange milk processing plant and commenced an energy audit of the site

Further information on the Company's sustainability goals and strategy will be provided at the upcoming investor strategy day in late October.

Executive leadership team and reorganisation

In July 2021 the Company announced it would reorganise its Asia Pacific division. The objectives of this reorganisation are to provide greater leadership and focus on key components of the business, enable holistic management of the English label business, and improve execution going forward.

This reorganisation resulted in two of the Company's existing leaders, Xiao Li, Chief Executive – Greater China, and Kevin Bush, Executive General Manager – ANZ, being promoted to be direct reports to the CEO, demonstrating the depth of talent within the Company, and are both now on the Executive Leadership Team.

Yohan Senaratne was appointed Executive General Manager – International and commenced with the Company in July. Yohan is responsible for leading the Company's cross-border export business, primarily focused on English label infant nutrition products.

The Company also recently appointed Edith Bailey as its new Chief Marketing Officer. Edith will be responsible for managing the strategic and creative direction of the a2™ brand and driving product innovation going forward. Edith will commence in December 2021.



Amanda Hart was also recently appointed as Chief People & Culture Officer in July and will commence her role in September 2021. Amanda will be responsible for driving the people strategy and executing integrated programmes to develop internal capability and evolve the Company's culture.

Following the completion of the MVM acquisition, Bernard May has joined a2MC's Executive Leadership Team as Chief Executive Officer – MVM.

During the year Eleanor Khor was promoted to the role of Chief Strategy Officer, and Jaron McVicar's role was expanded to Chief Legal & Sustainability Officer and Company Secretary.

Outlook

The Company is confident in the underlying fundamentals of the business and that the growth opportunity in core markets remains significant. Coupled with opportunities for product innovation, category expansion and new markets, and supported by a healthy brand and strong balance sheet, the long-term outlook is positive.

However, given the continuing uncertainty and volatility in a2MC's consumer markets resulting from issues related to COVID-19 and other rapidly changing market dynamics, particularly in China, the Company has determined not to provide specific guidance regarding anticipated Group revenue or EBITDA margin at this time. Rather, it is providing current observations on key drivers and important issues that may impact its FY22 results.

These observations are based on what the Company is currently aware of, and facts and circumstances may change materially in the future. Accordingly, actual results may vary materially from that indicated by the qualitative outlook provided below.

The outlook also assumes no material changes in macro factors such as cross border trade, changes in the regulatory environment and foreign exchange, and that COVID-19 related impacts continue at broadly current levels.

China infant nutrition market

China's infant nutrition market is being materially impacted by a lower birth rate, especially recently due to COVID-19 and related vaccination programmes causing many people to delay pregnancy. While it is expected that this short-term impact will be cyclical in nature, at this stage it is not possible to accurately predict the extent or timing of the impact or recovery over the medium-term. In the longer-term, it is expected that Government initiatives to address the declining birth rate will have a positive and stabilising impact. The prospect of other potential regulatory impacts on the category, whether they be positive or negative in nature, is unknown and inherently difficult to predict.

In FY22, the Company expects the value of the overall infant nutrition market to decrease due to the lower number of births (during the year, and also as a result of the year prior), an increase in competitive intensity and promotional activity impacting average pricing, partially offset by a continuation of the usage penetration and premiumisation trend.

Based on current market trends, the ultra-premium segment (where the Company's China label product competes) is expected to perform at or above market, and the premium segment is expected to perform at or below market.

The impact of these market dynamics is expected to be felt most in early-stage products, and in Key and A cities where the birth rate reduction is higher than in BCD cities. Market share gains by domestic brands compared to international brands are expected to continue.

Category and business divisions

In **China label infant nutrition**, the Company is expecting to grow sales in FY22, as well as gain moderate share, albeit in a weaker market overall. The focus is on acquiring new users and expanding distribution. Inventory levels are reducing, and product freshness is improving. In 1Q22, the Company is continuing to reduce distributor inventory levels which will impact sales. This is expected to result in a stronger 2H22 compared to 1H22.

In **English label infant nutrition**, with the category under pressure and the challenges experienced by a2MC in FY21, the Company is targeting sales stabilisation in FY22 but a wide range of outcomes is possible. The COVID-19 impacts on the daigou/reseller channel and associated impact on CBEC for English label products are expected to be prolonged. The Company is adapting its strategy and execution to stabilise its English label business and return to growth over time.

Further incremental sales growth is expected in **Australian liquid milk** in FY22. In 1H22, the current COVID-19 restrictions in Australia are likely to support volumes. However, these restrictions are expected to ease in 2H22, with potential volume declines as more out-of-home consumption resumes. Input costs are also higher compared to FY21 partially offset by pricing.

Strong underlying growth in key accounts is expected in **USA liquid milk** in FY22. In-home consumption is expected to remain at similar levels. However, with the loss of certain regions of a major club channel customer due to private label substitution, modest sales growth overall is expected. The higher trade spend in FY21 to reduce retail price points and improve distribution will be rolled back during the year in line with plan with some volume risk. Overall, a marginal improvement in USD losses is expected.

FY22 will be the first time **MVM** is included in a2MC's financial reporting. As such, the following information regarding MVM is provided to assist the market with revenue and earnings expectations. Based on revised volume assumptions, it is now expected that in FY22 MVM will deliver approximately \$80 million in revenue (excluding intercompany revenue) and an EBITDA loss of approximately \$20 million for the 11 months post-completion. On an annualised basis the EBITDA loss would be approximately \$4 million greater due to July being a seasonally low period. Prior to any further investment in a blending and canning facility and associated infrastructure, it is expected that depreciation and amortisation during the transitional period will be approximately \$14 million, subject to finalisation of acquisition accounting. MVM will be fully consolidated into a2MCs accounts going forward on a 100% basis with the non-controlling interest deducted from the Group's net profit after tax. The consolidation of MVM will affect the reported gross margin of the Group. This includes the allocation of direct overheads, including a portion of manufacturing depreciation, to gross margin.

Marketing and capability investment

Based on the continuing strong brand fundamentals, the Company is planning for a significant increase in brand investment, content generation and activation in FY22 to drive awareness and trial in China and to compensate for continued subdued daigou activity which has been effective in the past in building the brand. Overall marketing investment in FY22 is anticipated to return to approximately FY20 levels which is expected to continue to drive improved brand health metrics and future demand. Phasing of marketing investment may be influenced by the growth strategy review underway.

The Company will also continue to invest in capability building in China and in corporate functions to support future growth. It is also expecting a return of short-term and long-term employee incentive programmes in order to retain and attract talent. These investments will offset the reversal of FY21 one-off costs associated with the MVM acquisition and ERP implementation. Accordingly, together with the addition of FY22 operating costs for the MVM business, the Company is anticipating an uplift in employee and administration costs in FY22.

Key financials


The Company is expecting 1H22 **revenue** (including MVM) to be marginally lower than 1H21 due mainly to lower English label infant nutrition sales offset by the addition of MVM revenue. 2H22 revenue (including MVM) is expected to be significantly higher than 2H21 due mainly to actions taken in 2H21 to rebalance channel inventory, increased marketing investment and the inclusion of MVM revenue.

FY22 **gross margin** is expected to be broadly similar to FY21 (excluding FY21 stock write-downs and before consolidating the MVM business in FY22). This reflects the annualisation benefit of FY21 infant nutrition price increases and the product mix benefit from an overall growth in infant nutrition volume. These benefits will be largely offset by COGS headwinds related to increasing milk, ingredient and packaging costs. The Company is also expecting continued adverse infant nutrition mix in FY22 with China label growing ahead of English label.

Given the uncertainty and potential volatility in infant nutrition sales, particularly English label, it is difficult to predict with any precision the wide range of potential **EBITDA** outcomes in FY22 relative to FY21 excluding stock write-downs.

Additionally, with the inclusion of MVM in FY22, **depreciation and amortisation** for the Group is expected to increase to approximately \$20 million and, as the MVM losses will not be taken as a deduction for tax purposes, a higher **effective tax rate**, in the order of 37-39%, is anticipated.

Overall, although a2MC believes the business will continue to make significant progress on many fronts, FY22 is expected to continue to be a challenging and volatile year. Due to the actions taken in 4Q21 to address channel inventory and improve product freshness, coupled with strong brand health, the business is well-placed to adapt its strategy and execution to drive growth in the longer term. However, recovery in English label channels is expected to be slow and market growth in China will be subdued for some time.



David Bortolussi

Managing Director and Chief Executive Officer

25 August 2021

APPROACH
TO SUSTAINABILITY

MOVING AHEAD



The a2 Milk Company purpose is 'to enrich lives by harnessing the nutritional wonders of nature' and it is committed to high standards of responsible conduct, social responsibility and environmental sustainability.

The Company's drive to build a sustainable business for the future, considers its social licence to operate and recognises the needs and expectations of its people, consumers, farmers, communities, customers, suppliers, strategic partners and investors.

Solid progress was made towards building a sustainable business for the future in FY21 and the Company is excited about progress that can be made in the coming year and beyond.

HOW WE CREATE VALUE

The a2 Milk Company has an integrated approach to reporting through the 'Six Capitals' framework, seeking to codify elements which will contribute to the Company's ability to create long term value.

OUR BUSINESS



OUR PURPOSE

Enrich lives by harnessing the nutritional wonders of nature.



WHAT WE DO

Pure and natural a2 Milk™, infant, children and adult nutritional products produced from cows specially selected to be A1 protein-free.



HOW WE DO IT

Our company 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.

BUSINESS ACTIVITIES

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

UNDERPINNED BY:

- Building sustainable brand leadership
- Secure supply chain
- Right capabilities
- Right infrastructure and tools

VALUES

BOLD PASSION

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

PIONEERING SPIRIT

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

HUMILITY

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

RESPECT

Seek to understand and appreciate difference in all its forms.

INTEGRITY

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

INPUTS

There are six sources of capital, embedded in our value creation model.



HUMAN



INTELLECTUAL



NATURAL



MANUFACTURING



SOCIAL



FINANCIAL

OUTCOMES

Passionate and thriving team

Through a purpose driven culture underpinned by our values, we aim to create an environment that provides our people with opportunities to thrive. Our success is the result of our diverse, skilled and engaged workforce, aligned and focused to deliver on our purpose and strategy. We are committed to the wellbeing and safety of our people and have established systems and processes to identify, control, report, investigate and monitor health and safety risks across the business.

Unique, premium brand and IP

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

Responsible use of natural resources

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 are committed to finding unique and high impact solutions across our value chain to help address these challenges. Appropriately meeting this challenge will enable us to continue providing premium a2 Milk™ based products to our consumers and long-term value to our shareholders.

Innovative and ethical supply chain

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.

Enriching community wellbeing

The a2 Milk Company supports communities in our key regions of New Zealand, Australia, China and the US. With a focus on proactive wellness to nourish the lives of children and families and help them to thrive.

Capital smart approach

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

IMPACTS

50%
Female Board members

25%¹
Female Executive Leadership Team

43%
Female Senior Leadership Group

\$178m (14.8% revenue)
invested in marketing, research & development and intellectual property

81%
of farms with a farm environment plan in place
Extensions developed into **animal welfare programme**
Committed to a number of projects **to reduce GHG emissions in our supply chain** over time

97.3%
of fully recyclable packaging (+1.4p.points)
Submission of **Modern Slavery Statement**

\$2.3m
in cash and product donations to help children and families thrive

\$1.21bn
revenue
10.3%
return on capital employed
\$89.4m
operating cash flow

¹ Since 30 June 2021, a number of ELT appointments have been announced. Adjusting for these appointments, there will be 12 members of the ELT comprising 9 males (75%) and 3 females (25%). David Bortolussi has been included in both the Director and ELT calculations.

OUR PEOPLE



The a2 Milk Company's values – bold passion, pioneering spirit, humility, integrity and respect – guide how the Company seeks to achieve its purpose to 'enrich lives by harnessing the nutritional wonders of nature'. The Company is committed to investing in its people and systems, keeping its people healthy and safe, and building a diverse culture of inclusion and connection.

Investing in people and systems

The Company is committed to building capability and capacity across the organisation. Key focus areas in FY21 to deliver this objective have included training, updating and introducing relevant policies and investing in a new enterprise resource planning (ERP) system to build capability and support the team.

In FY21, the Company expanded the integrated people experience programme, *a2 For You*TM. Key activities undertaken through the programme during the year included:

- **Mental wellbeing:** The expansion of the Company's Employee Assistance Programme to include a series of webinars focused on mental health and wellbeing, including providing resources and support during COVID-19.
- **Financial wellbeing:** Series of financial wellbeing webinars and information sessions focused on superannuation, banking and financial fitness.
- **Physical health:** A series of nutritional wellbeing webinars with an accredited dietician.
- **Growth and learning:** The launch of a bespoke virtual training course: Shaping my Leadership Journey made available to the broader Senior Leadership Group (i.e. the group of 47 leaders reporting to the Executive Leadership Team).



During FY21, the Company invested in a new ERP system which went live in April 2021. The purpose of this leading-edge ERP system is to consistently manage key business activities across the regions and house some of the Company's most important business data and intelligence. It also enables the team to focus on value-add activities, such as more sophisticated analysis, planning, forecasting and budgeting.

Keeping people healthy and safe

The Company's vision for the safety and wellbeing of its people is that, wherever they are and whatever they are doing, everyone is safe at work.

The Company is committed to the wellbeing and safety of the team and have established systems and processes to identify, control, report, investigate and monitor health and safety risks across the business.

a2MC empowers all employees to speak up and show the courage to stop the job, whenever it is not safe, so that workplace health and safety is not compromised. This enables and supports employees to take accountability for their safety, health, wellbeing, and fitness for work.

By embedding safety, ethics, and compliance systems across the supply chain, the Company aims to operate safely and ethically, including with respect for human rights and in compliance with all local requirements, including anti-bribery and anti-corruption laws.

This includes:

- Preventing injury and illness at the Company's workplaces and during work activities
- Understanding and complying with Work Health and Safety (WHS) legal and other requirements
- Eliminating hazards and reducing WHS risks associated with operations
- Consulting with employees and external stakeholders to identify and learn from emerging workplace health and safety developments
- Continually improving workplace health and safety management systems, processes and controls

Gender equality

50%

Female Board members

25%¹

Female Executive Leadership leaders

43%

Female Senior Leadership Group



In FY20 the Company commenced the implementation of a new global safety management system to support the education, leadership and governance of WHS across all sites and operations.

In FY21 the Company continued to focus on developing its WHS management system and risk management principles and to embed them into planning and decision making. There has been an increased focus on incident, hazard, and risk management across each of the workplaces.

The team at the Smeaton Grange processing facility is committed to safe processes and a safe site, and the excellent safety record that has been cultivated at the facility is testament to this. As at 30 June 2021, the site recorded over 500 consecutive days without a medically treated incident.

The Company has undertaken an assessment of human rights and other ethical risks in its supply chain to ensure alignment with fundamental values of respect and integrity. A modern slavery statement has also been developed and published. This has formed the basis of an online training programme which will be rolled out in FY22.

The Company continues to invest in people and systems to build capability to meet its strict product quality and food safety standards. It has also embedded monitoring and compliance systems specific to the regulatory environments in each market in which it operates.

Building a diverse culture of inclusion and connection

Creating a positive workplace environment is vital to the success of the business and the Company is focused on creating a culture of inclusion and connection.

The Company's Diversity Policy empowers and equips its people leaders to foster a diverse and competent workplace. The Company is particularly focused on enhancing gender balance in the workforce, having set a target of a minimum of 40% women and 40% men in leadership positions. At the Board level, the Company has met this target with a 50% split. The recent Executive Leadership Team appointments have been more balanced, with the appointment of three women. While this is behind target it is pleasing that at the Senior Leadership Group level, female representation is at 43%. The Company acknowledges there is more to be done in this area.

Gender is not the only form of diversity and many other aspects including culture, heritage, ethnicity are vital to driving diversity of experience and diversity of thought. In FY22 the Company will focus on measuring and tracking diversity beyond gender.

¹ Since 30 June 2021, a number of Executive Leadership Team appointments have been announced. Adjusting for these appointments, there will be 12 members of the Executive Leadership Team comprising 9 males (75%) and 3 females (25%).



Policy update

In FY21, the Company's Diversity Policy was reviewed to broaden its scope to incorporate inclusion. While the current policy focuses on difference, the intent of the broader policy is to foster an environment in which differences – whatever they may be – are genuinely accepted and leveraged.

