

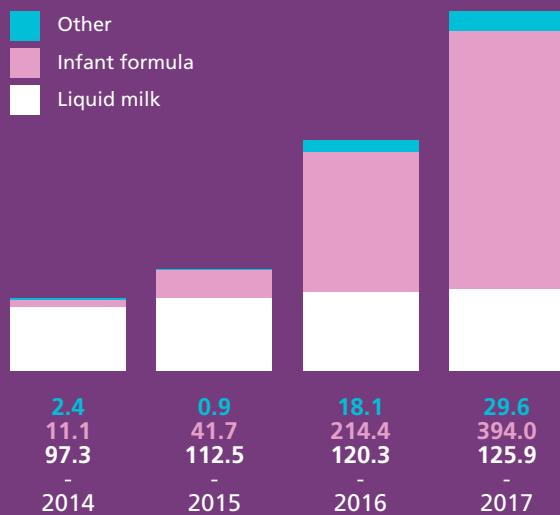


Annual Report 2016–2017

FY17 highlights

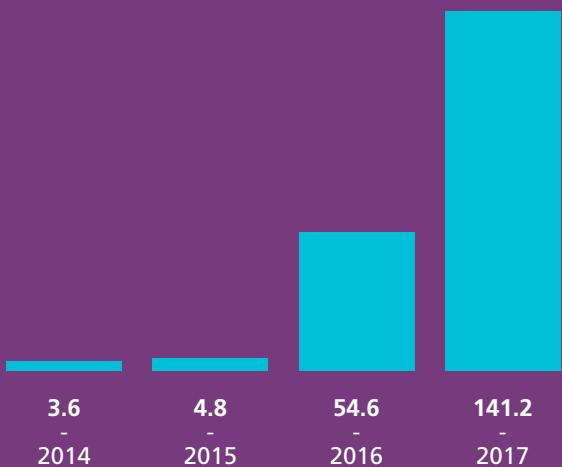
Total revenue
(NZ\$ million)

\$550m
2017



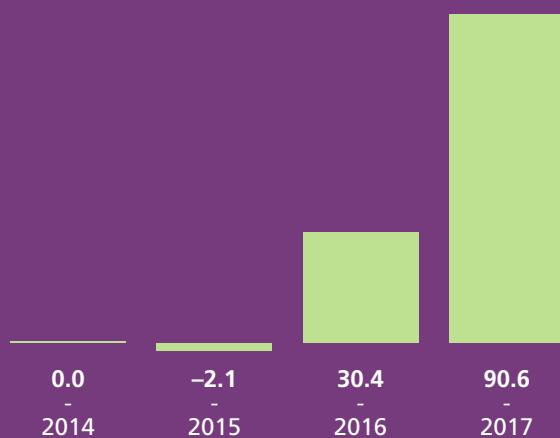
EBITDA¹
(NZ\$ million)

\$141m
2017



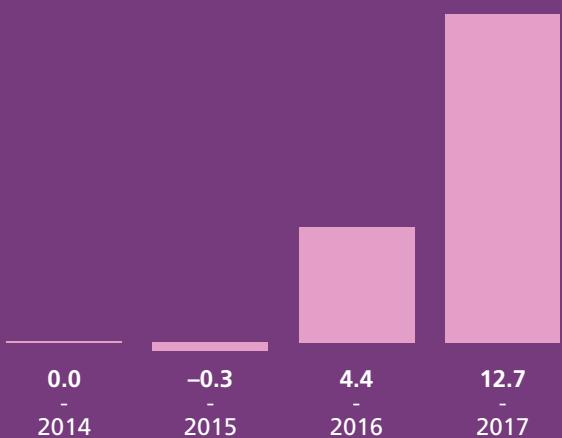
Net profit after tax
(NZ\$ million)

\$91m
2017



Earnings per share
(cents per share)

12.7c
2017



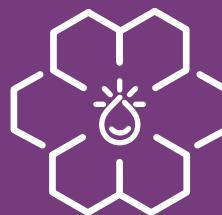
¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on page 96

Group Revenue
+56%

and EBITDA +159%



a2 Platinum®
infant formula
revenue up
84%



Development of
a broader
nutritional
products strategy

ANZ EBITDA



\$155_m
+83%

New focus on
emerging markets



8.4%

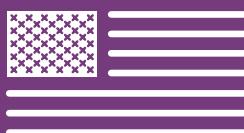
of Group revenue spent
on marketing, IP and R&D



China revenue
more than
doubled and
EBITDA +258%

~3.5% China
infant formula
consumption
share (Kantar)

Focus on
China's evolving
regulatory
regime



Sales growth
across US and
UK markets



Acquired 8.2%
of Synlait
Milk Limited





Contents

- 04 About us**
- 12 Chairman's letter**
- 14 CEO's year in review**
- 26 Corporate governance**
- 48 Financial statements**
- 88 Other information**

About us



Based on the early vision of founder Dr Corran McLachlan, we are passionate about pioneering the understanding of the natural benefits of products containing only the A2 beta-casein protein type and in doing so hope to inspire people to enjoy healthier lives.

We develop consistently high quality branded dairy-based nutritional products that are A1 protein-free, underpinned by an integrated portfolio of intellectual property and growing scientific evidence.

Over recent years we have diversified from a predominately Australian fresh milk business to extend into more complex nutritional products, such as infant formula, across a broader number of markets.

This strategy has meant our base business provides a strong foundation for further growth in dairy-based nutritional products centered on the unique strengths of the A1 protein-free proposition.

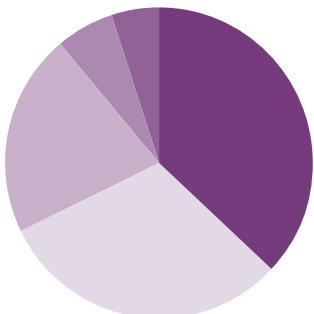
The a2 Milk™ difference

How is our milk different?

- Our branded milk is a naturally occurring cows' milk and not a product of genetic engineering or technological processes
- Conventional cow's milk contains two main types of beta casein protein, A2 protein and A1 protein – a2MC branded milk is different from conventional cow's milk because it is A1 protein-free. It is comparable to conventional cow's milk in other respects
- We work closely with farmers to select and certify cows that naturally produce A1 protein-free milk. These identified cows are segregated into their own herds and milked separately. The milk from these herds is kept separate and isolated throughout the supply chain. Subsequent quality assurance checks are carried out to ensure the supply remains A1 protein-free
- Many consumers and healthcare professionals report that certain people who experience challenges drinking conventional cow's milk may experience benefits when they switch to our branded milk
- Scientific research has demonstrated a structural difference between the A1 and A2 protein types and the way in which the digestive system breaks them down
- We continue to support further research into understanding the potential benefits of consuming A1 protein-free milk products in a number of markets

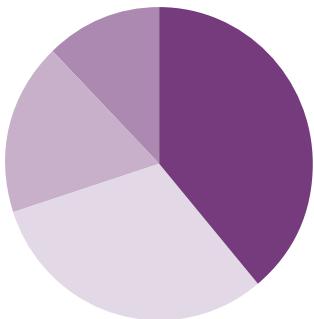
Composition of solids in milk

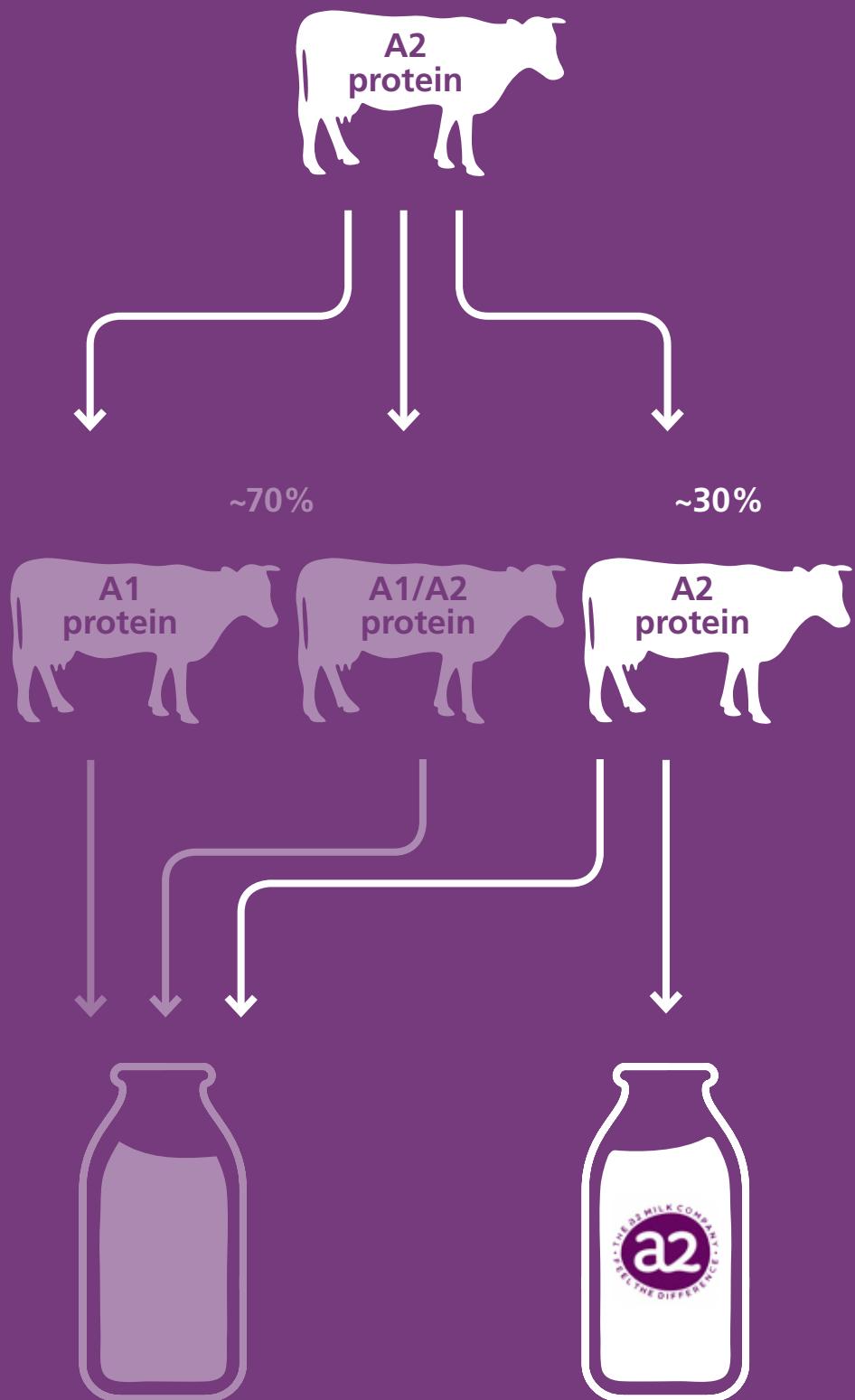
37%	Lactose
31%	Fat
21%	Casein
6%	Ash
5%	Whey Protein



Composition of milk protein

39%	Alpha-Casein
31%	Beta-Casein
18%	Whey Protein
12%	Kappa-Casein





Originally all cows produced milk containing only the A2 protein type.

Genetic variation has resulted in mixed herds over time.

Typical cow herds, that are used to produce conventional cow's milk, produce milk containing a mix of A1 and A2 protein types.

Our branded milk is sourced from herds naturally producing milk containing only A2 protein type and free from the A1 protein.



Growth strategy

Our purpose

As the a2 Milk™ pioneers we are determined to help people enjoy a better life

Our vision

To be the innovative and smart choice for dairy nutrition

Our ambition

To be the most admired and commercially attractive dairy nutritional company

Our strategic priorities



Broad dairy nutritional product portfolio

- Across a continuum from the purity of fresh a2 Milk™ to customised A1 protein-free products
- Targeting adults, children and infants to satisfy their growing digestive health needs



Targeted attractive regions

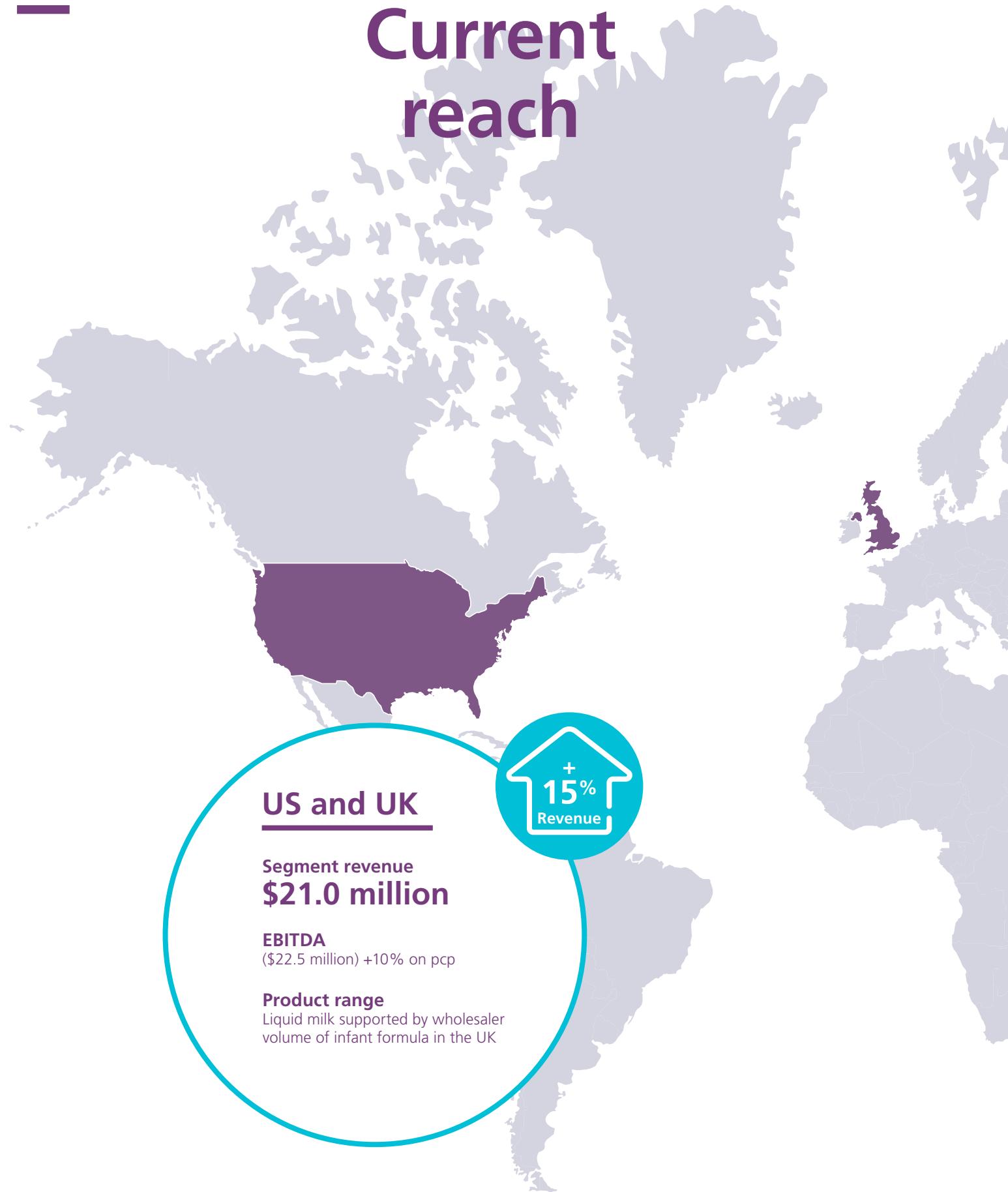
- Asia Pacific focus (ANZ, China, Other Asia)
- USA
- UK
- Opportunistic new markets