The updated policy will be implemented globally in FY22, and accompanied with training to reinforce the importance of understanding, accepting, and appreciating the value of difference in all its forms.

Inclusion and connection

"Global Town Hall Meetings" are held in person and virtually across all regions on a monthly basis and are an important way to share information and connect across the different offices. These "global" meetings are led by the Chief Executive Officer and other members of the Executive Leadership Team and provide a forum for other managers and staff to present to the business. This initiative helps build an environment of transparency and authenticity, where information from across the business is shared and all team members are encouraged to ask questions.

Training

Everyone has a right to a work environment free from discrimination, harassment and bullying. In FY21, the Company commenced "Positive Workplace Behaviours" training with this to continue in FY22. The training is designed to emphasise how all team members can individually focus on respecting others and contributing to a positive workplace.

Executive Leadership Team appointments and business reorganisation

In FY21, there were a number of changes to the Executive Leadership Team (ELT). In February, David Bortolussi joined the Company as Managing Director and Chief Executive Officer.

Eleanor Khor was promoted to the new role of Chief Strategy Officer and Jaron McVicar's role expanded to Chief Legal and Sustainability Officer & Company Secretary.

In July the Company announced the reorganisation of its Asia Pacific division. This restructure resulted in two of the Company's senior leaders, Xiao Li and Kevin Bush, being promoted to be direct reports to the CEO and join the ELT, demonstrating the depth of talent within the Company. Yohan Senaratne joined the business in the role of Executive General Manager – International.

In July, the Company also announced the appointment of Edith Bailey as Chief Marketing Officer. Edith will join the Company later in 2021 with Janelle Tong joining the ELT as Chief Marketing Officer (Interim) until Edith commences. Amanda Hart has been appointed Chief People & Culture Officer and will commence in September.

Following the completion of the acquisition of 75% of Matura Valley Milk, Bernard May has also joined the ELT.



“Creating a positive workplace environment is vital to the success of the business and the Company is focused on creating a culture of inclusion and connection.”

As at 30 June 2021	Number	Male	%	Female	%	Variance to LY % females
Directors	6	3	50%	3	50%	10%
Executive Leadership Team ¹	7	6	86%	1	14%	(8%)
Senior Leadership Group	47	27	57%	20	43%	7%
Managers	88	50	57%	38	43%	(2%)
Remaining staff	188	64	34%	124	66%	10%
Total	335	149	44%	186	56%	2%

Age at 30 June 2021	Number	%	Variance to LY
Under 30	36	11%	(1%)
30 to 50	215	64%	(1%)
Over 50	84	25%	2%
Total	335		

Tenure as at 30 June 2021	Number	%	Variance to LY
0-2 Years	174	52%	(17%)
2-5 Years	100	30%	10%
5+ Years	61	18%	7%
Total	335		

SDGs alignment*



1 Since 30 June 2021, a number of ELT appointments have been announced. Adjusting for these appointments, there will be 12 members of the ELT comprising 9 males (75%) and 3 females (25%). David Bortolussi has been included in both the Director and ELT calculations.

* Developed by the United Nations, the Sustainable Development Goals (SDGs) or Global Goals are a collection of 17 interlinked global goals designed to be a “blueprint to achieve a better and more sustainable future for all”.

FARMS AND ANIMAL WELFARE



NATURAL
CAPITAL



MANUFACTURING
CAPITAL



SOCIAL
CAPITAL



Farmers play a vital role in the Company's supply chain, as stewards of the environment and as vital contributors to local communities. In addition, the humane treatment of cows is of the utmost importance.

The Company is committed to working with and supporting farmers to enable them to work in harmony with the environment and community.

Farm environmental plans

The a2 Milk Company has developed a global framework for farm environmental plans.

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

- Lowering GHG emissions
- Managing water quality and efficiency
- Managing soil quality
- Boosting on-farm biodiversity
- Improved nutrient (effluent) management

FY21 progress

- Created and delivered guidelines and ambition by region, including having regard to legislative requirements
- Farm environmental plans reviewed by internal and external stakeholders
- Reviewed and collaborated with Synlait on Synlait's Lead with Pride™ programme
- 81% of farms supplying raw A1 protein free milk had a farm environmental plan in place

Next steps

- Continue roll out of farm environmental plans leading to a global approach to farm environmental plans
- Continue to evolve and refine farm environmental plan template
- Review farm ambassador programme
- Establish updated farm environmental plan programme with Mataura Valley Milk

Target

100%

of farms supplying raw A1 protein free milk to have a farm environmental plan in place by the end of 2023

SDGs alignment



Animal welfare programme

Best practice standards for animal welfare on farms are central to the responsible sourcing of raw A1 protein free milk.

The Company's animal welfare programme meets globally recognised standards set by the World Organisation for Animal Health and upholds the Five Freedoms framework for animal welfare.

a2MC's approach to animal welfare is to drive improvement, reduce risk and ensure farmers are welfare centric. This is achieved through the combination of increased audits, wider audit scope, milk monitoring, on farm technology and training.

A number of extensions were developed into the programme in FY21, supporting farmers to establish systems for continuous improvement in animal welfare. This approach aims to continue identifying opportunities to further improve programmes beyond the industry standard.



FY21 progress

- Created and delivered a2MC Standards for farming partners in New Zealand
- Collaborated with Synlait to refine its "Lead with Pride" animal welfare standards and audit tool
- Reviewed and amended current Australian Standards to align the scaling of standards
- Embedded a corrective action process into programmes for each region
- Identified and secured Professional Animal Auditor Certification Organization (PAACO) lead training for auditors
- Developed auditor and a2MC farm services team training modules
- Launched milk monitoring programme pilot trial with partner Synlait
- Developed a governance strategy for programme and auditor review

Next steps

- Roll out auditor and a2MC farm services team training modules
- Staged launch of upgraded animal welfare programme and farmer training portal
- Implement robust audit scope and frequency to increase visibility and reduce risk
- Undertake pilot technology trial on farm to validate animal welfare auditing data
- Launch a2MC redefined Animal Welfare programme with Matura Valley Milk in FY22

Target

100%

of farms to be certified under an upgraded programme by the end of 2023

SDGs alignment



CLIMATE IMPACT



NATURAL
CAPITAL



MANUFACTURING
CAPITAL



INTELLECTUAL
CAPITAL

Understanding climate risks and opportunities

Climate change is driving 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 initiatives, such as carbon pricing, and market risks, such as changes in consumer preferences.

A major step in a2MC's climate journey is developing short, medium and long-term, climate-related targets. The Company is committed to achieving net zero emissions by 2050, and is focused on setting out an emissions reduction pathway, including the metrics and targets to measure progress.

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.

As part of the ongoing management and integration of climate risk, the Company undertook climate and broader environmental, social and governance risk analysis as part of the due diligence for the Matura Valley Milk (MVM) acquisition. The scope included physical, regulatory and market risks, as well as mitigation strategies, and was an important consideration in the overall evaluation of the MVM opportunity. a2MC identified that it could contribute to a meaningful improvement in MVM's overall sustainability and is committed to finding an alternative to the current coal boiler utilised on the site.

In FY22, the Company will also update its climate scenario analysis, reflecting the material changes to the business model with the interdependencies of MVM. Building on previous analysis, this will include a focus on second-order structural impacts and risk inter-dependencies.

1 Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO₂e), 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.

2 Includes natural gas estimates and/or extrapolations for some information not yet available.

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

GHG Emissions ¹ (tCO ₂ e)	FY21	FY20 ⁷	FY19 ⁷
Total	356,587	509,533	420,600
Scope 1 ²	250	228	206
Scope 2 ³	1,720	1,613	1,507
Scope 3 ⁴	354,617	507,693	418,887
Direct operations ⁵ (Scope 1, 2 and 3)	2,862	3,867	4,923
Third-party processing and freight	76,140	127,177	103,863
On-farm ⁶	277,585	378,489	311,814

Metric	FY21	FY20	FY19
Smeaton Grange			
Total water usage ('000 litres)	28,361	27,662	24,744
Water efficiency (litres/litre of milk)	0.6	0.7	0.5
Waste water diverted to beneficial land application (litres)	813,600	919,900	516,500
Waste produced (tonnes)	28.0	28.9	25.6
Waste diversion	96.9%	97.1%	95.4%
Energy consumption (kWh)	1.8m	1.7m	1.7m

The Task Force on Climate-Related Financial Disclosures (TCFD) framework continues to guide a2MC's approach to climate risk and opportunity analysis, measurement and disclosure. The Company has made good progress in its commitment to be fully TCFD aligned by the end of FY22. The Company is well placed as legislative changes are introduced in New Zealand, mandating climate-related financial disclosures in the future.

a2MC's targets will go beyond climate, encompassing key aspects that underpin value creation across the six capitals, in particular natural capital. While the Company had previously expected to announce these in FY21, the acquisition of MVM has meant that further detailed analysis is now required before setting the targets which will have regard to the whole of the Company's business (including MVM). The Company is taking a robust, data driven approach to setting ambitious and high impact targets and expects to announce these in FY22.

4 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.

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

6 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.

7 GHG emissions have been restated to incorporate new available data from our partners.



GHG emissions reduction programme

In August 2020, the Company announced that it would pivot from its approach of purchasing carbon credits to offset its indirect greenhouse gas (GHG) emissions to establishing a GHG emissions reduction programme within its supply chain.

For FY21, the financial contribution that would have funded carbon credits offsets for indirect GHG emissions was redeployed into environmental programmes that will directly reduce GHG emissions over time.

Over 90% of GHG emissions (direct and indirect) from a2MC's supply chain are:

- On farm emissions (78%): methane emitted by cows in particular
- Processing emissions (14%): fossil fuels used in manufacturing process

A GHG emission reduction programme that addresses these two aspects of a2MC's supply chain was established in the following broad groups:

- On-farm GHG reduction programme
 - Methane inhibitor research projects
 - Potential expanded farmer grant programmes
- Processing GHG reduction programme
 - Future conversion of coal boilers
 - Renewable energy investments
 - Other processing opportunities

Methane is a challenging issue. While in FY21 and for FY22 a2MC is progressing projects in methane reduction from inhibitors such as asparagopsis, it may be that in the future other scientific breakthroughs mean that alternative solutions are adopted.

FY21 progress

- Progressed a research project to assess the potential of asparagopsis in reducing methane produced by A2/A2 cows
- Agreed to contribute to Synlait's coal boiler biomass conversion
- Committed to converting or replacing MVM's coal boiler in the future
- Installed solar panels at Smeaton Grange milk processing plant and commenced an energy audit of the site

Next steps

- Continue to progress the above components of the GHG emissions reduction programme, with a focus on methane inhibitors
- Detailed assessment of the GHG emissions impact of Mataura Valley Milk in order to measure and report in future years
- Develop more specific targets for GHG emission reduction

Target

Net zero emissions by 2050

SDGs alignment



GHG footprint



DOING BUSINESS THE RIGHT WAY



MANUFACTURING
CAPITAL



SOCIAL
CAPITAL

The Company is committed to high standards of responsible conduct, social responsibility and environmental sustainability in all areas of the business.

Modern slavery

In 2018, Australia introduced the *Modern Slavery Act 2018* (Cth, Australia). The purpose of this legislation is to outline how businesses can take action and reduce the risk of vulnerable workers in their operations and supply chains. This Australian legislation requires certain companies based or operating in Australia to prepare annual statements on potential modern slavery risks in their operations and supply chains, and the steps they have taken to address those risks.

In March 2021, a2MC submitted its first Modern Slavery Statement in accordance with the Act. The Statement was made on behalf of all the entities of the Group, which was beyond the legislative requirement.

a2MC's Statement addresses key modern slavery risks and the Company's actions in identifying and assessing these risks. The key actions taken to mitigate these risks were also outlined. A copy of the Statement is available on the Company's website at <https://thea2milkcompany.com/corporate-governance>.

Responsible marketing

The a2 Milk Company's approach to marketing infant nutrition aligns to the core principle of supporting breastfeeding as the primary form of infant nutrition. The Company has developed a premium, high quality range of infant nutrition products to provide parents an alternative when breastfeeding is not an option.

Marketing of Infant nutritions (MAIF Agreement) and Infant Nutrition Council

The Company is a signatory to the Marketing in Australia of Infant nutrition: Manufacturers and Importers Agreement (MAIF Agreement). a2MC is also a member of the Infant Nutrition Council, which represents the major manufacturers and marketers of infant nutrition 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 nutrition in New Zealand (INC Code of Practice).

FY21 progress

- Submitted Modern Slavery Statement reporting on period from 1 July 2019 to 30 June 2020
- Updated due diligence process to address modern slavery risks for new on-farm suppliers
- Reviewed indirect modern slavery risks in operations and supply chain
- Implemented a general online training module for all employees
- Conducted training for key employees in supply chain, quality and regulatory compliance, and people and culture teams

Next steps

- Undertake second-tier review of modern slavery risks
- Review and analyse modern slavery risks in relation to MVM
- Continue to review indirect modern slavery risks in operations and supply chain
- Continue to update internal policies
- Consider expanding due diligence process for higher risk new suppliers
- Publish The a2 Milk Company's next Modern Slavery Statement by 31 December 2021

SDGs alignment



PACKAGING



NATURAL
CAPITAL



MANUFACTURING
CAPITAL

Packaging is an increasingly important issue for many stakeholders, including consumers.

The Company has a vision for as much of its packaging as possible to be reusable, recyclable or compostable. Achieving this will require a region by region and product by product approach over time. In FY21 there was a focus on products sold in Australia.

Australia first introduced the '2025 National Packaging Targets' in 2018 and they were updated in 2020. The targets require a complete and systemic change to the way Australia creates, collects and recovers product packaging, and are an important step on Australia's journey towards a circular economy for packaging.

The targets are overseen by the Australian Packaging Covenant Organisation (APCO) and, in 2021, a2MC became a signatory to the Covenant, strengthening the Company's long-term commitment to sustainable packaging.

Being a signatory to the Covenant, a2MC is required to report on its progress on an annual basis as well as publishing an action plan. This covers all Australian sales which captures a significant proportion of the Company's product portfolio, not only the fresh milk products produced in Australia.

Sustainable disposal of excess stock

During FY21, a2MC commenced a process to dispose of excess stock. This process is ongoing. The Company sought opportunities to make this excess stock available for human consumption. Donations to those in need around the world would have been the preferred solution as the stock is still safe for human consumption. However the Company was restricted in its ability to do this due to challenges in various regions. To the extent possible in different regions, excess stock is being made available for animal consumption or disposed of in a manner which is as sustainable as possible. The packaging will then be further segregated into its recyclable components and recycled.

FY21 progress

- Submission of APCO annual report (March 2021) and action plan (May 2021) to advancing packaging sustainability outcomes
- Conducted an extensive review on recycled content alternatives available for the packaging materials
- Investigated closed-loop recycling programmes

Next steps

- Continue to investigate and look towards innovative packaging design for sustainable solutions
- Execute against the APCO action plan
- Operationalise sustainable packaging initiatives within the business
- Target setting for products sold outside of Australia

Targets

Committed to Australia's 2025 National Packaging Targets

100%

reusable, recyclable or compostable packaging

70%

of plastic packaging being recycled or composted

50%

of average recycled content included in packaging (revised from 30% in 2020)



The phase out of problematic and unnecessary single-use plastics packaging

Metric	FY21	FY20	FY19
% of fully recyclable packaging	97.3%	95.9%	95.5%

SDGs alignment



SUPPORTING COMMUNITIES



SOCIAL
CAPITAL



INTELLECTUAL
CAPITAL

The Company recognises that it has a responsibility to support and contribute to the communities in which it operates. a2MC strives to make a difference by helping communities thrive, supporting organisations who are helping to create a brighter future for children and families, as well as the Company's farming communities.

Programmes are well aligned to the Company's purpose and are focused on proactive wellness.

a2MC has developed a community support framework to guide how to engage, invest, and give back to the communities where it operates, act on relevant social issues, and contribute to programmes that employees are passionate about.

Support takes the form of funds and product donations to help communities survive and thrive. As a business founded in innovation, a2MC also believes that science plays an essential role in enhancing the health and wellbeing of communities over time.