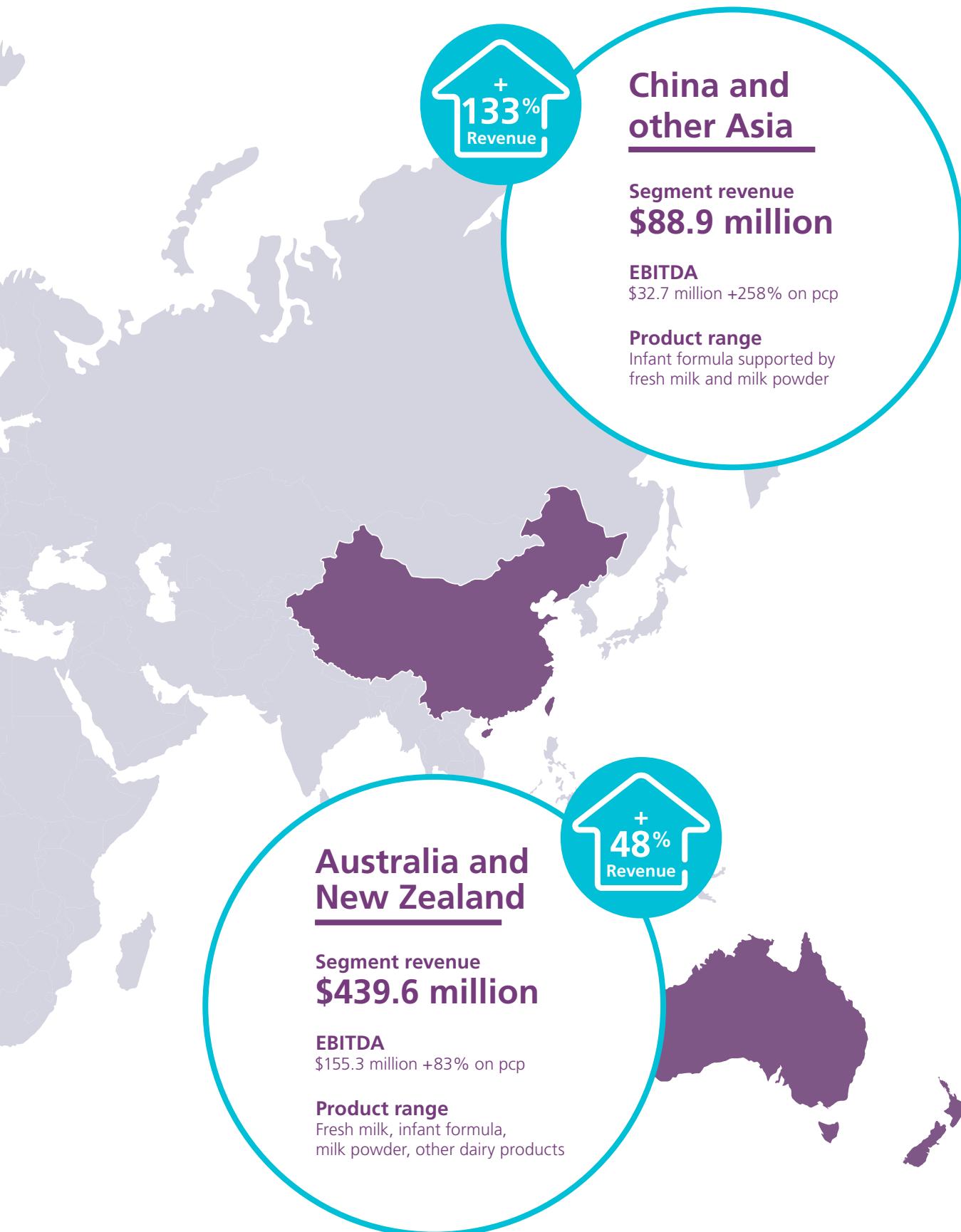


Proprietary know-how, A2 protein expertise

- Integrated intellectual property portfolio
- Leading operational and compliance capability
- Sponsoring relevant scientific research
- Differentiated brand development

Current reach





“The platform the Company has now built provides a strong base from which to grow further into new nutritional categories and markets”

Chairman's letter

The progress achieved by your Company¹ over the past year has been truly impressive. Large increases in revenue, earnings and cash flow testify to the performance of our established businesses at their various stages of development. This performance has accelerated progress against our objective of building a global company with a broad range of nutritional products centred on the unique strengths of the a2™ proposition. The platform the Company has now built provides a strong base from which to grow further into new nutritional categories and markets.

The Company's performance meant we were obliged to update market guidance on a number of occasions in addition to the scheduled market announcements during the year. It led to a substantial increase in value, with market capitalisation more than doubling during the year.

Our performance is a function of the growing consumer interest in health and nutrition and the success of the highly focused and disciplined growth strategy we have been following over many years. Concern for health and nutrition is a global phenomenon and hence the Company sees opportunity in both portfolio and geographical expansion. Our strategy is to create a broad portfolio of products extending from fresh milk to fortified dairy-based products for infants, children and adults; and to continue to broaden our geographical footprint, initially with a focus on tightly-defined market segments in South East Asia. There is, meanwhile, significant potential for further growth in our priority markets in Australia, China, the United States and the United Kingdom.

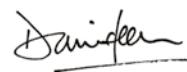
The Board appreciates the support from each of our supply, processing and distribution partners, whose ability to meet expanding requirements was a key element in our performance and growth during the year. In particular, the demand for a2 Platinum® infant formula was well ahead of expectations and we received significant support from our manufacturing partner Synlait Milk in responding to this challenge. To strengthen further the relationship and provide stability for its capital structure, the Company acquired an 8.2% shareholding in Synlait at a cost of NZ\$48.7 million in March 2017.

The Board is continually focused on providing an appropriate mix of governance and advice to support management's ongoing endeavours in delivering on the Company's strategy. The Board renewal process continued – in particular, with the appointments of Warwick Every-Burns and Jesse Wu as Non-Executive Directors, who together bring valuable skills and experience in global fast moving consumables businesses in international markets, including China in particular. Long-serving Directors Richard Le Grice and Mel Miles completed their terms and I take this opportunity to record the Board's appreciation of their contribution to the development and growth of the Company.

As foreshadowed during 2017, the Board has been evaluating capital management alternatives whilst continuing to maintain a flexible and conservative capital structure. Accordingly, the Company is pleased to advise that it intends to establish an on-market buyback of its shares over the next 12 months of up to \$40 million. Furthermore, the Board remains open to considering the merits of a special dividend in light of progress on the buyback and future market conditions.

The Board wishes again to thank management and staff across all segments for their hard work and dedication to the Company during the year.

The CEO's year in review, which follows herein, provides a comprehensive overview of the operational and financial performance for the year and I commend it to you. We expect continued growth in revenue and earnings in the 2018 financial year and an update on our performance will be provided at the Annual Meeting, in November 2017.



David Hearn
Chairman
22 August 2017

¹ The a2 Milk Company Limited (NZX: ATM; ASX: A2M) (the "Company" or "a2MC") and its subsidiaries (together the "Group").

**“The Company made
further strong gains in
revenue and earnings”**

CEO's year in review

Overview

Financial results for the year ended
30 June 2017 (NZ\$)

**Total revenue of
\$549.5m**

An increase of 56% over the
prior corresponding period (pcp)

**Net profit after tax of
\$90.6m**

198% ahead of the pcp

**Basic earning per share (EPS) of
12.7¢**

an increase of 186% on pcp

**Operating cash flow of
\$99.9m**

and a cash balance of
\$121.0 million at year end

**EBITDA of
\$141.2m**

159% ahead of the pcp

Continued strong growth in sales and market share

For a2 Platinum® infant formula
in Australia and China

Sales growth

Of a2 Milk™ branded fresh
milk and whole milk powder
in Australia

Increased investment

In building brand awareness
in the United States (US)

Positive operating earnings

In the United Kingdom (UK)

Development of a broader nutritional products strategy

And a new focus on
emerging markets

CEO's year in review

continued

The Company made further strong gains in revenue and earnings in the 2017 financial year (FY17), with outstanding performance in infant formula, and continued growth in liquid milk in each of its core markets.

Sales of a2 Platinum® infant formula continued to grow strongly in Australia and China in online and offline channels, consistent with growing brand awareness among consumers in both countries. Infant formula generated 72% of the Company's total revenue for the year - up from 61% in the 2016 financial year. The Company is clearly focused on sustainable growth of a2 Platinum infant formula® through significant investment in product supply and quality, building brand awareness and strength, and meeting the requirements of China's regulatory regime.