FY21 support

The Company supported the following organisations in FY21:

New Zealand

- Cure Kids
- KidsCan

China

- International Women's Day (as well as Australia and New Zealand)

USA

- Feeding America

Australia

- Foodbank – financial donation and product donation
- Landcare farmer grant programme
- The Song Room
- Norco Farms flooding support

SDGs alignment



Community engagement and investment programme framework

1. Child and parent wellbeing

- Proactive wellness for children & families
- Research to investigate good nutrition impact on health outcomes



2. Helping farming communities be their best

- Supporting a 'connected' community
- Mental wellbeing support
- Support physical health and active lifestyle



3. Give back to those in need

- Product donations
- Disaster/incident support for communities



4. Foster inclusion and diversity

SPOTLIGHT

Cure Kids

Cure Kids is the largest funder of child health research in New Zealand after the government.

The a2 Milk Company is proud to have supported Cure Kids Professorial Chair, Andrew Day, over the past two years to research digestive health for children, with a special focus on coeliac disease and irritable bowel disease.

In FY21, a2MC also made a significant donation to Cure Kids' Elliott-Caughey 50th Anniversary Fund. The funding will contribute to a multifactorial research consortium effort into the prevention, diagnosis and treatment of Rheumatic Fever and Rheumatic Heart Disease in NZ children.

This is a continuation of research support from a2MC into children's health and nutrition.

\$200k

donated to Cure Kids towards research



SPOTLIGHT

Foodbank (Australia)

The a2 Milk Company has supported Foodbank with fresh milk product donations in New South Wales and Victoria since 2015, scaling up support in times of heightened need.

In FY21 a2MC formalised the partnership, becoming a Foodbank National Donor Partner. In FY21 a2MC product donations totalled 240,219 kgs, which is the equivalent of 432,830 meals distributed to people in need.

In FY22 a2MC will be increasing its support with Foodbank in a more proactive way, with sponsorship of their School Breakfast Programme. This is a new partnership and aims to assist indigenous school children to have greater access to breakfast.

Foodbank Rumbling Tummies Report 2018 found that 1 in 5 Australian children experience food insecurity, and that children's concentration levels, engagement in class activities and school performance improved as a result of receiving food assistance. The a2MC team are all very proud of the partnership with Foodbank and its alignment with the Company's values.

240,219 kgs

of product donations to people in need in FY21

Equivalent to

432,830

meals



Next steps

China

In FY22 in China, a2MC will be helping parents and children to thrive. The Company will be supporting school children with nutrition stations and product donations – ensuring they have good nutrition to help drive better educational outcomes in rural communities.

For families, a2MC will be working with nutritionists to develop customised health care plans and donating milk powder products. This will help provide education and support to parents in rural communities and urban impoverished communities.

United States

Aligned with helping children thrive, in early FY22, the USA team is partnering with Feed the Children to send children back to school with confidence. The Company is donating 10% of every carton sold between 9 August and 2 September 2021 up to \$100,000, to providing food and supplies to school children, giving children what they need to do and be their best.

RISK MANAGEMENT

Risk management is an essential part of growing and developing a sustainable business.

Effective risk management anticipates risk and develops strategies to manage potential risk events, helping to drive informed and consistent decision making and effective and efficient allocation of capital and resources. The Company's risk management programme assists it in identifying, assessing, monitoring and managing business risk, and recognising material changes to its risk profile.

The Risk Management Policy outlines the programme the Company has implemented to deliver appropriate risk management within its processes, systems and culture. A copy of the Risk Management Policy is available at <https://thea2milkcompany.com/corporate-governance>.

Responding to challenging trading conditions during FY21

During the year, the COVID-19 global pandemic (COVID-19) continued to drive unprecedented levels of uncertainty and volatility, which significantly impacted markets in which the Company trades and consequently the performance of both a2MC and many of its competitors.

The Company's infant nutrition category was materially impacted by COVID-19, particularly in terms of disruption in the daigou/reseller, ANZ retail and cross border e-commerce (CBEC) channels, which had a negative impact on sales and ultimately led to excess channel inventory. The Company's understanding of channel inventory was exacerbated by difficulties with visibility, particularly over third-party inventory levels.

Following a Board-initiated comprehensive review of inventory by management, aggressive action was taken to address the particular challenges associated with channel inventory. This has included a rebalancing of inventory levels by reducing sell-in to the daigou/reseller, CBEC and China label channels, along with actions to improve the dating of inventory held by customers and distributors. These actions are proving to be effective with early signs of price stabilisation in the CBEC channel and some recovery in the daigou/reseller channel.

The Company has enhanced its inventory management systems in response to the challenges experienced during FY21. The Company is also exploring options to implement additional systems and processes to improve channel inventory visibility and demand and supply planning.

Identifying and responding to risk

The Company's risk assessment programme begins with the identification of key sources of risk relevant to its business activities. This approach facilitates a comprehensive assessment of potential risk events and allows appropriate management strategies to be subsequently employed to deliver appropriate risk management within the Company's systems and culture.

The following table identifies significant sources of risk for the business, including key economic, environmental and social risks with the potential to materially impact the Company's ability to achieve its objectives. It also summarises how the Company is responding to those risks.

Sources of risk (or risks associated with...)

The ongoing impacts from the COVID-19 global pandemic

COVID-19 has caused unprecedented social and economic disruption globally. Until the pandemic is contained, the business remains exposed to a number of ongoing risks, 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;
- demographic impacts (including reduction in birth-rates) in key markets resulting in reduced demand for a2MC's infant nutrition products;
- disruptions to sales channels – including the effect of ongoing travel restrictions on reseller channels between Australia and China; and
- recurring waves of infection and/or emergence of more virulent strains of COVID-19 through key markets of Australia, New Zealand, China and the US, which could result in future disruptions to supply chains, retail trading conditions, consumer buying patterns and sales growth in these markets.

The sale of nutritional food products

a2MC supplies food products for human consumption, including complex nutritional products for consumption by infants and children. As a result, the Company 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 the Company's brand and reputation.

Increasing competitive intensity

a2MC has experienced significant growth in recent years, driven predominantly by the success of its liquid milk businesses in Australia and the US, and its infant nutrition businesses in Australia and China. As a result, the Company is inherently exposed to:

- increasing competitive intensity, which could lead to an erosion of a2MC's 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.

Doing business in international markets

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

- changing macro trends (including demographic, economic and social trends), which can impact the size of addressable markets and/or the complexity of operating within those markets;
- 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;
- product compliance events, including the risk of (i) a failure to renew the SAMR product registration¹ for China label infant nutrition beyond its expiry in September 2022 and (ii) costs associated with ongoing product compliance;
- fluctuations in foreign currency exchange rates; and
- geographically dispersed management teams.

How we are responding

Notwithstanding the significant business disruption caused by COVID-19 to date, management remains focused on a number of key initiatives to minimise the impact of COVID-19 on business performance, including:

- the adoption of robust infection control protocols in line with all relevant government requirements, particularly across our manufacturing facilities;
- flexible working arrangements for staff combined with enhanced remote working technologies;
- continued close cooperation with Synlait Milk to maintain continuity of infant milk nutrition supply, and third-party suppliers in Australia and the US to maintain continuity of liquid milk supply;
- enhanced inventory surveillance and reporting to maintain stock control through the supply chain; and
- continued strong investment in brand to grow share in core markets including an agile approach to the execution of sales and marketing programmes, adjusting where appropriate to reflect shifts in consumer buying patterns and channel dynamics.

The Company has 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;
- implementation of a new traceability system;
- product recall and crisis management systems; and
- consumer support systems.

The Company's strategic growth priorities seek to ensure it remains competitive and continues to deliver long-term growth in existing and new markets. The Company's 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 the Company's 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 the Company's IP and taking action to protect it; and
- documenting and embedding proprietary know-how across systems and processes.

The Company's efforts to effectively navigate the complexities of international markets are supported by:

- strong investment in brand to support share growth in the face of evolving macro trends;
- ongoing investment in strategic advisory services to strengthen the Company's understanding of medium and long-term trends, and to inform its strategic planning;
- strong understanding of local standards, regulations and guidelines combined with sophisticated expert monitoring of evolving regulatory requirements in all markets in which we operate;
- close partnership with infant nutrition manufacturer, Synlait Milk, which holds:
 - GACC² registration for its Dunsandel manufacturing facility, allowing canned infant nutrition to be exported to China; and
 - SAMR product registration for the importation of the Company's China label infant nutrition through to September 2022;
- strong strategic partnerships with Chinese state-owned entities, as detailed in 'Reliance on strategic partnerships' below;
- a multi-product, multi-channel route to market strategy for the sale of infant nutrition into China;
- a treasury management function responsible for oversight and monitoring of foreign currency exposures; and
- strong and experienced local management teams in core markets of Australia, China and the US with frequent engagement between these teams and senior leadership.

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 nutrition. 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 (or risks associated with...)

Reliance on strategic partnerships

The Company's success has been 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 a2MC. This could impact the Company's ability to maintain supply to its customers and maintain its position in existing markets or enter new markets.

Climate change and reliance on natural resources

As a business that is heavily dependent on agricultural inputs, a2MC is 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 a2MC's 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 78% of a2MC'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 the Company's brand reputation. This is particularly significant as demands for transparency around these issues increase and supply chains come under greater scrutiny.

Reliance on talent and culture

The Company relies on the talent of its people and the effectiveness of its culture for success. Therefore, keeping its people safe and engaged is a top priority. The competitive nature of the employment market also contributes to risks associated with managing the Company's talent and culture:

- actual or potential harm to all team members 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 team morale and productivity, increased insurance costs and damage to the Company's reputation;
- loss of key management personnel, in addition to the potential loss of their teams, could also have a material effect on the Company's operating and financial performance;
- resource constraints resulting from business demands out-pacing talent acquisition; and
- building organisational capability through the recruitment of external hires carries with it the potential for transition risk.

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 the Company's IT systems and potential data theft, data loss or corruption. Such a compromise could result in economic or reputational loss.

How we are responding

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 alternative supply opportunities;
- a strong partnership with China State Farm Holding Shanghai Co., Ltd (CSF), a2MC's exclusive import agent for its China label products;
- a controlling 75% interest in Mataura Valley Milk (MVM) (from 30 July 2021) to support the growth of the Company's nutritionals business, provide supplier and geographic diversification, and strengthen its relationship with key partners in China (including China Animal Husbandry Group);
- contracts providing access to milk pools that exceed the Company's current usage requirements; and
- multiple milk processors contracted in Australia and the US, mitigating reliance on a single processor in these regions.

The Company is responding to growing demands for transparency by integrating the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into its strategic planning and risk management processes, with the intention of adopting the full TCFD disclosure by the end of FY22. More information regarding climate impact on page 28.

The Company is managing its exposure to climate and environmental risks by:

- assessing baselines and short, medium and long-term targets³ across GHG emissions, energy and water consumption, waste-to-landfill and product packaging within the Company's direct operations and supply chain;
- building long-term supply arrangements with partners, promoting positive environmental and social sustainability activities and initiatives and targeting the implementation of environmental plans on all supplying farms by the end of 2023;
- 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 the Company's processing facilities wherever practicable, reducing the need to transport milk over long distances from other areas;
- implementing a best practice globally certified animal welfare standard across a2MC's operations, aligned to the Five Freedoms Framework and Animal Welfare Aims; and
- investing directly in emissions reduction initiatives to help mitigate climate change.

The Company is committed to the safety of its people and has established systems and processes, based on its understanding of global practices, to identify, control, report, investigate and monitor health (including mental wellbeing) and safety risks across the business.

Believing that well-managed, engaged and effective teams create long-term business success, the Company's 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;
- a series of bespoke wellbeing webinars designed to provide employees with practical strategies to navigate challenges and build resilience, including through extended periods of working from home;
- strong core 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 management pool to support future growth;
- succession planning to ensure continuity of knowledge, skills and experience; and
- alignment of remuneration with a2MC's values, objectives and risk tolerances.

The Company remains focused on further strengthening its governance, processes and technology controls to protect the integrity and privacy of data and maintain compliance with regulatory requirements.

The recent implementation of new enterprise resource planning (ERP) software will improve the overall IT architecture and reduce the number of applications in use across the business, allowing the protection protocols in place to be streamlined.

The Company continues to build its cyber resourcing capability and improve its cyber security systems and protections, including restricting access to sensitive data, conducting regionally-specific cyber security audits, implementing more sophisticated cyber tracking and monitoring tools and maintaining cyber security insurance.

a2MC has also identified the need to complete third-party cyber risk reviews and is currently agreeing scope and timing with identified parties.

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

C O R P O R A T E

G O V E R





FINANCE

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

In addition to his Company directorship, David is also Chairman of SafeStore Holdings plc (a UK FTSE listed company) and 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 New Zealand and was a partner with PwC NZ for 20 years. She was a member of the New Zealand External Reporting Advisory Panel from 2013 to 2021, a body designed to support the standard setting process of the New Zealand External Reporting Board. She was also a member of The New Zealand Sustainable Finance Forum Leadership Group which released the Roadmap for Action Final Report in November 2020, 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.

In addition to her Company directorship, Julia is a director of Port of Tauranga Limited, Auckland International Airport Limited and Meridian Energy Limited. She is also the President of the New Zealand Institute of Directors.

Julia resides in New Zealand.



David Bortolussi
Managing Director and CEO

Bachelor of Commerce
(University of Melbourne), FCA, F FIN,
Member of the Australian Institute of
Company Directors (MAICD)

Director since February 2021

David joined the Company in February 2021 from his most recent role as Group President – International Innerwear, HanesBrands. He joined Pacific Brands in 2009 initially as Chief Financial & Operating Officer taking over as CEO of the public company in 2014. In 2016, HanesBrands acquired Pacific Brands and expanded David's role to cover Australasia and subsequently its international innerwear operations outside of the Americas.

Prior to this, David spent five years at Foster's Group, where he held the role of Chief Strategy Officer responsible for corporate strategy, M&A, business development and performance improvement. Prior to Foster's Group, David held senior consulting roles at McKinsey & Company and PwC. David's career has largely been focused on the consumer and retail sector in Australia and New Zealand complemented by significant international experience in various markets and categories in China, SE Asia, the EU and the US.

David resides in Australia.



Warwick Every-Burns
Independent,
Non-Executive Director

Advanced Management Program
(Harvard)

Director since August 2016

Warwick has been a director of the Company since 23 August 2016. He is also Chair of the People and 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 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 resides in Australia.



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 since 1 July 2019. She is also Chair of the Nomination Committee and a member of the People and Remuneration Committee.

Currently Pip is also a director on the boards of Westpac New Zealand, Spark New Zealand, Fisher & Paykel Healthcare and Vulcan Steel. 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, 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.



Bessie Lee
Independent,
Non-Executive Director

Master of Science (Illinois State
University)

Director since February 2021

Bessie Lee has been a director of the Company since 26 February 2021 and sits on both the Audit and Risk Management Committee and the People and Remuneration Committee.

Bessie is a highly regarded company director and an expert, especially in digital marketing and innovative data management in China, with a diversity of experience. She is a director on the boards of Electrocomponents and Abcam. She was also previously a director at Ecovacs Robotics.

Bessie founded Withinlink Limited in 2015 where she continues to focus on investing and incubating marketing technology start-ups in China, several of which have listed in the past few years.

Bessie was previously the CEO of WPP China, the world's leading marketing communications group, focusing on mergers and acquisitions, senior client relations and government relations. Bessie is the recipient of numerous industry awards, including being named The Most Innovative Person in Business in 2019 by the International Entrepreneurs, Creatives and Innovators Association (IECIA).

Bessie resides in China.

EXECUTIVE LEADERSHIP TEAM

David Bortolussi Managing Director and CEO

Bachelor of Commerce
(University of Melbourne), FCA, F FIN,
Member of the Australian Institute of
Company Directors (MAICD)

Refer to page 40 for biography.

Shareef Khan Chief Operations Officer

Bachelor of Science, CSCP, APICS

Shareef joined the Group in June 2012. He is responsible for all operations including farm services, supply chain, manufacturing, quality and regulatory and product development across the Group in each of our geographies. This spans from farmers through to distribution to our customers and includes management of key strategic partnerships.

Shareef has over 17 years' senior management experience in the dairy and infant nutrition category. He is a qualified supply chain professional and has experience across a number of industries.

Eleanor Khor Chief Strategy Officer

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

As Chief Strategy Officer, Eleanor is responsible for developing corporate and business strategy and the execution of key growth, performance improvement and, to the extent relevant in the future, potential M&A, joint venture and alliance initiatives.

Eleanor joined the Company in August 2018, bringing a diverse range of experience, including from her time as a corporate lawyer at Allens Linklaters, as a management consultant at Bain & Co, and in private equity Coast2Coast Capital. Since joining The a2 Milk Company, Eleanor has spent significant time working across China and the Asia Pacific regions, making her well placed to lead this important function for the business.

Jaron McVicar Chief Legal and Sustainability Officer & Company Secretary

Bachelor of Laws
(LL.B.), (University of Otago)

Jaron joined the Group 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.

Jaron is responsible for the Group's legal and science functions and in his role as Company Secretary works closely with the Board on governance.

Jaron's role has recently expanded to include leading our important sustainability programme.

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.

Race Strauss Chief Financial Officer

Fellow of CPA Australia (FCPA),
Bachelor of Business (Griffith
University, QLD), Executive MBA
(INSEAD, Singapore), Member of the
Australian Institute of Company
Directors (MAICD)

Race joined the Group in January 2020. He is responsible for finance, IT and investor relations 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 based in Singapore.

More recently Race spent seven years in Chief Financial Officer roles with the Qantas Group, including at Jetstar and at Qantas Airlines.

Janelle Tong Chief Marketing Officer (Interim)

Bachelor of Business / Bachelor of
Laws (Hons), (University of Technology
Sydney)

Janelle joined the Company in July 2020 and has extensive experience across brand strategy, marketing, innovation and integrated communications, coupled with an in-depth understanding of Asia Pacific markets.

Janelle has held senior-level marketing positions in leading consumer packaged goods companies including Pepsico, McDonald's Corporation, British American Tobacco and Pernod Ricard in Australia, China, Hong Kong, South Korea and Singapore.

Since joining the Company, Janelle has played a key role in developing the global direction of the brand and working with the regional marketing teams to optimise the marketing and communications of the brand across our key markets.

Amanda Hart Chief People and Culture Officer (Commencement date 06/09/2021)

Amanda will join the Company in September 2021 from her most recent role as Head of Human Resources, Australia and New Zealand, with Dyson Appliances, having spent the past four years with the organisation as a senior human resources leader across several Asia Pacific markets with a focus on leadership development and organisational change.

Prior to her time at Dyson Appliances, Amanda held senior human resources roles with Cotton On Clothing and Global Radio.

In the Chief People & Culture Officer role, Amanda will be responsible for driving the people strategy and executing integrated programmes focused on continuing to improve the Company's capability building, leadership development, employee engagement, diversity and inclusion, and pioneering culture.

Kevin Bush

Executive General Manager – ANZ

Bachelor of Commerce, Marketing (Monash University), Graduate Cert. Data Analytics (UNSW), Member of the Australian Institute of Company Directors (MAICD)

Kevin was appointed to the role of Executive General Manager – ANZ in July 2021. Kevin is responsible for leading the Company's business in Australia and New Zealand, focusing on continuing to grow the liquid milk business in the near term and evolving its strategy to realise the full potential of the a2 Milk™ brand.

Kevin previously held the role of Sales Director – ANZ from July 2016. He was pivotal in growing the a2 Milk™ liquid milk brand and driving increased market share. Kevin has also overseen the successful establishment of the a2 Platinum® brand in the South Korean market and various other business development initiatives across the Group.

Kevin is a highly experienced sales and marketing professional with extensive FMCG experience across Australian and UK markets and has held senior positions with leading consumer goods companies including Mars, Nestlé and McCain Foods.

Xiao Li

Chief Executive – Greater China

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

Xiao Li joined the Group in April 2019. Xiao Li 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.

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

Bernard May

Chief Executive Officer – Mataura Valley Milk

Cert. in Company Direction (NZ Institute of Directors), Cert. in Food Technology (Auckland Institute of Technology), Cert. of Quality Assurance (New Zealand Quality Assurance Authority)

Bernard joined The a2 Milk Company when it acquired a 75% share of Mataura Valley Milk in July 2021.

Bernard is responsible for leading Mataura Valley Milk, one of the most technically advanced nutritional manufacturing sites globally. Mataura Valley Milk produces nutritional products for well-known international brands that value quality, reliability and expertise.

As a skilled leader with 35 years of experience in the food and beverage industry, Bernard has a comprehensive knowledge of operations management, commercial leadership, product development and people development.

Yohan Senaratne

Executive General Manager – International

Master of Business Administration (Kellogg School of Management, Northwestern University)

Yohan joined the Company in July 2021. Yohan is responsible for leading the Company's cross-border export business, primarily focused on English label IMF products manufactured in New Zealand and sold into China, including liquid milk and other nutritional products. Yohan is responsible for managing products sold through all channels, principally via the daigou/reseller and cross-border e-commerce (CBEC) channels. The International team is also responsible for developing the Company's business in emerging markets.

Yohan brings capability in strategy, marketing, sales and E-commerce, and experience in infant milk nutrition and adjacent categories in China.

Yohan joined the Company from his most recent role as Sales and Marketing Director at Bellamy's Organic. Yohan has also held multiple positions at Mondelez International, including Head of e-commerce for Australia, New Zealand and Japan. Prior to this, Yohan worked at ANZ Bank, focusing on retail banking digital transformation and with strategy consultancy LEK.

Blake Waltrip

Chief Executive – USA

BA Economics (University of California at San Diego), Master 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 liquid milk business as well as managing our supply chain partnerships and performance for this 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.

GOVERNANCE

The a2 Milk Company is committed to maintaining the highest standards of corporate governance. The Company's 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.

a2MC believes that good corporate governance adds to its performance, creates shareholder value and engenders the confidence of the investment market.

The Company's 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) (Fourth Edition).

For FY21, the Company's corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles (Fourth Edition), except where noted below.

ASX Principles

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

The roles of Chair and CEO are not exercised by the same individual. From 1 July 2020 to 8 February 2021, Geoffrey Babidge held the role of CEO (on an interim basis), and since 8 February 2021, David Bortolussi has held the role of Managing Director and CEO.

However, the Board did not consider the Company's Chair, David Hearn, to be an independent director in FY21 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 in prior years, which were exercised in full in FY20.

Considering his limited executive role during the first half of FY19, the Board considered it appropriate that David should retain his non-independent status during FY21.

David brings to the Board invaluable perspective on the development of consumer products markets globally. The

Board is confident that he exercises an independent view and judgement in his role as Chair and that the CEO has full executive control and accountability in the organisation.

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

Director independence

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

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

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

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

Based on these measures, and the considerations discussed on this page the Board considers that Julia Hoare, Warwick Every-Burns, Pip Greenwood and Bessie Lee are independent directors, and that up to his resignation on 26 February 2021, Jesse Wu was also an independent director.

The Board will continue its practice of regularly assessing the independence of each of its non-executive directors. Based on the measures and considerations discussed on this page, the Board will review David Hearn's independence from 2022 (by which time it will have been more than three years since David Hearn's previous limited executive role ceased) and any change of status will be notified to the market at the relevant time.

Corporate Governance Statement

The a2 Milk Company's Corporate Governance Statement, which is current as at 30 June 2021 and approved by the Board, can be found at <https://thea2milkcompany.com/corporate-governance>.

The a2 Milk Company's 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 key roles and responsibilities of the Board are set out in the Board Charter, available on the Company's website at <https://thea2milkcompany.com/corporate-governance>. These include matters relating to the Company's strategic and financial performance; executive management; audit and risk management; strategic planning; corporate governance and disclosure; performance evaluation; workplace health and safety; ethical conduct; and assessing and monitoring the effectiveness of the Company's approach to sustainability and the social, ethical and environmental impact of the Company's activities and operations.

The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, People and Remuneration Committee, and Nomination Committee). The diagram below illustrates a2MC's corporate governance framework.

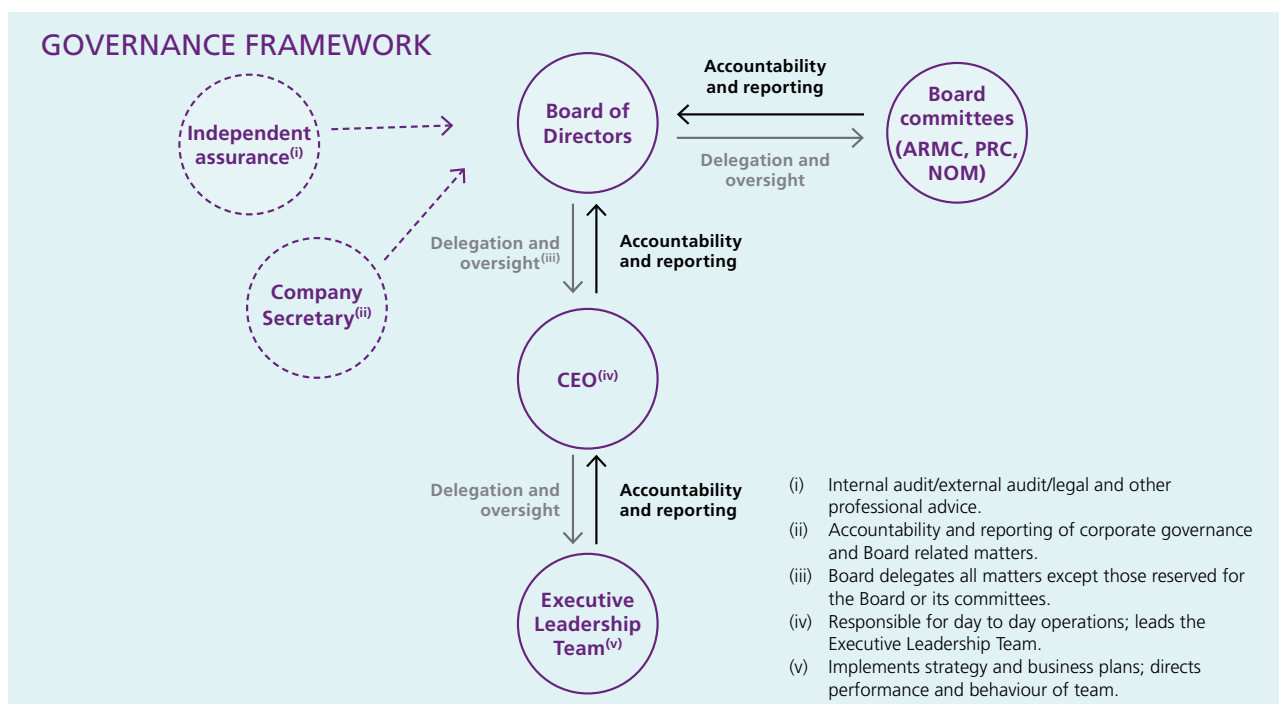
Audit and Risk Management Committee (ARMC)

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.

People and Remuneration Committee (PRC)

This committee (formerly known as the Remuneration 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. This committee's role is currently being expanded to include oversight over people strategy, policies and practices.

Reporting to the Board on the progress of the implementation of the Company's Diversity Policy will transition across from the Nomination Committee to this committee.



GOVERNANCE (CONTINUED)

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.

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 <https://thea2milkcompany.com/corporate-governance>.

Board size, skills and structure

During FY21 the Board comprised four independent non-executive directors, with Bessie Lee replacing Jesse Wu following his retirement on 26 February 2021, and an additional non-executive director, David Hearn. From 8 February 2021, 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 ordinarily resident in New Zealand to comply with the NZX Listing Rules. Julia Hoare and Pip Greenwood are both ordinarily resident in New Zealand.

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

Board committees

The Board's three standing committees facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the committees as at, and throughout the financial year ended 30 June 2021, was as follows:

Committee	Members	Independent	Non-executive
Audit and Risk Management Committee	Julia Hoare (Chair)	✓	✓
	Warwick Every-Burns	✓	✓
	Bessie Lee (Appointed: 26 February 2021)	✓	✓
	Jesse Wu (Resigned: 26 February 2021)	✓	✓
People and Remuneration Committee	Warwick Every-Burns (Chair)	✓	✓
	Pip Greenwood	✓	✓
	Bessie Lee (Appointed: 26 February 2021)	✓	✓
	Jesse Wu (Resigned: 26 February 2021)	✓	✓
Nomination Committee	Pip Greenwood (Chair)	✓	✓
	David Hearn	X	✓
	Julia Hoare	✓	✓

Attendance at Board and Committee meetings

Director attendance at Board and Committee meetings during FY21 is set out below.

	Meetings of the Board		Audit and Risk Management Committee ⁵		People and Remuneration Committee ⁶		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Hearn (Chair) ¹	19	19	2	2	–	–	8	8
Julia Hoare (Deputy Chair)	19	19	6	6	–	–	8	8
David Bortolussi ² (Managing Director & CEO)	5	5	2	2	–	–	–	–
Warwick Every-Burns	19	19	6	6	3	3	–	–
Pip Greenwood ³	19	16	–	–	3	3	8	8
Bessie Lee ⁴	4	4	0	0	2	2	–	–
Jesse Wu ⁴	15	14	4	4	1	1	–	–

Held: meetings held during the period for which the person was a director or Committee member.

1 David Hearn replaced Jesse Wu on the ARMC for a brief period of time prior to Bessie Lee's appointment.

2 David Bortolussi: appointed on 8 February 2021.

3 Pip Greenwood did not attend three meetings of the Board due to the agreed protocol whereby Ms Greenwood abstains from certain Board discussions and decisions as referred to on page 110.

4 Bessie Lee: appointed on 26 February 2021. Jesse Wu: resigned on 26 February 2021.

5 In addition to formal Audit and Risk Management Committee meetings, that Committee also held five workshops to prepare for formal meetings and discuss issues as they arose.

6 In addition to formal People and Remuneration Committee meetings, that Committee also held two workshops to prepare for formal meetings and discuss issues as they arose.

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 <https://thea2milkcompany.com/corporate-governance>

- Code of Ethics;
- Continuous Disclosure Policy;
- Diversity Policy. Refer to the discussion of this policy commencing on page 23;
- Risk Management Policy. Refer to the discussion of this policy commencing on page 34;
- Securities Trading Policy;
- Shareholder Communications Policy;
- Global Whistleblower Policy;
- Global Anti-Bribery & Anti-Corruption Policy; and
- Responsible 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.

Modern Slavery Statement

The Company's Modern Slavery Statement for FY20 published in accordance with the *Modern Slavery Act 2018* (Cth, Australia) was issued on 30 March 2021, and is available on the Company's website at <https://thea2milkcompany.com/corporate-governance> – refer to the discussion of this statement commencing on page 30.

REMUNERATION

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

The Company's 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 talent market.

Remuneration policies and practices

The People and Remuneration Committee advises the Board on 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 People and Remuneration Committee Charter sets out the objectives, responsibilities and authority of the People and 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 People and Remuneration Committee reviews the remuneration packages of the CEO and other senior executives at least annually.

All employees have a fixed remuneration package. Selected employees 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.

In FY21, eligible employees not participating in the LTI plan, had the opportunity to participate in the Company's Gift Plan and ALL a2 Plan. Under the Gift Plan, participating employees received shares in the Company worth up to A\$500 at no cost. Under the ALL a2 Plan, participating employees purchased up to A\$2,000 worth of shares in the Company at the prevailing market price, and will receive an additional 'matching' share for each purchased share if they hold the shares they acquired for two years.

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 plan 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 employee'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 budgeting and forecasting 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 Leadership 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 Leadership Team. The performance discussions are documented and form the basis of the annual performance review that each executive undertakes with the CEO at the end of the performance period.

The outcome of the executive's performance over the course of the year is one factor taken into account when any changes to fixed remuneration or any award of variable remuneration and incentives are considered.

During FY21, each member of the Executive Leadership Team who was an employee for the duration of the reporting period had at least one periodic performance discussion documented.

Remuneration framework

The remuneration framework is designed to deliver high performance with substantial components at-risk, with the aim of more closely aligning remuneration with the Company's values, objectives and risk tolerances 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 market remuneration benchmarks. 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 benchmarks.

Variable remuneration

The STI and LTI programmes provide the potential for participating employees to receive payment over and above fixed remuneration. These programmes are discretionary, appropriate to the results delivered by the Group and employee performance, and based on the principle of reward for performance. A significant portion of senior executive remuneration is at risk.

The following table illustrates the relative percentages of annual fixed remuneration and at risk STI and LTI in FY21 (as they would have applied had the grant of performance rights under the FY21 LTI not been deferred).

	Fixed	STI (at target)	LTI (face value)
CEO (July 2020 to February 2021)	71%	29%	0%
CEO (February 2021 to June 2021)	27%	32%	41%
Executive Leadership Team (not including the CEO)	26%–43%	28%–35%	26%–43%

Short-Term Incentive (STI) plan

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

Payments are made under the STI plan in the form of a cash bonus.