In Australia, a2 Milk™ branded fresh milk achieved further growth in sales, while a2 Milk™ branded whole milk powder, introduced in the previous year, showed strong growth.

Further progress was made in building the US business, with a continued focus on California and expansion to the South East through a premier retailer in that region and in the natural grocery channel. Brand awareness and rates of sale increased during the period and remain key metrics for the business.

Fresh milk sales in the UK showed strong growth on the prior year with continued marketing investment and improved customer engagement, delivering operating profits for the first time. Expanded distribution was also achieved with a number of retailers by year-end.

Marketing spend increased by \$9.0 million on pcp primarily attributed to building awareness in the US and China.

Corporate and other costs rose by \$5.7 million on the prior year reflecting increased spend on patents, trademarks, and research and development, and other costs associated with business expansion activities.

Continuing earnings momentum has led to a further strong increase in the cash position. Net operating cash flow for the year was \$99.9 million, compared with \$21.5 million in the pcp and in particular benefited from lower than targeted infant formula inventory due to strong demand. The closing cash on hand of \$121.0 million was after an investment of \$48.7 million in shares in Synlait Milk Limited.

The Board has been evaluating capital management alternatives whilst continuing to maintain a flexible and conservative capital structure and now intends to establish an on-market buyback of the Company's shares over the next 12 months of up to \$40 million. In addition, the Board remains open to consider the merits of a special dividend in light of progress on the buyback and future market conditions.



Sales of a2 Platinum® infant formula continued to grow strongly in Australia and China

CEO's year in review

continued

Strategic focus

With the building momentum of the a2 Platinum® brand in Australia and China, progress in developing the market opportunities in the UK and US, and a further broadening of organisational capabilities, the Company is well positioned for continuing strong growth.

The Company is intent on building a broader portfolio of dairy-based nutritional products centred on the unique strengths of the A1 protein-free proposition. This will involve a range of products across a continuum from pure fresh milk to customised infant, children and adult nutritional products that satisfy consumers' growing health needs. In addition, the Company will continue to develop its significant intellectual property portfolio and proprietary know-how to underpin its first mover advantage.

A number of product launches are planned for the 2018 financial year (FY18), including the launch of a2 Platinum® Stage 4 infant formula for children three years and above in August 2017, as well as an extension to the milk powder range.

The Company is also moving to progress its strategy for growth in emerging markets, both as a natural evolution from established positions and in response to growing levels of enquiry. Consideration is being given to markets against a matrix of factors, including consumer dynamics, channel structure, and market access.

With the growing profile of the a2™ brand, we have increasing interest from parties wishing to explore opportunities to participate in our expansion plans in a number of markets. We will review opportunities that arise from this interest where they enable our business to grow more rapidly in the context of our focused strategic agenda.

The Company's low capital model is supported by mutually beneficial medium-term relationships with processing and distribution partners. A significant example of this was the completion of a new Supply Agreement for a2 Platinum® infant formula with our supply partner Synlait in August 2016. This new agreement, for a minimum term of five years, provides access to an agreed level of capacity and an obligation to supply to order, and does not include 'take or pay' provisions. In March 2017, the Company acquired a shareholding of 8.2% in Synlait. While the Supply Agreement continues to be the cornerstone of the commercial relationship between the two parties, the Company's investment further strengthened this important relationship.

The Company continues to focus on China's evolving regulatory regime for infant formula products and cross border trade, and in particular the requirement for registration of manufacturers of infant formula brands by China's Food and Drug Administration (CFDA) from 1 January 2018.

To continue to grow our China label business, we engaged a leading in-market consultancy to undertake a comprehensive study of the China infant formula market in conjunction with management. This review assisted in deepening the Company's understanding of this market and in developing strategies to build scale in the priority offline and domestic online channels.

A key focus for our supply chain management and partners relates to minimising the risk of product substitution or counterfeit, particularly for infant formula in China. Significant progress has been made around new security technology and advances in quality and authenticity proof points that will be implemented during FY18.

The Company is intent on building a broader portfolio of dairy-based nutritional products

Board and management

The Company continues to ensure appropriate focus and capability at the Board and management levels in support of its evolving strategy. The Board renewal process initiated in 2013 continued into FY17 to better align with the strategic plan of the Company. Warwick Every-Burns, a consumer packaged goods executive with a leadership record in China, North America, Europe, and Australia, joined the Board in August 2016. His skills and interest in business development in new and emerging markets, brand management and human resources are of significant value to the Company. Jesse Wu, who has held a range of leadership positions in consumer goods businesses in China and other markets of relevance to the Company, was appointed a Director in May 2017. Jesse held a range of senior executive roles with Johnson & Johnson in China, the Asia/Pacific region, and for their worldwide Consumer Group.

Richard Le Grice stepped down from the Board at the end of the year, having been a Director since 2007. Richard's Board tenure spanned the Company's early establishment phase and its subsequent strategic development and growth, and followed an earlier period in a management role. Mel Miles also retired as a Director in August 2016 after six years on the Board, but continues to advise the business in a consultancy role. We thank both Richard and Mel for their significant contribution to the Company.

In June 2017, the Company announced a reorganisation of responsibilities within the senior leadership team to further support the ongoing development of its businesses in Asia Pacific. Peter Nathan, who has led the Australian business since 2007, was appointed Chief Executive Asia Pacific with a particular focus on Australia and China. A highly experienced China-based executive, Jane Xu was appointed to the new role of Executive Vice President China reporting to the Chief Executive Asia Pacific in August 2017.

Scott Wotherspoon, who previously led the China and UK businesses, assumed a new role with responsibility for the UK, development activities across Europe and a number of key strategic initiatives.

A new senior management position, Head of Business Development – Emerging Markets, was created in May. Michael Bracka, who has extensive experience in fast moving consumer goods, joined the Company in this position.

CEO's year in review

continued

ANZ

The ANZ business continued to perform very strongly. Total segment revenue across all product categories increased by 48% to NZ\$439.6 million, and EBITDA by 83% to NZ\$155.3 million.

Fresh milk sales rose by ~5.5% on pcp, whilst market share by value of a2 Milk™ branded fresh milk remained stable at 9.3% (*Australian Grocery Weighted Scan, 30 June 2017, MAT*). a2 Milk™ is the only milk brand distributed through all six key grocery retailers in the Australian market.

Sales of a2 Platinum® infant formula rose by ~78%, driven by increasing consumer awareness in both Australia and China. a2 Platinum® remains the fastest growing infant formula brand by value in Australia, with market share during the 2017 financial year increasing from ~16% to ~26% by value (*Australian Grocery and Pharmacy Scan, 30 June 2017, MAT*) in mainstream retailers.

Close attention continues to be applied to our infant formula supply chain and inventory management taking account of changing industry dynamics. The 'Daigou' channel has become a significant and growing sales channel from Australia to China for the Company and is a key focus for management. Since it became apparent that demand for a2 Platinum® would exceed our expectations, the Company worked closely with Synlait to progressively increase the production schedule. Inventory remained at below industry average levels given the continued expansion in sales.

The continued growth in both fresh milk and infant formula sales reflects increasing consumer awareness and loyalty driven by consistent brand advertising and growing media coverage of The a2 Milk Company™ brand. The business once again increased its marketing investment, resulting in the largest media spend of any brand in both the fresh milk and infant formula categories in Australia.

Sales of a2 Milk™ branded whole milk powder increased strongly and a2 Milk™ branded skim milk powder was launched in May 2017.

The milk supply arrangements between the Company, Moxey Farms and Leppington Pastoral Co were extended for a further three-year term, effective 1 July 2017. The renewed arrangements provide for increased committed and available A1 protein-free milk volumes and the removal of the previous 'at will' termination rights. The Company's previous protections around its intellectual property rights, herd maintenance and quality assurance and controls are continued, whilst authority was given for the sale of milk surplus to the Company's requirements subject to specific conditions.

The Australian Federal Court action initiated against a competitor during the previous financial year, for misleading and deceptive conduct in respect of packaging and advertising claims, remains in progress. A substantive hearing is scheduled in November 2017, and the Company remains confident of achieving a successful outcome.