The framework of the approach to the FY21 STI plan provided for the amount of any cash bonus payable to a participating employee to be determined with reference to:

- the amount of the employee's target incentive, as referenced against their fixed annual remuneration;
- the Group's performance against the FY21 Group Performance Scorecard (comprising both financial and non-financial targets); and
- the employee's performance against personal objectives for the performance period.

The FY21 Group Performance Scorecard included financial measures that had a weighting of 60% and non-financial measures that had a weighting of 40%. The measures are referred to in the following table.

FY21 Group Performance Scorecard		
FY21 Group Objectives	Metric	Weighting at target
Financial Measures	Revenue	60%
	EBITDA	
Non-Financial Measures		40%
MBS market share	Moving annual total (%)	5%
CBEC market share	Moving annual total (%)	5%
China brand health	Spontaneous brand awareness	2%
China label re-registration	Scorecard milestones	3%
Sustainable scale in the US	Store velocities (units per store per week)	5%
New growth opportunities	Asia Pacific macro milk revenue	5%
Supply chain strategy execution	MVM transaction	5%
ERP implementation	On time and on budget / employee engagement	5%
People and culture and strategy	People engagement (survey)	5%
Total at target		100%

REMUNERATION (CONTINUED)

The FY21 STI plan anticipated a maximum potential outcome for the Group Performance Scorecard of 120%. The outcome of the FY21 Group Performance Scorecard for all Executive Leadership Team members (including the CEO) was 30% reflecting achievement of a majority of non-financial measures and no achievement of financial measures.

The FY21 STI plan also anticipated the application of a maximum individual performance multiplier of 130% for the (then incoming) CEO and 120% for all other Executive Leadership Team members. Having regard to the challenging year for the Group, the People and Remuneration Committee determined not to apply individual performance multipliers to the calculation of FY21 STI payments.

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 the Company's business strategy: targeting profitable, long-term revenue growth, which requires appropriate investment.

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, with the number of Awards to an eligible participant set by reference to a fixed percentage of that participant's fixed annual remuneration. No dividends are paid on performance rights. The Board may forfeit performance rights for fraud, dishonesty or wilful breach of duties.

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 in FY19. The Company instead issued performance rights in respect of FY19 to the relevant LTI plan participants during FY20. This first tranche of performance rights issued in FY20 were assessed against the two-year performance period from 1 July 2019 to 30 June 2021. As a result of the financial performance of the Group in FY21, this first tranche of performance rights will not vest and will lapse.

The second tranche of performance rights granted in FY20 have a three-year performance period, meaning that, subject to the following conditions, those Awards would vest at the end of FY22:

- 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 from 1 July 2019 to 30 June 2022 (E-CAGR); and
 - A minimum normalised sales CAGR increase of 15% over the same performance period (S-CAGR).
- No awards will vest if E-CAGR or S-CAGR is less than 15% over the performance period.
- 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 22% or more is achieved.

While the Company does not expect this second tranche of performance rights to vest, for completeness it is noted that:

- 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 compliance with relevant laws, the Company will satisfy any obligation to allocate ordinary shares upon the vesting of performance rights by instructing the trustee of the a2MC Group Employee Share Trust to purchase shares on-market.

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

Performance rights in FY21

The issue of performance rights (and time-based rights) for FY19 and FY20 to China-based employees needed to be deferred until the Company secured requisite China regulatory registrations and approvals. This meant that the Awards that would otherwise have been made to participating employees in China in FY20 were made in FY21 (following receipt of the requisite China regulatory registrations and approvals).

No new performance rights were granted under the FY21 LTI plan, with the LTI programme currently under review, having regard to the Group's revised performance outlook, and the continuing need to appropriately reward employee performance in support of the Group's business strategy. The review is expected to be finalised in the first half of FY22, when it is expected the Company will issue performance rights for FY21 (which, as noted, did not proceed in FY21) to be assessed against a two-year performance period from 1 July 2021 to 30 June 2023.

Minimum Shareholding Requirement

Executive Leadership Team

A Minimum Shareholding Requirement (MSR) Policy applies to all members of the Executive Leadership Team. From time-to-time additional employees may be identified to whom the MSR Policy will apply.

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

The Executive Leadership Team 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.

The Executive Leadership Team 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. Where 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.

Directors' remuneration

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

The annual aggregate non-executive directors' remuneration pool, 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	165,000
Deputy Chair	210,000
Non-executive director	165,000
Audit and Risk Management Committee:	
Chair	35,000
Committee member	16,500
People and Remuneration Committee:	
Chair	35,000
Committee member	16,500
Nomination Committee:	
Chair	22,000
Committee member	11,000

REMUNERATION (CONTINUED)

Remuneration paid to non-executive directors of the Company in FY21 was as follows:

	Board fees	Committee fees			Total fees	Other benefits received	Total remuneration
	Audit and Risk Management	People and Remuneration	Nomination				
	\$	\$	\$	\$	\$	\$	\$
David Hearn (Chair)	165,000	–	–	–	165,000	–	165,000
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 ¹	107,250	12,375	12,375	–	132,000	–	132,000
Bessie Lee ²	55,688	5,569	5,569	–	66,826	–	66,826
Total	867,938	69,444	69,444	33,000	1,039,826	–	1,039,826

¹ Jesse Wu: retired on 26 February 2021.

² Bessie Lee: appointed on 26 February 2021.

No director of a subsidiary company was remunerated in their capacity as a director.

Remuneration of CEO – David Bortolussi

David Bortolussi commenced his appointment as Managing Director and CEO on 8 February 2021. Details of his FY21 remuneration arrangements are set out below:

Term

There is no fixed term, employment is ongoing until terminated by either David or the Company.

Total Fixed Remuneration

A\$1,750,000 per annum (inclusive of superannuation) in FY21, to be reviewed annually.

STI

On an annual basis, David is entitled to participate in the Company's STI plan. For FY21, he is entitled to receive an STI payment to be determined with reference to a STI target incentive of 120% of his annualised Total Fixed Remuneration, the Group's performance objectives as determined each year by the Board and, an individual multiplier of between 0% and 130% based on the Board's assessment of David's individual performance.

LTI

On an annual basis, subject to any shareholder approval that may be required, David is entitled to be invited to take up performance rights under the Company's LTI plan.

For FY21, David was to be granted performance rights to the value of A\$2,625,000, equivalent to 150% of his Total Fixed Remuneration, vesting over a three-year period based on performance hurdles and vesting conditions to be determined by the Board. As the grant of performance rights to participating employees under the FY21 LTI plan was deferred and did not happen in FY21 (with, as noted above, the Company's LTI programme currently under review), subject to any shareholder approval that may be required, David will be offered these performance rights for FY21 on recommencement of the programme in the first half of FY22.

Allowance

An allowance of A\$10,000 per month (net of tax) was paid to David during FY21 to assist with the cost of David's accommodation in Sydney and travel between Melbourne and Sydney.

Notice period

Generally, resignation by David requires six months' notice and termination (other than for cause) by the Company requires twelve months' notice.

Leave

Five weeks per annum paid annual leave.

Other terms

David's executive service agreement also includes standard terms covering expense reimbursement, conflicts of interest, confidentiality, intellectual property and moral rights, clawbacks and restraints upon termination (which address non-competition, as well as non-solicitation of employees, customers and suppliers).

Remuneration paid in FY21

The remuneration paid to David Bortolussi in FY21 was as follows:

	2021 A\$
Fixed remuneration	693,160
STI paid	–
Transition benefits	1,270,000
Allowance	94,340
Total remuneration received	2,057,500

For FY21, David is entitled to receive an STI payment to be determined with reference to a STI target incentive of 120% of his annualised Total Fixed Remuneration.

As noted on page 50:

- The FY21 STI plan anticipated a maximum potential outcome for the Group Performance Scorecard of 120%.
- The outcome of the FY21 Group Performance Scorecard for David (and all other Executive Leadership Team members) was 30%.
- The FY21 STI plan also anticipated the application of a maximum individual performance multiplier of 130% for the (then incoming) CEO and 120% for all other Executive Leadership Team members.
- Having regard to the challenging year for the Group, the People and Remuneration Committee determined not to apply individual performance multipliers to the calculation of FY21 STI payments.

As a result of the above, a payment in the amount of A\$630,000 is to be made to David under the FY21 STI plan.

Transition benefits

On a one-off basis, David received the following transition benefits as partial compensation for vested and unvested STI, LTI and other entitlements that he forfeited on resigning from his previous employment:

- A\$1,270,000 cash payment on commencement date; and
- 311,283 time-based rights to acquire ordinary shares in the Company, equivalent at time of grant to A\$3,700,000, calculated by reference to the 90-day Volume Weighted Average Price (VWAP) over the period that ended five ASX trading days before the commencement date (being A\$11.89) and with a market value at market closing on 30 June 2021 of A\$1,867,698. 155,642 rights vest on the first anniversary of the commencement date in February 2022 and the remaining 155,641 rights vest on the second anniversary in February 2023. These rights are not subject to performance hurdles but are otherwise issued on terms similar to performance rights.

At the time of resigning from his previous employment, the transition benefits equated to approximately 80% of the total potential entitlements that David forfeited, the majority of which were not at risk and subject to time-based vesting only.

Other than to meet any tax obligations, no shares held by David can be sold until he holds sufficient shares to meet the Company's minimum shareholding requirement.

Remuneration of former CEO – Geoffrey Babidge

Geoffrey was employed under an employment agreement with the Company as Interim CEO from 9 December 2019 to 8 February 2021.

Geoffrey received total fixed remuneration of A\$1,600,000 per annum (including superannuation) and was entitled to receive an STI payment at the end of his tenure, based on total fixed remuneration paid during the period of tenure.

The remuneration paid to Geoffrey Babidge in FY21 was as follows:

	2021 A\$
Fixed remuneration	1,066,667
STI paid at end of tenure ¹	800,859
Termination payments	26,610
Total remuneration received	1,894,136

¹ The STI paid to Geoffrey at the end of his tenure related to his entire tenure as Interim CEO, from 9 December 2019 to 8 February 2021 (that is, for both FY20 and FY21).



FINANCIAL
STATEMENTS

DIRECTORS' APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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 2021.

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 2021 and the results of its operations and cash flows for the period ended on that date.

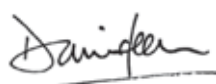
The directors consider the financial statements of the Group to have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

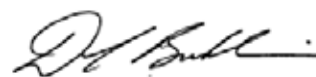
The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial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

There are reasonable grounds to believe that the Company and the Group entities identified in Note E1 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



David Bortolussi
Managing Director and CEO

25 August 2021

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INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2021



**Building a better
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Independent auditor's report to the Shareholders of The a2 Milk Company Limited

Opinion

We have audited the financial statements of The a2 Milk Company Limited ("the Company") and its subsidiaries (together "the Group") on page 60 to 105, which comprise the consolidated statement of financial position of the Group as at 30 June 2021, 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 105 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2021 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.

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

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

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered the appropriateness of the Group's revenue recognition accounting policies as they relate to trade discounts, promotional allowances and rebates.
- ▶ Understood the Group's processes and controls in relation to the recording of trade discounts, promotional allowances and rebates.
- ▶ Selected a sample of customer contracts to determine 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 discounts, rebates and promotional allowances 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.
- ▶ Considered the adequacy of the associated disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2021



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Valuation of inventory

Why significant	How our audit addressed the key audit matter
<p>During the year the Group identified concerns with the net realisable value of certain inventory and as a result an expense of \$108m was recognised, which included both reductions in the value of inventory and, where applicable, the expected costs of disposal.</p> <p>As detailed in note C2 of the financial report, inventories are valued at the lower of cost and net realisable value. Significant judgement is involved in estimating the net realisable value of inventory as it comprises a range of product types with limited shelf life sold through a number of sales channels. In addition, complexities associated with COVID-19 and its impact on international trade, economic conditions and consumer preferences have increased the uncertainty of these estimates.</p> <p>We considered this a key audit matter due to the size of the inventory balance and the complexity in estimating the valuation of inventory.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the application of inventory costing methodologies and tested the recorded cost of a sample of inventory items to supplier invoice or other relevant documentation. ▶ Assessed the effectiveness of relevant controls to identify inventory that is no longer considered saleable. ▶ Attended stocktakes at a selection of locations to validate the existence and expiry dates of inventory on a sample basis. ▶ Tested the year-end inventory ageing forecast model prepared by the Group which is used in calculating the net realisable value of inventory. Our procedures included validating model inputs, including expiry dates, and assessing the sales volume and pricing used based on historical evidence, seasonal trends and enquiry with management. ▶ Assessed management's estimated costs of disposal and agreed these estimates to third party contracts and quotations where applicable. ▶ Considered the adequacy of the associated disclosures in the financial statements.

Information other than the financial statements and auditor's report

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

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

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

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young
Sydney
25 August 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$'000	2020 \$'000
Continuing operations			
Sales	B1	1,205,034	1,730,696
Cost of sales		(695,321)	(762,122)
Gross margin		509,713	968,574
Other revenue	B1	1,700	435
Distribution expenses		(45,175)	(42,564)
Administrative expenses		(87,020)	(96,035)
Marketing expenses		(168,710)	(194,309)
Other expenses		(94,462)	(88,380)
Operating profit		116,046	547,721
Interest income		3,989	6,129
Finance costs	B5	(770)	(448)
Net finance income		3,219	5,681
Profit before tax		119,265	553,402
Income tax expense	B7	(38,607)	(165,235)
Profit from continuing operations		80,658	388,167
Discontinued operation			
Loss from discontinued operation, net of tax	B3	–	(2,330)
Profit for the year		80,658	385,837
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation profit		1,073	2,863
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	C7	(134,618)	(56,083)
Total comprehensive (loss)/income		(52,887)	332,617
Earnings per share			
Basic (cents per share)	B6	10.86	52.39
Diluted (cents per share)	B6	10.86	52.12
Earnings per share – continuing operations			
Basic (cents per share)	B6	10.86	52.71
Diluted (cents per share)	B6	10.86	52.43

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June 2021	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 2020	(12,478)	3,640	41,719	(10,031)	22,850	964,279	146,933	1,134,062
Profit after tax for the period	–	–	–	–	–	80,658	–	80,658
Foreign currency translation differences – foreign operations	1,117	–	–	–	1,117	–	–	1,117
Listed investment – fair value movement	–	(134,618)	–	–	(134,618)	–	–	(134,618)
Income tax	(44)	–	–	–	(44)	–	–	(44)
Total comprehensive income for the period	1,073	(134,618)	–	–	(133,545)	80,658	–	(52,887)
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	–	–	–	–	–	–	2,207	2,207
Share issue costs	–	–	–	–	–	–	(19)	(19)
Treasury shares retained for employee withholding tax payments	–	–	–	(316)	(316)	–	–	(316)
Treasury shares transferred	–	–	(6,574)	6,574	–	–	–	–
Share-based payments	–	–	1,835	–	1,835	–	–	1,835
Income tax	–	–	(922)	–	(922)	–	–	(922)
Total transactions with owners	–	–	(5,661)	6,258	597	–	2,188	2,785
Balance 30 June 2021	(11,405)	(130,978)	36,058	(3,773)	(110,098)	1,044,937	149,121	1,083,960

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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Notes	2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and short-term deposits	D3	875,150	854,178
Trade and other receivables	C1	65,284	70,700
Prepayments		27,819	56,336
Inventories	C2	112,204	147,332
Income tax receivable		16,435	–
Total current assets		1,096,892	1,128,546
Non-current assets			
Property, plant and equipment	C4	17,162	14,206
Right-of-use assets	D7	15,302	16,144
Investment property	C5	16,614	–
Intangible assets	C6	15,137	13,640
Other financial assets	C7	157,803	252,580
Deferred tax assets	B7	53,101	28,201
Total non-current assets		275,119	324,771
Total assets		1,372,011	1,453,317
Liabilities			
Current liabilities			
Trade and other payables	C3	266,296	281,919
Customer contract liabilities	B2	4,746	3,773
Lease liabilities	D7	3,648	3,407
Income tax payable		–	16,328
Total current liabilities		274,690	305,427
Non-current liabilities			
Trade and other payables	C3	511	392
Lease liabilities	D7	12,850	13,436
Total non-current liabilities		13,361	13,828
Total liabilities		288,051	319,255
Net assets		1,083,960	1,134,062
Equity attributable to owners of the Company			
Share capital	D5	149,121	146,933
Retained earnings		1,044,937	964,279
Reserves	D6	(110,098)	22,850
Total equity		1,083,960	1,134,062

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers		1,251,909	1,726,947
Payments to suppliers and employees		(1,067,977)	(1,107,394)
Interest received		3,989	6,135
Interest paid		(699)	(389)
Taxes paid		(97,807)	(197,888)
Net cash inflow from operating activities	D4	89,415	427,411
Cash flows from investing activities			
Payments for property, plant and equipment	C4	(5,673)	(5,800)
Payment for investment property	C5	(17,216)	–
Payments for intangible assets	C6	(1,638)	(1,422)
Payment for listed investment	C7	(39,841)	(21,856)
Net cash outflow from investing activities		(64,368)	(29,078)
Cash flows from financing activities			
Payments of lease principal	D7	(3,230)	(1,775)
Purchase of treasury shares	D6	–	(12,655)
Proceeds from issue of equity shares	D5	2,188	2,438
Net cash outflow from financing activities		(1,042)	(11,992)
Net increase in cash and short-term deposits		24,005	386,341
Cash and short-term deposits at the beginning of the year		854,178	464,805
Effect of exchange rate changes on cash		(3,033)	3,032
Cash and short-term deposits at the end of the year	D3	875,150	854,178

The accompanying notes form part of these financial statements.

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BASIS OF PREPARATION

FOR THE YEAR ENDED 30 JUNE 2021

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 2021 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 New Zealand's 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 Group 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 25 August 2021.

The consolidated financial report:

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

Certain comparative amounts have been reclassified 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
- 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 consolidated 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: Investment property
 - Note C6: Intangible assets – Impairment review of goodwill and intangibles
 - Note D7: Leases – Determination of lease term

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2021.

The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 'Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 *Intangible Assets*)', confirming that a cloud computing customer should expense the costs of configuring or customising a supplier's application software in a Software as a Service arrangement. The Group has applied the IFRIC decision accounting policy to all relevant project costs incurred in its ERP project, which is provided under a cloud computing service arrangement (refer Note B4).

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 2021, that are expected to have a material impact on the Group in current or future reporting periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

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 three reportable operating segments as follows:

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

In August 2019, the Board announced its decision to withdraw from fresh milk operations in the UK (previously reported as the UK segment), with all the UK fresh milk trading operations ceasing in the period to 31 December 2019. Comparative information for the year ended 30 June 2020 includes the UK segment as a 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B1. Operating segments (continued)

2021	Continuing operations			Total \$'000
	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	
Consolidated sales	558,331	583,421	63,282	1,205,034
Other revenue	1,389	–	311	1,700
Reportable segment revenue	559,720	583,421	63,593	1,206,734
Reportable segment results (Segment EBITDA)	148,849	75,569	(33,540)	190,878
Corporate EBITDA				(67,450)
Group EBITDA				123,428
<i>Reconciliation to consolidated statement of comprehensive income</i>				
Interest income				3,989
Interest expense				(699)
Depreciation and amortisation				(7,453)
Income tax expense				(38,607)
Consolidated profit after tax				80,658

2020	Continuing operations			Total \$'000	Discontinued operation UK \$'000	Total \$'000
	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'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
<i>Reconciliation to consolidated statement of comprehensive income</i>						
Interest income						6,135
Interest expense						(389)
Depreciation and amortisation						(4,393)
Income tax expense						(165,235)
Consolidated profit after tax						385,837

One customer within the Australia and New Zealand segment contributed revenue in excess of 10% of Group revenue of \$200,514,000 (2020: \$375,812,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B1. Operating segments (continued)

Other segment information

	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	UK \$'000	Corporate \$'000	Total \$'000
2021						
Additions to non-current assets	20,364	47	3,051	–	4,105	27,567
Depreciation and amortisation	3,087	2,176	489	–	1,701	7,453
2020						
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

The majority of the Group's revenue generated from customers, and the majority of its non-current assets (other than the listed investment at fair value 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			Total \$'000
	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	
2021				
Infant nutrition:				
China label	–	389,882	–	389,882
English and other labels ¹	357,037	166,870	–	523,907
Liquid milk	168,986	8,252	63,282	240,520
Other	33,697	18,417	311	52,425
	559,720	583,421	63,593	1,206,734

	Continuing operations				Discontinued operation UK \$'000	Total \$'000
	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	Total \$'000		
2020						
Infant nutrition:						
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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B2. Revenue (continued)

Contract balances

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

	Note	2021 \$'000	2020 \$'000
Receivables	C1	47,838	63,595
Customer contract liabilities		(4,746)	(3,773)

Customer contract liabilities are payments received in advance from customers. The amount of \$3,773,000 recognised in customer contract liabilities at 30 June 2020 was recognised as revenue in the year ended 30 June 2021.

Remaining performance obligations at 30 June 2021 have an original expected duration of one year or less.

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 offsetting 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 customers, 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 (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B3. Results of discontinued operation

In 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 platforms for further new product development.

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

	2020 \$'000
Results	
Revenue	1,396
Expenses	(3,730)
Results from operating activities	(2,334)
Net finance income	4
Income tax	–
Results from operating activities, net of tax	(2,330)
Earnings per share	
Basic (cents per share)	(0.32)
Diluted (cents per share)	(0.31)
Cash flow	
Operating	(4,452)
Investing	–
Net cash outflow for the period	(4,452)

B4. Expenses

	2021 \$'000	2020 \$'000
Profit before income tax includes the following significant items:		
Salary and wage costs	62,860	69,830
Equity settled share-based payments (refer Note F2)	1,835	8,331
Directors' fees and expenses	1,040	1,079
Audit fees (refer Note F3)	1,410	970
Bad and doubtful debts	17	79
Insurance	20,371	11,234
Professional service fees	13,138	29,070
ERP project costs ¹	9,695	90
Depreciation and amortisation	7,453	4,393
Net foreign exchange loss	8,956	1,434
Mataura Valley Milk Limited acquisition costs (refer Note E2)	10,376	–
Greenhouse Gas emission reduction initiatives and carbon credits ²	2,642	4,876

¹ ERP project costs include costs of configuring and customising software in a Cloud Computing Service Agreement.

² The value of greenhouse gas emission reduction initiatives and carbon credits in the prior period consists of carbon credits offsetting emissions for FY19 and FY20. For FY21, carbon credits were purchased to offset direct emissions, with the remaining funding that would have been used to purchase carbon credits for indirect emissions redeployed to progress initiatives targeting the long-term decarbonisation of the Group's supply chain.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B5. Finance costs

	2021 \$'000	2020 \$'000
Interest expense – lease liabilities	699	389
Finance costs	71	59
	770	448

B6. Earnings per share (EPS)

	2021	2020
Profit/(loss) attributable to members of the Company:		
Continuing operations (\$'000)	80,658	388,167
Discontinued operation (\$'000)	–	(2,330)
Profit attributable to members of the Company used in calculating basic and diluted EPS (\$'000)	80,658	385,837
Weighted average number of ordinary shares ('000) for basic EPS	742,456	736,467
Effect of dilution due to partly paid ordinary shares, share options and time-based and performance rights ('000)	293	3,879
Weighted average number of ordinary shares ('000) for diluted EPS	742,749	740,346
Earnings per share		
Basic EPS (cents)	10.86	52.39
Diluted EPS (cents)	10.86	52.12
Earnings per share – continuing operations		
Basic EPS (cents)	10.86	52.71
Diluted EPS (cents)	10.86	52.43

Recognition and measurement

Basic EPS is calculated as net profit attributable to members of the Company, 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 (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B7. Income taxes

	2021 \$'000	2020 \$'000
Income tax recognised in profit or loss		
Current tax	65,820	183,171
Deferred tax origination and reversal of temporary differences	(25,647)	(11,277)
Adjustments in respect of current income tax of previous year	(1,566)	(6,659)
Total tax expense	38,607	165,235
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from continuing operations	119,265	553,402
Loss from discontinued operation	–	(2,330)
Accounting profit before income tax	119,265	551,072
Income tax expense calculated at 28% (2020: 28%)	33,394	154,300
Difference in income tax rates: UK 19% (2020: 19%), Australia 30% (2020: 30%), USA 24% (2020: 24%), and China 25% (2020: 25%)	2,566	7,263
Non-deductible expenses and non-assessable income	3,191	1,500
Prior period adjustment to tax expense	(5,243)	(5,975)
Foreign tax credits forfeited	726	(45)
Income tax recognised in equity	(219)	5,554
Deferred tax asset not recognised	4,192	2,638
Total tax expense	38,607	165,235
Income tax expense – continuing operations	38,607	165,235
Income tax attributable to discontinued operation	–	–
	38,607	165,235
Income tax recognised directly in equity		
Current tax	219	(6,274)
Deferred tax	747	(9,241)
Tax expense/(benefit) in equity	966	(15,515)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

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.

2021	Opening balance \$'000	Charge to comprehensive income \$'000	Charge to equity \$'000	Closing balance \$'000
Gross deferred tax assets				
Patents	71	444	–	515
Provisions and accrued expenses	16,609	33,200	–	49,809
Tax losses	305	(51)	–	254
Employee share scheme	10,104	(8,969)	(812)	323
Other	1,487	1,644	–	3,131
	28,576	26,268	(812)	54,032
Gross deferred tax liabilities				
Property, plant and equipment	(375)	(556)	–	(931)
Net deferred tax	28,201	25,712	(812)	53,101
Charge to profit or loss		25,647		
Charge to other comprehensive income		65		
		25,712		
2020				
Gross deferred tax assets				
Patents	72	(1)	–	71
Provisions and 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		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

B7. Income taxes (continued)

Deferred tax balances (continued)

	2021 \$'000	2020 \$'000
Net deferred tax balances recognised in the financial statements		
Net deferred tax assets	53,101	28,201
Net deferred tax liabilities	–	–
Net deferred tax	53,101	28,201

Tax losses

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

	2021 \$'000	2020 \$'000
United States of America	57,567	42,517
Australia	844	2,493
Total	58,411	45,010

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:

	2021 \$'000	2020 \$'000
Imputation credits	52,731	43,987
Franking credits	422,760	406,265

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2021

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 consolidated statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

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

	2021 \$'000	2020 \$'000
Trade receivables from contracts with customers	47,838	63,595
Allowance for impairment	(107)	(99)
Goods and services tax	11,390	2,885
Other receivables	6,163	4,319
	65,284	70,700

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

	2021 \$'000	2020 \$'000
Raw materials	16,309	10,306
Finished goods	89,579	68,457
Goods in transit	6,316	68,569
Total inventories at the lower of cost and net realisable value	112,204	147,332

During the year \$108,578,000 (2020: \$3,773,000) was recognised as an expense in cost of sales for inventories written down or written off, including costs of disposal.

Inventory levels increased during the year as a consequence of managing the uncertainties and complexities of COVID-19 impacting supply chains. Due to the ongoing challenges in the infant nutrition category, the rundown of this inventory was slower than expected. Older infant nutrition inventory has been written off and has or will be destroyed.

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 may impact these estimations in future periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C3. Trade and other payables

Trade and other payables – current

	2021 \$'000	2020 \$'000
Trade payables	40,986	129,951
Rebates and promotional allowances	70,127	34,420
Accrued charges	137,257	91,632
Employee entitlements	17,926	25,916
	266,296	281,919

Trade and other payables – non-current

	2021 \$'000	2020 \$'000
Employee entitlements	511	392

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, bonuses, 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 (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C4. Property, plant and equipment

2021	Office & computer \$'000	Furniture & fittings \$'000	Leasehold improvements \$'000	Plant & equipment \$'000	Total \$'000
Carrying amount 1 July 2020	1,004	313	3,507	9,382	14,206
Additions	389	666	1,556	3,062	5,673
Disposals	–	–	(7)	–	(7)
Depreciation	(741)	(140)	(830)	(1,050)	(2,761)
Net foreign currency exchange differences	284	(25)	(216)	8	51
Carrying amount 30 June 2021	936	814	4,010	11,402	17,162
Cost	2,072	1,186	5,464	20,244	28,966
Accumulated depreciation	(1,136)	(372)	(1,454)	(8,842)	(11,804)
Carrying amount 30 June 2021	936	814	4,010	11,402	17,162

2020	Office & computer \$'000	Furniture & fittings \$'000	Leasehold improvements \$'000	Plant & 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

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 (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C5. Investment property

In September 2020 the Group acquired the manufacturing facilities of the Kyvalley Dairy Group (Kyvalley), the Group's long-term fresh milk supplier in Victoria. Kyvalley will continue to operate the facility under a long-term operating lease and a long-term supply agreement.

The investment property acquired, at a total cost of \$16,352,000, consists of land, buildings and integral plant and equipment subject to the lease, and transaction costs.

Under the agreement the Group will also undertake a future expansion and upgrade of the facility, subsidised by increased rent.

2021	Land \$'000	Buildings \$'000	Plant & equipment \$'000	Work in progress \$'000	Total \$'000
Acquisition	290	5,267	10,795	–	16,352
Additions	–	–	–	864	864
Depreciation	–	(150)	(599)	–	(749)
Net foreign currency exchange differences	3	49	95	–	147
Carrying amount 30 June 2021	293	5,166	10,291	864	16,614
Cost	293	5,316	10,890	864	17,363
Accumulated depreciation	–	(150)	(599)	–	(749)
Carrying amount 30 June 2021	293	5,166	10,291	864	16,614

Profit arising from investment property

	2021 \$'000
Rental income	804
Direct operating expenses (including repairs and maintenance) generating rental income	–
Direct operating expenses (including repairs and maintenance) that did not generate rental income	–
	804

Future minimum rentals receivable under operating lease

	2021 \$'000
Not longer than 1 year	1,075
Longer than 1 year and not longer than 5 years	4,301
Longer than 5 years	16,043
Total undiscounted lease payments to be received	21,419

Measurement of fair value

The investment property was purchased in September 2020. The Group has not engaged an independent valuer for the current period and the fair value of \$15,237,000 at reporting date has been determined by the directors with reference to the purchase price given the short period of time that has elapsed since the purchase. Directors consider that the purchase price, less stamp duty to be a reasonable approximation of fair value as at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C5. Investment property (continued)**Recognition and measurement****Investment property**

The purchase and upgrade of the Kyabram site is a strategic investment to ensure quality of products and processing capacity. The related long-term product supply agreement entered into alongside the investment provides ongoing supply from KyValley's contracted A2 beta casein protein milk pool.

Investment property is held primarily to earn rental income and capital appreciation. It is measured initially at cost, including transaction costs such as transfer taxes and professional fees for legal services. Subsequent to initial recognition, the Group has elected to measure investment property using the cost model (carried at historical cost less accumulated depreciation and impairment).

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. Land is not depreciated. The following estimated useful lives are used in the calculation of depreciation:

Buildings	30 years
Plant and equipment	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.

Work in progress expenditure is capitalised only when the Group can demonstrate 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. Depreciation commences when the asset is available for use.

Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term, and is included in other revenue in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C6. Intangible assets

2021	Patents \$'000	Trademarks \$'000	Software \$'000	Project development \$'000	Goodwill \$'000	Total \$'000
Carrying amount 1 July 2020	815	3,432	311	957	8,125	13,640
Additions	64	380	1,194	–	–	1,638
Disposals	–	–	(77)	–	–	(77)
Transfers	–	–	973	(973)	–	–
Amortisation	(73)	–	(68)	–	–	(141)
Net foreign currency exchange differences	–	–	14	16	47	77
Carrying amount 30 June 2021	806	3,812	2,347	–	8,172	15,137
Cost	1,409	3,812	3,998	–	8,172	17,391
Accumulated amortisation and impairment	(603)	–	(1,651)	–	–	(2,254)
Carrying amount 30 June 2021	806	3,812	2,347	–	8,172	15,137

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
Transfers	–	–	(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

Trademarks are allocated to the following cash generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand \$283,000 (2020: \$323,000); China and other Asia \$3,376,000 (2020: \$2,984,000); USA \$153,000 (2020: \$125,000). During the year the total value of research and development costs expensed was \$2,506,000 (2020: \$4,332,000).

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.

The costs of configuring or customising a supplier's application software in a Cloud Computing Software as a Service agreement are expensed as incurred. Costs of \$8,169,000 (2020: \$nil) are included in administrative expenses in the consolidated statement of comprehensive income.