Close attention continues to be applied to our infant formula supply chain and inventory management

CEO's year in review

continued

China

Total sales and earnings in China continued to grow very strongly. Revenue grew from \$38.2 million to \$88.9 million, and EBITDA from \$9.2 million to \$32.7 million.

The business has a flexible multi-channel infant formula strategy in both China label (offline and online) and cross border English label (online) to achieve growth and best position the brand to meet foreshadowed changes in the regulatory environment over time.

Consumption market share for a2 Platinum® infant formula brand in targeted regions of China grew strongly, to ~3.5% for quarter ending June FY17 as measured by Kantar¹, growing from ~2.1% for quarter ending June FY16. Rising awareness of a2 Platinum® and its unique benefits, built through increased marketing and sales investment, remained a key driver throughout FY17. Enhanced advertising programmes, increased focus on educating healthcare professionals and sales investment at point of sale were all important contributors to growth. a2 Platinum® again successfully participated in key online sales events including '11/11' Singles Day and Chinese New Year and achieved strong growth in Cross Border E-Commerce (CBEC) across the year.

We have seen pleasing growth in the business's offline (bricks and mortar) footprint, with distribution growing to ~3,800 stores. Whilst this represents strong growth in offline, the business is managing its expansion in a structured way in order to maximise the outcomes from its investment in the medium term. The study undertaken by our in-market consultants is assisting in this regard.

The China team has been further developed across each of the sales, distribution, marketing, quality and health and nutrition functions, primarily based in Shanghai.

Infant Formula Regulation

The Company continues to closely monitor and respond to changes in China's regulatory regime for infant formula products.

In particular, this includes providing support to Synlait in its application for registration of a2 Platinum® infant formula with the CFDA. This follows the April 2016 announcement by China's Ministry of Finance that infant formula brands would require registration for products imported from 1 January 2018.

The dossier application for CFDA registration was submitted by Synlait in May 2017, and has been accepted for review. This is an important milestone and reflects strong capability and collaboration between Synlait and the Company. Both companies continue to be confident that Synlait's registration application with CFDA will progress as expected.

The application seeks to ensure that direct exports to China of the Company's China label infant formula products (a2 Platinum® infant formula), which currently comprise ~8% of our total infant formula sales, can continue from 1 January 2018. We understand that inventory received in China before that date may continue to be sold without CFDA registration and we will consider this as mitigation against any unforeseen delays in the registration process.

In November 2016, China's Ministry of Commerce indicated that it would temporarily extend the grace period for registration of goods imported through the CBEC channel to the end of December 2017. Following this, in March 2017 China Customs announced an extension in implementing new import documentation requirements for CBEC products until the end of December 2017. The Company expects further announcements relating to infant formula trade within the CBEC channel during the next six months.

¹ Kantar tracks China Key and A cities that comprise a substantial proportion of the total China infant formula market

USA

The US business made further progress on its strategy to build brand awareness and progressively expand its footprint on a region-by-region basis.

a2 Milk™ is available in five variants within the specialty milk segment, the fastest growing segment of the total milk category. A new chocolate flavoured product was added during the year and launched at the Natural Products Expo West – one of the largest retail events of its kind in the US.

The business continued to build distribution and sales velocities in California and has now achieved broad trade acceptance across the state. Based on the increasing profile of the Company, the business expanded into the South East from March 2017 through a new relationship with a premier retailer in that region, Publix, which has approximately 1,100 stores in Florida, Georgia and the Carolinas. The business also achieved increased distribution of the a2 Milk™ brand through the leading retailer of natural and organic foods, Whole Foods Market, and is currently ranged in seven out of 11 regions, including the Mid-Atlantic, the South, Florida and more recently, the North East. At 30 June 2017, the Company had distribution in approximately 3,000 stores across the US.

Investment in the second half in a new integrated multi-media marketing campaign 'Love Milk Again' alongside up-weighted shopper marketing programmes, further contributed to the steady growth in unit sales per store per week amongst key retailers. The supply chain was enhanced with the support of a second contract processor in the Los Angeles basin to supply more economically to the California market. Performance in fulfilment and product quality from our initial East Coast processor has been very satisfactory.

Building consumer awareness and sales velocities in California and the South East regions remains the key focus before meaningful expansion into further markets. Based on recent performance, we have updated our financial outlook, which now assumes investment of approximately US\$25 million over the course of FY18 and FY19 before positive monthly EBITDA in FY20.

As the level of forecast investment to establish the US business has increased progressively over time, it was determined appropriate to write off the intangible assets relating to this subsidiary of NZ\$2.2 million at 31 December 2016.

UK

The UK business returned its first annual operating profit, assisted by strong growth in a2 Milk™ branded fresh milk sales and a contribution from infant formula sales.

Growth reflected increased rates of sale in stores and further improvements in brand awareness, driven by the success of the 'a2tonishing' marketing campaign which commenced late last year, and a number of improvements in merchandising.

The business delivered increased facings in-store and improved point of sale presence. It undertook targeted promotional activities and deepened relationships with the healthcare professional community.

The business expanded distribution through major retailers towards the end of the year. Gains included additional store numbers with J. Sainsbury, along with additional ranging for semi-skimmed milk and listing of whole milk. A new listing for fresh milk was achieved in June 2017 with Asda WalMart, in a number of its stores. By year end, the brand was distributed in ~1,600 stores.

The business continues to be well supported by its fresh milk manufacturing partner Müller Milk & Ingredients.

a2 Platinum® infant formula continued to be sold in the wholesale market, having been introduced during the 2016 financial year.

CEO's year in review

continued

Science, research and development

The Company has continued to support research and development in respect of the benefits from consumption of milk products that do not contain the A1 beta casein protein.

Research projects progressed during FY17 included:

- a significant human study in China to support digestive benefit findings from an earlier published study, which provides further insight into the mechanism underpinning the digestive benefits;
- a clinical study in China amongst pre-school children examining digestive comfort and cognitive function has been submitted for publication. Results are aligned with findings from recent adult publications;
- a first acute human study progressed under the New Zealand Government High Value Nutrition programme has been completed, with outcomes providing significant insight, clarification and support to previous research recently run in China and Australia. The results will be presented at the annual conference for the Academy of Nutrition and Dietetics USA in Chicago in October 2017;
- a clinical examination of the benefits of A1 protein-free milk with respect to digestive function, inflammation and aspects of metabolic function at Pennington Biomedical Research Center in the US; and
- a clinical study in association with Monash University, Australia, examining the digestive and cognitive benefits of a2 Milk™ for irritable bowel syndrome sufferers.

In September 2016, the *Nutrition Journal* publication reported that consumption of a2 Milk™ increases natural production of the body's key antioxidant, Glutathione (GSH), in milk-intolerant consumers. GSH is widely recognised for its association with a range of health benefits.

Intellectual property and brand development

The Company has a market leading investment in the a2 Milk™ brand and a growing reputation in the a2 Platinum® brand within its core markets. With increased awareness and interest around the A1 protein-free proposition, the Company continues to take appropriate steps to protect and enhance its intellectual property portfolio. This includes a focus on patents and trademarks across its chosen markets.

The patent portfolio remains strong covering a range of compositional benefits and therapeutic uses of A1 protein-free products, with protection for specific benefits potentially up to 2037.

In addition, the Company has taken steps towards a new singular brand trademark to bring consistency and impact to packaging and branding across the product portfolio.

Outlook

a2MC expects continued growth in the 2018 financial year, in particular from infant formula and milk powder products in Australia and China and improved momentum in the US and UK businesses. We are also positive around opportunities to broaden the nutritional products portfolio. The Company will continue to manage the infant formula supply chain closely and expects product availability of a2 Platinum® in Australia and China to progressively improve from current levels. Accordingly, the Company's working capital outlook assumes an increase in infant formula inventory to more sustainable levels during the year.

The Company is pleased with progress on the CFDA registration process for a2 Platinum® infant formula and remains confident in its ability to continue to adapt to the dynamic regulatory and market circumstances in China. Importantly, the opportunities for growth in the China market, and potentially South East Asia, remain significant.

The Company expects to provide an update on financial performance at its Annual Meeting in November 2017.



Geoffrey Babidge
Managing Director and Chief Executive Officer

22 August 2017



a2MC expects continued growth in the 2018 financial year, in particular from infant formula and milk powder products

Corporate governance

Director profiles	27
Executive team	29
Corporate governance framework	31
The Board	32
Risk management	39
Remuneration	43
Diversity	47

Director profiles

David Hearn

Chairman & Executive Director

Master of Arts

Director since February 2014

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

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

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

David resides in the United Kingdom.

Julia Hoare

Deputy Chairman &
Non-Executive Director

Bachelor of Commerce, FCA,
Member of the Institute of
Directors (New Zealand)

Director since November 2013

Julia has been a director of the Company since 19 November 2013, and Deputy Chairman since 30 March 2015. Julia is also Chairman 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 New Zealand for 20 years. Julia is also a member of the New Zealand External Reporting Advisory Panel (XRAP), a body designed to support the standard setting process of the New Zealand External Reporting Board (XRB), and the New Zealand Institute of Directors National Council.

In addition to her Company directorship, Julia is Deputy Chairman of Watercare Services Limited, and a director of New Zealand Post Limited, Port of Tauranga Limited, and AWF Madison Group Limited.

Julia resides in New Zealand.

Geoffrey Babidge

Managing Director &
Chief Executive Officer (CEO)

Bachelor of Economics

Director since July 2010

Geoffrey has been Managing Director and CEO of the Company since 22 July 2010.

Geoffrey has over 30 years' senior management experience working in the Australian FMCG industry. Prior to his appointment as CEO of the company in 2010, Geoffrey held senior executive roles with a number of companies in Australia including Freedom Foods Group Limited, Bunge Defiance and National Foods. Prior to these roles he was a practicing chartered accountant and Partner at Price Waterhouse.

Geoffrey resides in Australia.

Peter Hinton

Non-Executive Director

Bachelor of Commerce;
Bachelor of Laws (Hons);
Master of Laws (Harvard)

Director since February 2016

Peter has been a director of the Company since 16 February 2016. He is also Chairman of the Nomination Committee and a member of the Remuneration Committee.

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

Peter has provided legal advice to the Company over many years and this background, together with his very strong commercial skills, is highly relevant and complementary to the make-up of the Board. This is particularly so given the increasing complexity of the business and the breadth of activities in international markets.

Peter resides in New Zealand.

Director profiles (continued)

Warwick Every-Burns Non-Executive Director	Warwick has been a director of the Company since 23 August 2016. He is also Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee.
Advanced Management Program (Harvard)	Warwick has been a career Consumer Packaged Goods (CPG) executive of global scale. His executive roles have included a successful career with The Clorox Company of the USA as Senior Vice President, International based in the USA and prior to that as VP Asia Pacific. His earlier roles included Managing Director of NationalPak Limited (the Glad Products Company ultimately acquired by Clorox) and a long career with Unilever PLC where he was based in Australia. More recently Warwick has been a non-executive director of one of the leading international wine companies, the ASX listed Treasury Wine Estates.
Director since August 2016	Warwick brings a combination of international CPG executive and non-executive director experience in markets of particular relevance to a2MC in China, North America and also Europe. His strong skills and interest in business development in new and emerging markets, brand management and human resource management are of significant value to the Company. Warwick resides in Australia.
Jesse Wu Non-Executive Director	Jesse has been a director of the Company since 16 May 2017. He is also a member of the Audit and Risk Management Committee and the Remuneration Committee since 1 July 2017.
Master of Business Administration (Duke)	Jesse began his career with Procter & Gamble and PepsiCo, before joining Johnson & Johnson's consumer business. Having held the roles of Finance Director, Managing Director China and President for Greater China, Jesse was named International Vice President, Asia/Pacific in 2003 and Company Group Chairman, Global Markets in 2008. Prior to his last executive position, he was Worldwide Chairman of the Johnson & Johnson Consumer Group (which had annual revenues of US\$14bn).
Director since May 2017	Jesse was most recently Chairman of Johnson & Johnson China and a Member of Johnson & Johnson's Management Committee, until his retirement in 2016.
	Jesse is a non-executive director of Hong Kong listed, Li Ning, and also serves on the Board of Visitors at Duke University's Fuqua School of Business. Jesse is a two-time recipient of the Magnolia Award from the Shanghai Municipal Government, given in recognition of his contributions to Shanghai's economic development.
	Over his career, Jesse has managed significant scale and complexity in the areas of manufacturing, distribution, sales and marketing, in both developed and emerging markets.
	Jesse resides in China.

Former directors

Richard Le Grice Non-Executive Director	Until his retirement on 30 June 2017, Richard was Chairman of the Remuneration Committee and a member of both the Audit and Risk Management Committee and the Nomination Committee.
Bachelor of Laws	Richard has experience in management of, and as a shareholder in, a number of private companies. He brought considerable international experience with these companies operating in a number of countries including Australia.
Director from February 2007 to June 2017	Richard resides in New Zealand.
Mel Miles Non-Executive Director	Until his retirement as a director on 23 August 2016, Mel was a member of both the Audit and Risk Management Committee and the Remuneration Committee.
Bachelor of Science (Hons)	Mel has over 30 years' Australian and international senior executive experience in the FMCG industry, and has held Vice President roles in Carlton & United Breweries and Foster's Group and General Manager roles in Visy Industries and Amcor.
Director from July 2010 to August 2016	Mel resides in Australia.

Executive team

Geoffrey Babidge
Managing Director &
Chief Executive Officer (CEO)

Bachelor of Economics

See the Director profiles above for details of Geoffrey's qualifications and experience.

Craig Louttit
Chief Financial Officer

Bachelor of Commerce, CA

Craig joined the Group in April 2014 from ASX listed public company UGL Limited where, since 2007, he held senior finance roles including as General Manager Finance, Transport and Technology Systems, and Group Financial Controller. Prior to this he held senior finance roles with EMI Group PLC from 1999 in London, UK. Craig is a member of the Institute of Chartered Accountants in Australia and New Zealand.

Peter Nathan
Chief Executive, Asia Pacific

Bachelor of Business
(Marketing)

Peter joined the Group in 2007 and in 2010 took on the role of Chief Executive of the Australia and New Zealand region. From 1 July 2017, Peter was appointed Chief Executive of the Asia Pacific region. During his time with the Company, Peter has led the successful relaunch of a2MC branded milk in the Australian market and has been instrumental in establishing the a2 Platinum™ infant formula brand in Australia.

Peter has over 20 years' experience working in the FMCG industry, as evidenced by his previous senior marketing and sales roles for Gillette and Colgate Palmolive in Australia and Asia, as well as his involvement with Freedom Foods Group Limited as General Manager.

Blake Waltrip
Chief Executive, USA

BA Economics

MBA, Anderson Graduate
School of Management, UCLA

Blake joined the Group in May 2016, assuming the role of Chief Executive of the USA region. Blake has a strong marketing and general management skill set. Most recently, Blake was 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, and an earlier extensive marketing career with Nestlé USA beverage brands.

Scott Wotherspoon
Chief Executive,
UK & Europe

Bachelor of Arts (Hons) (Law)

Scott joined the Group in January 2014, assuming the role of Chief Executive of the wholly owned subsidiary, The a2 Milk Company Limited (UK). Scott's role included responsibility for the China business up until 30 June 2017 when he assumed the responsibility to oversee business development activities across Europe in addition to his role as Chief Executive of the UK business. Prior to joining the Group, Scott held a number of senior roles including 15 years in marketing, sales and commercial roles both in Europe and Asia with the Unilever Group, CEO of a specialist beauty devices business and CEO of Plum Baby, a private equity backed food business in the UK which was acquired by Campbell's Soup Company. Scott has a degree from Cambridge University.

Susan Massasso
Chief Marketing Officer

Bachelor of Commerce
(Accounting/Marketing)

Susan has over 20 years' experience in the FMCG industry. She joined the Group in September 2013 as Chief Marketing Officer with leadership of marketing and brand development across all markets. Prior to this, Susan held several senior leadership and commercial positions across the Campbell Arnott's business including Asia Pacific Regional Marketing Director, Marketing Director Arnott's ANZ, General Manager Campbell's ANZ and Marketing Director Campbell's ANZ. In addition, Susan spent a number of years at Unilever where she held a variety of marketing, consumer insight and logistics roles. Susan attended the University of Sydney under scholarship from accounting firm Price Waterhouse where she gained undergraduate employment throughout her degree.