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 (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C6. Intangible assets (continued)**Recognition and measurement****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 consolidated 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 (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C6. Intangible assets (continued)

Annual impairment testing as at 30 June 2021

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): 7.6% (2020: 6.8% to 7.0%)

Terminal growth rate: 2.0% (2020: 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 FY22, 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 2021, 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 FY22 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 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 2021, 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 (CONTINUED)

OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2021

C7. Other financial assets

	2021 \$'000	2020 \$'000
Listed investment at fair value	157,803	252,580

The listed investment is in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on the NZX and the ASX) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the year (2020: \$nil)

In November 2020 the Company participated in Synlait's institutional placement of securities, acquiring an additional 7,777,863 shares for \$39,841,000. There was no change to the Company's total percentage holding in Synlait, which remains at 19.8% (30 June 2020: 19.8%).

A fair value loss of \$134,618,000 (2020: loss \$56,083,000) was recognised in other comprehensive income for the year.

Shareholding in Synlait Milk Limited

Movements in the period

	Shares '000	Cost \$'000	Share price at report date \$	Market Value \$'000	Mark to market \$'000
Balance 30 June 2020	35,575	248,940	7.10	252,580	3,640
Placement	7,778	39,841			
Balance 30 June 2021	43,353	288,781	3.64	157,803	(130,978)
Fair value loss in period					(134,618)

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 (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

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

The Board is currently of the view that there is greater opportunity to create value by investing in the business and through potential acquisition than by returning capital to shareholders either via a buyback or by introducing a dividend at this stage in the Company's development. Capital management options will continue to be an important consideration in the broader capital planning process and will continue to be reviewed by the Board on an ongoing basis.

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.

	2021 \$'000	2020 \$'000
Maximum exposures to credit risk at balance date:		
Cash and short-term deposits (counterparty risk)	875,150	854,178
Trade receivables (customer credit risk)	47,838	63,595
	922,988	917,773

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

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, ANZ Bank, Westpac, ASB Bank, Bank of New Zealand, 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 creditworthiness 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 2021, 22% of sales with credit terms were to three customers (2020: 24% 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	Impairment	Gross	Impairment
	2021	2021	2020	2020
	\$'000	\$'000	\$'000	\$'000
Not past due	40,420	–	51,343	–
Past due up to 90 days	6,082	–	10,492	–
Past due 91 to 180 days	442	(15)	732	(45)
Past due 181 days to one year	600	(57)	1,002	(54)
More than one year	294	(35)	26	–
	47,838	(107)	63,595	(99)

The average credit period on sales is 17 days (2020: 16 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2021	2020
	\$'000	\$'000
Balance at beginning of year	99	20
Amount charged to the consolidated statement of comprehensive income	17	79
Provisions reversed	(9)	–
	107	99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

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 2021, approximately 72% 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	Impact on	
	on reporting	pre-tax profit or (loss)	
	date		
2021	\$'000	\$'000	\$'000
Movement on exchange rate	–	+10%	–10%
AU Dollar	2,416	268	(220)
US Dollar	68,576	7,621	(6,233)
GB Pound	6,314	702	(574)
Chinese Yuan Renminbi	(97,602)	(10,845)	8,873

	Net exposure	Impact on	
	on reporting	pre-tax profit or (loss)	
	date		
2020	\$'000	\$'000	\$'000
Movement on exchange rate	–	+10%	–10%
AU Dollar	361	40	(33)
US Dollar	31,310	3,478	(2,847)
GB Pound	6,549	728	(595)
Chinese Yuan Renminbi	(16,503)	(1,834)	1,500

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

D2. Financial risk management (continued)

Foreign currency risk management (continued)

Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
AU Dollar	0.9308	0.9480	0.9301	0.9355
US Dollar	0.6965	0.6350	0.7034	0.6444
GB Pound	0.5152	0.5053	0.5069	0.5185
Chinese Yuan Renminbi	4.6079	4.4772	4.5426	4.5612

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 S&P/NZX 50 Index over the same period.

As at 30 June 2021, the exposure to the listed investment at FVOCI was \$157,803,000 (2020: \$252,580,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of \$15,780,000 (2020: \$25,258,000) 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 (2020: Nil).

Contractual maturities of financial liabilities

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

	2021 \$'000	2020 \$'000
Financial liabilities		
Trade payables	40,986	129,951
Rebates and promotional allowances	70,127	34,420
Accrued charges	137,257	91,632
	248,370	256,003

Maturity profile of the Group's trade payables and accruals

	2021 \$'000	2020 \$'000
Payable:		
Less than 3 months	236,829	247,935
3 to 6 months	11,541	8,068
	248,370	256,003

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

D2. Financial risk management (continued)

Fair values

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The listed investment, classified as a financial asset measured at fair value through other comprehensive income, is the only financial instrument carried by the Group at fair value, with a Level 1 valuation method applied. Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the consolidated 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 2021 on the NZX; and
- cash and short-term deposits, trade and other receivables and payables – carrying amount equals fair value.

D3. Cash and short-term deposits

	2021 \$'000	2020 \$'000
Cash at banks and on hand	531,469	413,032
Short-term deposits	343,681	441,146
	875,150	854,178

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 80,404,000 (2020: AUD 67,039,000), GBP 3,344,000 (2020: GBP 3,396,000), USD 67,743,000 (2020: USD 40,158,000), and RMB 278,312,000 (2020: RMB 134,648,000).

Recognition and measurement

Cash and cash equivalents in the consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

D4. Cash flow information

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

	2021 \$'000	2020 \$'000
Net profit for the year	80,658	385,837
Adjustments for non-cash items:		
Depreciation and amortisation	7,453	4,393
Loss on disposal	84	905
Gain on termination of lease	(9)	–
Share-based payments	1,835	8,331
Net foreign exchange loss/(gain)	3,766	(573)
Deferred tax	(25,824)	(5,040)
Changes in working capital:		
Trade and other receivables	5,416	(4,452)
Prepayments	28,517	(6,643)
Inventories	35,128	(38,879)
Trade and other payables	(15,819)	108,572
Customer contract liabilities	973	2,342
Income tax receivable	(16,435)	–
Income tax payable	(16,328)	(27,382)
Net cash inflow from operating activities	89,415	427,411

D5. Share capital

	2021		2020	
	Number of shares	Share capital \$'000	Number of shares	Share capital \$'000
Movements in contributed equity:				
Fully paid ordinary shares:				
Balance at beginning of year	739,830,151	146,933	735,048,405	144,495
Movements in the period:				
Exercise of options	3,200,000	2,016	3,800,000	2,394
Vesting of performance rights	320,000	–	848,000	–
Vesting of time-based rights	38,820	–	122,184	–
Gift shares	7,144	–	3,693	–
Share match programme	14,675	191	7,869	115
Share issue costs	–	(19)	–	(71)
	3,580,639	2,188	4,781,746	2,438
Balance at end of year	743,410,790	149,121	739,830,151	146,933

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

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 treasury shares subsequently vest to employees under employee share plans, the carrying value of the vested shares is transferred to the employee equity settled payments reserve. During the year no Company shares were acquired by the Trust (2020: 770,747 shares acquired for \$12,655,000). As at 30 June 2021, the Trust held 362,823 of the Company's shares (2020: 743,676 shares).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

D7. Leases

Group as lessee

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.

Right-of-use assets

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

	Leased property \$'000	Office & computer \$'000	Plant & equipment \$'000	Total \$'000
2021				
Carrying amount 1 July 2020	15,764	115	265	16,144
Additions	2,952	13	75	3,040
Depreciation	(3,596)	(27)	(179)	(3,802)
Net foreign currency exchange differences	(81)	–	1	(80)
Carrying amount 30 June 2021	15,039	101	162	15,302
Cost	19,701	146	469	20,316
Accumulated depreciation	(4,662)	(45)	(307)	(5,014)
Carrying amount 30 June 2021	15,039	101	162	15,302

	Leased property \$'000	Office & computer \$'000	Plant & equipment \$'000	Total \$'000
2020				
Carrying amount 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:

	2021 \$'000	2020 \$'000
Balance at beginning of the year	16,843	8,105
Additions	3,040	10,353
Gain on termination of lease	(9)	-
Accretion of interest	699	389
Payments	(3,929)	(2,164)
Net foreign currency exchange differences	(146)	160
Balance at end of the year	16,498	16,843
Current	3,648	3,407
Non-current	12,850	13,436
	16,498	16,843

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CAPITAL AND FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2021

D7. Leases (continued)

Lease liabilities (continued)

Maturity analysis of future undiscounted lease liability payments:

	2021 \$'000	2020 \$'000
Not longer than 1 year	4,174	3,977
Longer than 1 year and not longer than 5 years	8,227	9,174
Longer than 5 years	6,728	6,566
Total undiscounted lease liabilities	19,129	19,717

Amounts recognised in profit or loss

	2021 \$'000	2020 \$'000
Depreciation expense – right-of-use assets	3,802	2,246
Interest expense – lease liabilities	699	389
Expenses relating to short-term leases (included in Other expenses)	567	1,264
Expenses relating to low-value assets (included in Other expenses)	5	23
Total amount recognised in profit or loss	5,073	3,922

Cash flows for leases

	2021 \$'000	2020 \$'000
Total cash outflows:		
Lease interest	699	389
Payment of lease principal	3,230	1,775
	3,929	2,164
Non-cash additions to right-of-use assets and lease liabilities	3,040	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
CAPITAL AND FINANCIAL RISK MANAGEMENT
FOR THE YEAR ENDED 30 JUNE 2021

D7. Leases (continued)

Group as lessor

Refer Note C5: Investment property

D8. Capital expenditure commitments

As at 30 June 2021, there were no capital expenditure commitments (2020: \$nil).

D9. Contingent liabilities

As at 30 June 2021, there were no material contingent liabilities (2020: \$nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

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 2021 are as follows:

	Parties to Deed of Cross Guarantee (Note E3)*	Principal place of business	Proportion of ownership interest	
			2021	2020
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 Ltd	✓	Australia	100%	100%
a2MC Group Employee Share Trust	–	Australia	100%	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 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.

There were no 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 (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

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. Acquisition of subsidiary

On 30 July 2021, subsequent to year-end, The a2 Milk Company Limited acquired a 75% controlling interest in Mataura Valley Milk Limited (MVM) a dairy nutrition business, located in Southland, New Zealand.

The acquisition will enable the Group to participate in nutritional products manufacturing, provide supplier and geographical diversification, and strengthen relationships with key strategic partners in China.

On 30 July 2021, the Company outlaid \$268,506,000, allocated provisionally to the acquisition as follows:

	\$'000
Purchase price	268,506
Less: effective date adjustment for net debt	(215,234)
Purchase consideration	53,272

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

E2. Acquisition of subsidiary (continued)

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration – cash	53,272

The assets and liabilities provisionally recognised as a result of the acquisition are as follows:

	Fair Value provisional recognition on acquisition \$'000
Cash and cash equivalents	54,760
Trade and other receivables	21,835
Inventories	7,743
Property, plant and equipment	228,913
Right-of-use assets	642
Intangible assets	943
Trade and other payables	(50,854)
Borrowings	(30,000)
Lease liabilities	(642)
Net identifiable assets acquired	233,340
Less: non-controlling interests	(58,335)
Less: effective date adjustment for net debt	(215,234)
Add: goodwill	93,501
Purchase consideration	53,272

Assets and liabilities are measured on a provisional basis. MVM was acquired on 30 July 2021, giving insufficient time to finalise all valuations. Total net assets acquired are also subject to a working capital adjustment, expected to occur in October 2021. If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, requiring adjustment to assets and liabilities, the accounting for the acquisition may be revised.

Goodwill comprises the value of expected strategic synergies arising from the acquisition including access to manufacturing margins and the ability to provide more flexibility for product supply, based on this recently constructed world-class nutritional products manufacturing facility with an established workforce, and access to a growing productive milk pool. It will not be deductible for tax purposes.

Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in MVM, the Group has elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Cash flows on acquisition

	\$'000
Purchase consideration – cash	(53,272)
Payment of external debt on acquisition	(215,234)
Less: cash balances acquired	54,760
Net outflow of cash	(213,746)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

E2. Acquisition of subsidiary (continued)**Acquisition-related costs**

Acquisition-related costs of \$10,376,000 (2020: \$nil) are included in other expenses in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

Recognition and measurement

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests.

Acquisition-related costs are expensed as incurred and included in profit or loss as other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

E3. 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 2021 are set out as follows:

Consolidated statement of comprehensive income and retained earnings for the year ended 30 June 2021

	2021 \$'000	2020 \$'000
Revenue	1,147,020	1,667,201
Expenses	(1,036,347)	(1,157,359)
Finance income (net)	3,554	5,594
Profit before tax	114,227	515,436
Income tax expense	(33,598)	(159,790)
Profit after tax	80,629	355,646
Other comprehensive income	1,254	2,322
Total comprehensive income for the year	81,883	357,968
Retained earnings at beginning of the year	970,031	614,385
Transfers to and from reserves	(1,254)	(2,322)
Retained earnings at end of year	1,050,660	970,031

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2021

E3. Deed of cross guarantee (continued)

Consolidated statement of financial position
as at 30 June 2021

	2021 \$'000	2020 \$'000
Assets		
Current assets		
Cash and short-term deposits	801,412	799,370
Trade and other receivables	124,918	84,944
Prepayments	26,531	55,282
Inventories	109,156	143,498
Income tax receivable	22,419	–
Total current assets	1,084,436	1,083,094
Non-current assets		
Property, plant and equipment	15,279	12,206
Right-of-use assets	10,902	12,580
Investment property	16,614	–
Intangible assets	14,961	13,437
Other financial assets	293,220	297,981
Deferred tax assets	46,676	24,314
Total non-current assets	397,652	360,518
Total assets	1,482,088	1,443,612
Liabilities		
Current liabilities		
Trade and other payables	240,988	273,133
Customer contract liabilities	4,746	3,773
Lease liabilities	1,910	1,952
Income tax payable	–	13,753
Total current liabilities	247,644	292,611
Non-current liabilities		
Trade and other payables	511	392
Lease liabilities	9,611	10,954
Total non-current liabilities	10,122	11,346
Total liabilities	257,766	303,957
Net assets	1,224,322	1,139,655
Equity		
Share capital	149,121	146,933
Retained earnings	1,050,660	970,031
Reserves	24,541	22,691
Total equity	1,224,322	1,139,655

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2021

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:

	2021 \$'000	2020 \$'000
Short-term employee benefits	8,438	7,697
Other long-term benefits	40	32
Termination payments	926	1,776
Share-based payments	1,210	1,715
	10,614	11,220

Other than non-executive directors, key management personnel include the following senior executives:

Managing Director and CEO (from 8 February 2021)

Interim Chief Executive Officer (to 8 February 2021)

Chief Financial Officer

Chief Executive, Asia Pacific (to 18 June 2021)

Transactions with key management personnel and their related parties

During the year there were no related party transactions with key management personnel or their related parties.

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 2021 and 2020 financial years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2021

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 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.

No new performance rights were granted in FY21. In March 2021, employees in China were granted rights with FY20 Tranche 2 performance hurdles. The granting of these rights was previously delayed pending receipt by the Company of requisite China regulatory registrations and approvals. Employees in China were also granted previously delayed time-based rights.

During the year the Board authorised the issue of 139,556 performance rights, and 537,696 time-based rights to senior employees under the LTI plan.

Time-based rights granted in FY21

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
155,642	5 Feb 21	8 Feb 22
155,641	5 Feb 21	8 Feb 23
109,186	10 Mar 21	1 Aug 21
103,409	10 Mar 21	1 Aug 22
8,283	10 Mar 21	15 Dec 21
2,455	10 Mar 21	15 Dec 22
3,080	10 Mar 21	15 May 22
537,696		

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 in the period and assumptions	Performance rights	Time-based rights	
	Grant date	10 Mar 21	5 Feb 21
Fair value at measurement date	\$9.70	\$11.00	\$9.70
Share price at grant date	\$9.70	\$11.07	\$9.70
Performance rights life	1.45yrs	Various	Various

Performance rights granted in previous years

In FY20 performance rights were issued in two tranches, with differing performance periods and performance hurdles as set out below. Performance rights granted in the current year to employees in China are subject to the Tranche 2 performance hurdles.

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).
- Tranche 1 grants have two year performance hurdles to 30 June 2021, and Tranche 2 grants have three year performance hurdles to 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2021

F2. Share-based payments (continued)

Performance rights granted in previous years (continued)

- 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.

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.

Time-based rights granted in previous years

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

Number of time-based rights granted:	Grant dates	Vesting dates	Fair value
31,269	1 Aug 18	1 Aug 21	\$12.75
94,219	19 Nov 19	23 Aug 21	\$14.03
7,551	24 Apr 20	20 Sep 21	\$19.00
14,601	24 Apr 20	20 Feb 22	\$18.60
116,371			

Options granted in previous years (legacy scheme)

The options granted in FY16 vested in five equal tranches over five years, commencing on the first anniversary of the date of the grant, vesting 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. All remaining options were exercised during the year.