Executive team (continued)

Dr Andrew Clarke
Chief Scientific Officer

Bachelor of Science (Hons),
Master of Science, PhD

Andrew joined the Group in 2003. Andrew has over 15 years' experience in private sector pharmaceutical research and agricultural biotechnology. He received a PhD in Biochemistry and Molecular Biology from the University of Auckland. In his role as Chief Scientific Officer, Andrew oversees all aspects of the Group's science-based activities including research and development, scientific communications and the expansion of intellectual property.

Simon Hennessy
General Manager,
International Development

Bachelor of Science
(Chemistry),
Graduate Diploma,
Corporate Finance

Simon joined the Group in 2007 as the Business Unit Manager for the Australian joint venture with Freedom Foods. In 2010, Simon took on the responsibilities for Group operations and development of new markets. Simon has over 25 years' experience in manufacturing operations, sales and marketing, after an early career in research and development and quality management.

Shareef Khan
General Manager, Operations

Bachelor of Science, Certified
Supply Chain Professional
(APICS)

Shareef joined the Group in June 2012. He has over 14 years' senior management experience as a qualified supply chain professional. He is experienced across a number of industries, including FMCG, infant nutrition, office products and construction.

Michael Bracka
Head of Business Development
– Emerging Markets

Bachelor of Arts (Psychology)

Michael joined the Group in May 2017 with a wealth of domestic and international experience in fast moving consumer goods. He has held senior sales, marketing and leadership roles at leading organisations such as Mars, PZ Cussons, Kellogg and, more recently, with Manassen Foods and Freedom Foods.

Jaron McVicar
General Counsel &
Company Secretary

Bachelor of Laws

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 has more than 15 years' of legal experience as a corporate and commercial lawyer, including seven years working in London. Jaron is a qualified solicitor in New Zealand, England and Wales.

Corporate Governance framework

The Board is committed to maintaining the highest standards of corporate governance. Through the establishment of the corporate governance framework, the Board seeks to ensure that its directors, officers and employees fulfil their functions responsibly, whilst protecting and enhancing the interests of shareholders.

For this reporting period, the Company's corporate governance framework has been developed with regard to:

- the NZX Main Board Listing Rules (NZX Listing Rules) and the NZX Corporate Governance Best Practice Code (NZX Best Practice Code);
- the Financial Markets Authority's Corporate Governance in New Zealand: Principles and Guidelines (2014); and
- the ASX Listing Rules and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (ASX Principles).

This corporate governance section sets out the Company's commitment to best practice corporate governance and addresses the Company's compliance with the ASX Principles and the NZX Best Practice Code.

The new NZX Corporate Governance Code has been finalised and will come into effect on 1 October 2017. The Board intends to align corporate governance disclosures against that model in the next reporting period.

For the year ended 30 June 2017, the Company considers that its corporate governance framework materially aligns with the NZX Best Practice Code, except where noted below:

NZX Best Practice Code, section 2.7

Directors are encouraged to take a portion of their remuneration under a performance-based equity security compensation plan

The Directors do not take a portion of their remuneration as directors under a performance-based equity security plan. However, in order to align director interests with those of all shareholders, the Company requires that each director purchase shares in the Company equivalent in value (at the time of purchase) to at least one year's pre-tax remuneration, to be held for the duration of his or her tenure on the Board. Each Director has three years (from the date of the adoption of the policy on 22 November 2016 or his or her appointment, as applicable) to achieve this position.

For the financial year ended 30 June 2017, the Company considers that its corporate governance framework complied with the recommendations in the ASX Principles, except where noted below. Where a recommendation in the ASX Principles has not been followed, the reason for not following the ASX Principles is also stated below:

ASX recommendation 2.5

The chair of the board should be an independent Director and, in particular, should not be the same person as the CEO

The Chairman of the Board is David Hearn. For the purposes of the ASX principles, the Board does not consider him to be an independent director because he has a limited executive role in relation to the Group's business in the Northern Hemisphere. However, the Board is confident that he exercises an independent view and judgement in his role as Chairman. David brings to the Board a strong skill set in executive management, sales and marketing and strategy development in fast moving consumer goods in international markets. Furthermore, the Board believes that the significant skills and experience gained in other businesses that David brings to the role of Chairman outweigh any perceived lack of independence.

The roles of Chairman and Chief Executive Officer are not exercised by the same individual. The role of Chief Executive Officer is held by the Managing Director, Geoffrey Babidge.

This Corporate Governance statement is current as at 30 June 2017 (except where otherwise specified) and has been approved by the Board.

The Board

Role of the Board and delegation of authority

The Board is responsible for the overall governance of the Company. Issues of substance affecting the Company are considered by the Board, with advice from external advisers as required.

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

The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, Remuneration Committee and Nomination Committee). The role of each of these Committees is outlined on pages 34 to 36.

Board procedures ensure that all directors have the information needed to contribute to informed discussion on all agenda items and effectively carry out their duties. Senior managers make direct presentations to the Board on a regular basis to give the directors a broad understanding of management philosophies and capabilities.

Role of senior executives

To enable the effective day-to-day management and leadership of the Company, the Board has delegated the management responsibilities of the Company to the Chief Executive Officer. The Chief Executive Officer has in turn sub-delegated parts of his authority to senior executives in his leadership team to enable effective and timely decision making. The Board meets regularly with management to provide strategic guidance for the Company and effective oversight of management.

Role of Chairman

The Chairman's role is set out in the Board Charter and includes leading and managing the Board so that it operates effectively, and facilitating interaction between the Board and the Chief Executive Officer.

Role of Company Secretary

The Company Secretary, Jaron McVicar, is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each director is able to communicate directly with the Company Secretary and vice versa. The role of the Company Secretary is outlined in the Board Charter.

Board renewal

Since 2013, the Company has been undertaking a Board renewal process to progressively enhance the depth and diversity of skills and experience in the Board membership to assist the Company in achieving its strategic growth objectives. During the reporting period ended 30 June 2017, this process continued with the appointment of Warwick Every-Burns and Jesse Wu, as independent non-executive directors, and the retirement of Mel Miles and Richard Le Grice as independent non-executive directors.

Warwick was appointed to the Board on 23 August 2016. Warwick's international experience as an FMCG executive matched the Board's desire for director experience in markets of particular relevance to a2MC in China, North America and also Europe. Warwick's skills, experience, and expertise can be found in the 'Director Profiles' section on page 28.

Jesse was appointed to the Board on 16 May 2017. Having held extensive senior executive and board roles with multinational and Chinese companies, his experience is particularly relevant in bolstering the board's capability and knowledge with respect to operating in and selling to the China market. Jesse's skills, experience, and expertise can be found in the 'Director Profiles' section on page 28.

Mel Miles retired from the Board on 23 August 2016, having served as a director since 2010. He was a highly engaged contributor at Board level, and assisted management in a number of advisory roles during his tenure. He continues to advise the Company in a consultancy role.

During his years of service, Richard Le Grice has been an integral member of the Board, having served as a non-executive director since 2007 and serving in an executive capacity prior to this, particularly in the early stages of the Company's establishment. Richard determined the time was appropriate for him to retire as a non-executive director of the Company with effect on 30 June 2017.

The Board is pleased with the results of the renewal process, and considers that the depth of skill, combined with the diversity of backgrounds and global experience in its members, will support the Board in governing through the Company's next phase of growth and development.

The Board (continued)

Board size, skills and structure

At the end of the reporting period, the Board comprised six directors (four independent non-executive directors and two executive directors). The a2MC constitution currently requires a minimum of four directors and provides for a maximum of eight, of which at least two must be New Zealand residents in order to comply with the NZX Listing Rules.