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 2021

	Number	Grant Dates	Vesting Dates	Expiry Dates
Performance rights – FY20 grants	741,494	19 Nov 19 24 Apr 20 & 11 Jun 20	20 Aug 21 & 21 Aug 22	20 May 22 & 21 May 23
Performance rights – grants with FY20 Tranche 2 performance hurdles	139,566	10 Mar 21	21 Aug 22	21 May 23
	881,060			
Time-based rights – FY19 grants	31,269	1 Aug 18	1 Aug 21	1 May 22
Time-based rights – FY20 grants	116,371	19 Nov 19 & 24 Apr 20	23 Aug 21 to 20 Feb 22	23 May 22 to 20 Nov 22
Time-based rights – FY21 grants	537,696	5 Feb 21 & 10 Mar 21	1 Aug 21 to 8 Feb 23	1 May 22 to 8 Nov 23
	685,336			
Matching share rights – FY20 plan	9,480	–	30 Sep 21	–
Matching share rights – FY21 plan	12,689	–	30 Sep 22	–
	22,169			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2021

F2. Share-based payments (continued)

	Number 2021	Number 2020
Performance rights movements:		
Outstanding at the beginning of the year	1,483,874	1,738,087
Forfeited during the period	(125,080)	(437,127)
Granted during the period	139,566	1,057,914
Vested during the period	(617,300)	(875,000)
Outstanding at the end of the year	881,060	1,483,874

The weighted average remaining contractual life of performance rights is 0.8 years (2020: 1.2 years)

	Number 2021	Number 2020
Time-based rights movements:		
Outstanding at the beginning of the year	300,768	184,723
Granted during the period	537,696	238,229
Vested during the period	(153,128)	(122,184)
Outstanding at the end of the year	685,336	300,768

The weighted average remaining contractual life of time-based rights is 0.8 years (2020: 0.7 years)

	Weighted average exercise price	Number 2021	Weighted average exercise price	Number 2020
Options movements:				
Outstanding at the beginning of the year	\$0.63	3,200,000	\$0.63	7,000,000
Forfeited during the period	–	–	–	–
Granted during the period	–	–	–	–
Exercised during the period	\$0.63	(3,200,000)	\$0.63	(3,800,000)
Outstanding at the end of the year	\$0.63	–	\$0.63	3,200,000
Exercisable at end of year		–		1,400,000

The weighted average share price on exercise of the options in the period was \$17.73.

Other employee equity schemes

In the period, employees not participating in the LTI plan were invited to participate in the following 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 2021 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 2022.

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2021, a \$1,835,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2020: \$8,331,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2021

F2. Share-based payments (continued)

Recognition and measurement

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

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:	2021 \$'000	2020 \$'000
<i>Fees to Ernst & Young (Australia):</i>		
Fees for auditing the statutory financial report of the parent covering the Group and auditing the statutory financial reports of any controlled entities	1,285	868
Fees for other assurances and agreed-upon-procedures services	75	23
Fees for other services:		
Market research ¹	220	182
Total fees to Ernst & Young (Australia)	1,580	1,073
<i>Fees to other overseas member firms of Ernst & Young:</i>		
Total fees to other overseas member firms of Ernst & Young	125	102
	1,705	1,175

¹ The research reports prepared are solely for the Group's internal use and contents of these reports are not subject to Ernst & Young audit.

F4. Subsequent events

Other than the acquisition of Mataura Valley Milk Limited referred to in Note E2, no other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.

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COMPANY DISCLOSURES

1. Substantial product holders

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

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 2021 (such disclosure being required by the Financial Markets Conduct Act 2013 (NZ)) and as at 2 August 2021 (such disclosure being required by the ASX Listing Rules):

Name	As at 30 June 2021		As at 2 August 2021	
	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
Mitsubishi UFJ Financial Group, Inc.	42,291,591	5.69	50,139,977	6.74
The Vangaurd Group, Inc	51,494,591	6.93	36,889,210	4.96
BlackRock, Inc. and related bodies corporate	46,398,814	6.24	46,398,814	6.24
Goldman Sachs Group, Inc. (GSGI)	37,221,771	5.01	37,221,771	5.01
UBS Group AG and related bodies corporate ¹	–	–	38,680,738	5.20

¹ Substantial product holding began on 29 July 2021.

The total number of ordinary shares in the Company as at 30 June 2021 and as at 2 August 2021 was 743,410,790.

2. Voting rights

During the period 1 July 2020 to 30 June 2021, 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.



COMPANY DISCLOSURES (CONTINUED)

3. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 2 August 2021 are listed below¹:

Rank	Investor Name	Total Units	% Issued Capital
1	HSBC Custody Nominees (Australia) Limited	60,611,554	8.15
2	HSBC Nominees (New Zealand) Limited	53,855,348	7.24
3	Citibank Nominees (NZ) Ltd	40,841,768	5.49
4	JPMorgan Chase Bank	29,939,954	4.03
5	Accident Compensation Corporation	24,494,414	3.29
6	Citicorp Nominees Pty Limited	23,898,739	3.21
7	JP Morgan Nominees Australia Pty Limited	23,026,535	3.10
8	Tea Custodians Limited	20,864,147	2.81
9	HSBC Nominees (New Zealand) Limited	20,418,715	2.75
10	BNP Paribas Nominees NZ Limited	16,242,604	2.18
11	New Zealand Superannuation Fund Nominees Limited	14,860,290	2.00
12	New Zealand Depository Nominee	13,574,007	1.83
13	Citicorp Nominees Pty Limited	13,468,991	1.81
14	National Nominees Limited	12,413,738	1.67
15	Custodial Services Limited	11,376,755	1.53
16	Premier Nominees Limited	8,603,719	1.16
17	FNZ Custodians Limited	6,884,754	0.93
18	Forsyth Barr Custodians Limited	6,440,461	0.87
19	BNP Paribas Nominees NZ Limited	5,972,474	0.80
20	JBWere (NZ) Nominees Limited	5,826,815	0.78
	Total	413,615,782	55.63

¹ The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been re-allocated to the applicable members. Where an entity is mentioned more than once in the above table, it reflects different holder identification numbers associated with that entity.

4. Spread of security holders as at 2 August 2021 and number of holders

a) Fully paid ordinary shares

Size of shareholding	Number of holders	Number of shares	%
1 – 1,000	70,693	25,611,155	3.44
1,001 – 5,000	27,801	66,523,065	8.95
5,001 – 10,000	5,051	37,439,754	5.04
10,001 – 100,000	3,416	81,126,342	10.91
100,001 and over	211	532,710,474	71.66
Total	107,172	743,410,790	100.00

As at 2 August 2021 and based on the closing market price on that date, the number of holders with 156 or less ordinary shares (being less than a minimum holding of NZ\$1,000 under the NZX Listing Rules) was 24,988 and the number of holders with 82 or less ordinary shares (being less than a marketable parcel of A\$500 under the ASX Listing Rules) was 11,931.

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

Size of holding	Number of holders	Number of rights	%
1 - 1,000	0	0	0
1,001 – 5,000	24	81,889	9.29
5,001 – 10,000	23	165,740	18.81
10,001 – 100,000	23	522,899	59.35
100,001 and over	1	110,532	12.55
Total	71	881,060	100.00

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

Size of holding	Number of holders	Number of rights	%
1 - 1,000	0	0	0
1,001 – 5,000	1	3,080	0.45
5,001 – 10,000	4	24,066	3.51
10,001 – 100,000	3	140,089	20.44
100,001 and over	2	518,101	75.60
Total	10	685,336	100.00

d) Matching rights (unlisted securities not quoted by ASX or NZX)

Size of holding	Number of holders	Number of rights	%
1 – 1,000	203	22,019	100.00
Total	203	22,019	100.00

5. Directors' relevant interests and share dealings

Directors of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2020 to 30 June 2021:

Registered holder	Beneficial/ Non-beneficial	Acquired/ (Disposed)	Class of financial product	Date	Consideration paid/ (received) NZD
David Hearn					
David Hearn	Beneficial	(250,000)	Ordinary Shares	24 August 2020	(\$5,077,500)
David Bortolussi					
DMZSK Pty Ltd	Beneficial	311,283	Time-based rights	5 February 2021	N/A

OTHER INFORMATION

COMPANY DISCLOSURES (CONTINUED)

Directors of the Company as at 30 June 2021 held the following relevant interests in the financial products of the Company as at that date:

Registered holder	Beneficial/Non-beneficial	Balance held No.	Class of financial product
David Hearn			
David Lovat Gordon Hearn	Beneficial	1,055,000	Ordinary shares
David Bortolussi			
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	311,283	Time-based rights
Julia Hoare			
Julia Cecile Hoare	Beneficial	50,000	Ordinary shares
Pip Greenwood			
Pip Greenwood	N/A	–	–
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
Bessie Lee (appointed on 26 February 2021)			
Bessie Lee	N/A	–	–

6. Credit rating status

Not applicable.

7. NZX Waivers

There were no 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 2021.

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 2021 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 2021, directors advised the Company of the following changes or additional entries in the Company's interests register:

Name of Director	Entity	Position
Julia Hoare	Watercare Services Limited	Ceased to be a director
Julia Hoare	Accordant Group Limited	Ceased to be a director
David Hearn	Cakeham Manor Estate Limited	Director
David Hearn	Robin Partington & Partners Limited	Ceased to be a director
Bessie Lee	Electrocomponents plc	Director
Bessie Lee	Abcam plc	Director
Bessie Lee	Homeplus Digital Co Ltd	Director

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 2021.

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (Export) Limited	New Zealand	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
a2 Infant Nutrition Limited	New Zealand	David Bortolussi (Appointed: 8 February 2021) Peter Nathan (Resigned: 18 June 2021) Geoffrey Babidge (Resigned: 8 February 2021)
a2 Holdings UK Limited	New Zealand	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
The a2 Milk Company (New Zealand) Limited	New Zealand	Julia Hoare David Bortolussi (Appointed: 8 February 2021) Geoffrey Babidge (Resigned: 8 February 2021)
a2 Australian Investments Pty. Limited.	Australia	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
a2 Botany Pty Ltd	Australia	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
The a2 Milk Company (Australia) Pty Ltd	Australia	David Bortolussi (Appointed: 8 February 2021) Race Strauss Peter Nathan (Resigned: 18 June 2021) Geoffrey Babidge (Resigned: 8 February 2021)
a2 Infant Nutrition Australia Pty Ltd	Australia	David Bortolussi (Appointed: 8 February 2021) Peter Nathan (Resigned: 18 June 2021) Geoffrey Babidge (Resigned: 8 February 2021)
a2 Exports Australia Pty Limited	Australia	David Bortolussi (Appointed: 8 February 2021) Race Strauss
The a2 Milk Company (Nutrition) Pty Ltd	Australia	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
The a2 Milk Company Limited	British Columbia, Canada	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
The a2 Milk Company Limited	Scotland, UK	David Hearn
The a2 Milk Company	Delaware, USA	David Hearn David Bortolussi (Appointed: 8 February 2021) Geoffrey Babidge (Resigned: 8 February 2021)
The a2 Milk Company LLC	Delaware, USA	David Bortolussi (Appointed: 8 February 2021) Race Strauss Geoffrey Babidge (Resigned: 8 February 2021)
a2 Infant Nutrition (Shanghai) Co., Ltd.	China	Xiao Li
The a2 Milk Company (Singapore) Pte. Ltd.	Singapore	David Bortolussi (Appointed: 8 February 2021) Race Strauss Shaun Singh

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 14, below.

8.3. Use of company information

The Board received no notices during the reporting period ended 30 June 2021 from directors requesting to use Company information received in their capacity as directors which would not have been otherwise available to them.

COMPANY DISCLOSURES (CONTINUED)

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 relevant Minister or his or her delegate 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. On-market purchases

During the reporting period ended 30 June 2021, no shares of the Company were purchased on-market.

12. Donations

The Company and its subsidiaries have made donations of cash and inventories totalling \$2,309,729 during the year ended 30 June 2021 (2020: \$2,803,295).

13. 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 2021 and 30 June 2020 is as follows:

	At 30 June 2021	At 30 June 2020
Directors	6	5
Females	3	2
Males	3	3
Officers*	8	8
Females	1	2
Males	7	6

* Since 30 June 2021, a number of Executive Leadership Team appointments have been announced. Adjusting for these appointments, there will be 12 officers comprising 9 males and 3 females.

14. 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 2021.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range \$(gross)	Number of employees in the year ended 30 June 2021 (based on actual payments)	Value of exercised options and performance rights included in remuneration range \$
\$100,000 – \$109,999	20	–
\$110,000 – \$119,999	8	–
\$120,000 – \$129,999	23	–
\$130,000 – \$139,999	8	–
\$140,000 – \$149,999	12	–
\$150,000 – \$159,999	13	–
\$160,000 – \$169,999	8	–
\$170,000 – \$179,999	8	–
\$180,000 – \$189,999	5	–
\$190,000 – \$199,999	3	–
\$200,000 – \$209,999	2	–
\$210,000 – \$219,999	7	78,001
\$220,000 – \$229,999	4	–
\$230,000 – \$239,999	2	–
\$240,000 – \$249,999	3	–
\$250,000 – \$259,999	4	–
\$260,000 – \$269,999	4	–
\$270,000 – \$279,999	2	–
\$280,000 – \$289,999	2	–
\$290,000 – \$299,999	4	110,417
\$300,000 – \$309,999	1	–
\$310,000 – \$319,999	1	–
\$320,000 – \$329,999	1	–
\$330,000 – \$339,999	1	52,676
\$350,000 – \$359,999	1	51,663
\$360,000 – \$369,999	1	–
\$370,000 – \$379,999	1	–
\$380,000 – \$389,999	1	–
\$390,000 – \$399,999	1	83,066
\$410,000 – \$419,999	3	92,183
\$440,000 – \$449,999	1	114,469
\$470,000 – \$479,999	1	–
\$500,000 – \$509,999	2	295,796
\$520,000 – \$529,999	1	–
\$530,000 – \$539,999	2	–
\$540,000 – \$549,999	1	163,093
\$570,000 – \$579,999	2	114,169
\$580,000 – \$589,999	2	164,106
\$610,000 – \$619,999	1	146,885
\$630,000 – \$639,999	2	170,184
\$650,000 – \$659,999	1	156,002
\$660,000 – \$669,999	1	–
\$810,000 – \$819,999	1	–
\$820,000 – \$829,999	1	244,133
\$1,000,000 – \$1,009,999	1	256,289
\$1,010,000 – \$1,019,999	1	200,024
\$1,440,000 – \$1,449,999	1	414,317
\$1,850,000 – \$1,859,999	1	133,635
\$2,030,000 – \$2,039,999	1	–
\$2,780,000 – \$2,789,999	1	2,191,313*
\$3,600,000 – \$3,609,999	1	–
\$5,010,000 – \$5,019,999	1	3,944,000**
\$8,650,000 – \$8,659,999	1	7,856,000**
\$20,550,000 – \$20,559,999	1	19,640,000**
\$30,700,000 – \$30,709,999	1	29,144,000***
Total	184	65,816,421

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 2021 relating to FY21, and long-term incentives that have been granted and have not yet vested or been exercised (as applicable).

15. 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 2021.

16. 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.

	2021 \$'000	2020 \$'000
EBITDA	123,428	549,719
Depreciation and amortisation	(7,453)	(4,393)
EBIT	115,975	545,326
Interest income	3,989	6,135
Interest expense	(699)	(389)
Income tax expense	(38,607)	(165,235)
Net profit after tax	80,658	385,837

* Represents the aggregate market value of share rights (granted in 2018 and 2019) on automatic exercise of those rights during FY21.

** Represents the value of exercised options (granted in August 2015 under a scheme in place at a different stage of the Company's development and which has been subsequently discontinued) on the date of exercise (being the market value of ordinary shares received on exercise of options less the option exercise price).

*** Represents the aggregate of (1) the value of exercised options (granted in August 2015 under a scheme in place at a different stage of the Company's development and which has been subsequently discontinued) on the date of exercise (being the market value of 1,600,000 ordinary shares received on exercise of options during FY21 less the option exercise price); and (2) the market value of 320,000 performance rights (granted in 2017) on automatic exercise of performance rights in September 2020.

CORPORATE DIRECTORY

Company

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