The Board has developed a board skills matrix which sets out the diversity of skills and experience that the Board has. The matrix is set out in its collective form 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	6
Non-executive Board membership – experience as a non-executive director of a number of listed or other widely held companies	4
Consumer products and nutritional industries – experience as a senior executive in, or as a professional advisor to, consumer products or nutritional industry businesses	4
E-commerce – experience as a senior executive in, or as a professional advisor to, businesses engaged in e-commerce activities	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	3
International markets – experience as a senior executive in, or as a professional advisor to, businesses that operate outside Australia and New Zealand, particularly those international markets in which the Company operates, and an understanding of how to succeed in different cultural, regulatory and business environments	5
Accounting, legal, taxation and finance – experience in financial accounting, taxation, external and/or internal audit and reporting	5
Risk management – experience in identifying and mitigating risk	6
Remuneration – experience in developing and/or implementing executive remuneration programmes, including incentive-based remuneration	5

In addition to the matters noted above, when reviewing potential board candidates, the Nomination Committee considers other matters, including the degree of independence, a candidate's contribution to diversity, and their ability to devote sufficient time to the directorship. See page 36 for more information on the selection process.

The Nomination Committee has considered and is satisfied that the current composition of the Board now reflects an appropriate range of skills, diversity of backgrounds and experience for the Company to effectively discharge its responsibilities, but will continue to review and consider Board composition as the Company continues to evolve.

The Board (continued)

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 takes into account the guidance for independence, which is set out in Principle 2 of the ASX Principles, the NZX Listing Rules and the NZX Best Practice 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 might influence, or be reasonably perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and security holders generally.

The Board considered that non-executive directors:

Julia Hoare; Peter Hinton; Warwick Every-Burns; Jesse Wu; Richard Le Grice and Mel Miles were independent directors throughout their periods of office during the financial year.

Peter Hinton has been considered an independent director since he was appointed on 16 February 2016. Until 31 December 2016, Peter was a partner at Simpson Grierson, a New Zealand law firm which provides legal services to the Company. During that time, he participated in providing those legal services, but since his retirement as a partner of the firm, and subsequent appointment as Special Counsel to the firm, he has ceased to be involved in the legal advice provided by Simpson Grierson to the Company. The Board considers him to be independent, and considers that he has been independent at all times since he was appointed to the Board. The terms of Peter's letter of appointment as a director specifically address his role as a professional adviser of the Company for the purpose of ensuring that such role does not interfere with the exercise of his independent judgement on issues before the Board and his capacity to act in the best interests of the Company and its shareholders generally. Accordingly, the Board is satisfied that Peter's role with Simpson Grierson does not materially interfere with his independence.

The Board considers that, by virtue of their executive roles in the Company, David Hearn and Geoffrey Babidge are not independent directors.

Board committees

The Board has three standing committees (the Committees) to 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 30 June 2017 was as follows:

Committee	Members	Independent	Non-Executive
Audit and Risk Management Committee	Julia Hoare (Chair) Warwick Every-Burns ¹ Jesse Wu ²	✓ ✓ ✓	✓ ✓ ✓
Nomination Committee	Peter Hinton (Chair) ³ Julia Hoare David Hearn	✓ ✓ ✗	✓ ✓ ✗
Remuneration Committee	Warwick Every-Burns (Chair) ⁴ Peter Hinton ⁵ Jesse Wu ⁶	✓ ✓ ✓	✓ ✓ ✓

¹ Appointed 23 August 2016. Mel Miles was a member of the Audit and Risk Management Committee during the reporting period until 23 August 2016

² Independent non-executive director Richard Le Grice retired as a director of the Company with effect 30 June 2017, at which time Jesse Wu replaced Richard as a member of the Audit and Risk Management Committee

³ Richard Le Grice was a member of the Nomination Committee during the reporting period until 1 January 2017, at which time Peter Hinton replaced Richard as a member and Julia Hoare as chair of the Nomination Committee

⁴ Richard Le Grice was a chair of the Remuneration Committee until 1 January 2017, at which time he was replaced as chair by Warwick Every-Burns

⁵ Richard Le Grice remained a member of the Remuneration Committee until he retired as a director of the Company with effect 30 June 2017, at which time Peter Hinton replaced Richard Le Grice as a member of the Remuneration Committee

⁶ David Hearn was a member of the Remuneration Committee during the reporting period until he retired as a member with effect 30 June 2017, at which time Jesse Wu replaced David as a member of the Remuneration Committee

Under the ASX Listing Rules an entity which is included in the S&P/ASX 300 Index must have a Remuneration Committee comprised solely of non-executive directors. To address this requirement, with effect from 30 June 2017, David Hearn retired as a member of the Remuneration Committee and Jesse Wu replaced David as a member of the Remuneration Committee.

The Committees are governed by Charters, which detail their specific functions and responsibilities. The Charter for each Committee is reviewed by the Board annually. Copies of the Committee Charters are available on the Company's website at: thea2milkcompany.com/about-us/corporate-governance

The Board (continued)

Board committees (continued)

The Committees make recommendations to the Board. They have no decision-making power except where expressly authorised by the Board. The relevant qualifications and experience of individual Committee members are set out in the 'Director Profiles' section on page 27-28.

The Board Charter provides for the Board, with the advice and assistance of the Nomination Committee, to review and evaluate the performance of each Committee against its relevant Charter and agreed goals and objectives on an annual basis. The Charter of each Committee also provides for the Committee to undertake an annual self-review of its performance against its Charter, objectives and responsibilities and the extent to which they have been achieved and/or discharged.

Record of attendance at Board and Committee meetings

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

	Meetings of the Board		Audit and Risk Management Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Hearn (Chairman)	15	15	–	–	3	3	1	1
Julia Hoare (Deputy Chairman)	15	15	5	5	–	–	1	1
Geoffrey Babidge (MD & CEO)	15	15	–	–	–	–	–	–
Mel Miles ¹	1	1	2	2	1	1	–	–
Richard Le Grice ²	15	15	5	5	3	3	–	–
Peter Hinton	15	14	–	–	–	–	1	1
Warwick Every-Burns ³	14	14	3	3	2	2	–	–
Jesse Wu ⁴	1	1	–	–	–	–	–	–

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

¹ Retired as a director 23 August 2016

² Retired as a director 30 June 2017

³ Appointed as a director 23 August 2016

⁴ Appointed as a director 16 May 2017

Audit and Risk Management Committee

During the reporting period, this Committee comprised three non-executive directors, all of whom were considered independent during the whole of the reporting period. The Committee is chaired by Julia Hoare. The Chief Executive Officer and the Chief Financial Officer may attend at the invitation of the Committee; and the external auditors may attend by invitation of the Chairman of the Committee. The Committee meets a minimum of four times each year. The Audit and Risk Management Committee Charter sets out the responsibilities of the Audit and Risk Management Committee, including to:

- ensure the Company meets its financial reporting requirements, including the release of yearly and half-yearly financial statements;
- review the scope and outcome of the external audit;
- review the effectiveness of the Company's internal controls regarding all matters of financial performance and reporting;
- advise the Board on accounting policies, practices and disclosures;
- ensure the Company has developed an adequate Risk Management Policy, and that controls are in place to facilitate adherence to this policy;
- keep the Board informed of all significant business risks; and
- review any incident which indicates a breakdown in the Company's risk management framework.

The Audit and Risk Management Committee regularly reports to the Board about the Committee's activities, issues and related recommendations.

The Board (continued)

Remuneration Committee

During the first six months of the reporting period, this Committee comprised two non-executive directors (both of whom were considered independent) and one executive director. During the second six months of the reporting period, this Committee comprised three non-executive directors (all of whom were considered independent) and one executive director. The Remuneration Committee is chaired by Warwick Every-Burns.

The Remuneration Committee meets as required to advise the Board on the matters outlined in the Remuneration Committee Charter, including to:

- review the remuneration of the Chief Executive Officer and other senior executives as the Board may determine; and
- make recommendations to the Board in relation to the remuneration of the non-executive directors.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages. No director is involved in Remuneration Committee meetings at which his or her remuneration is being discussed. The Company's remuneration policies for directors and senior executives are set out on pages 43 to 46.

Following each meeting, the Chairman of the Remuneration Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the Remuneration Committee's activities, findings and results for the past year.

Nomination Committee

This Committee comprises two non-executive and one executive director, a majority of whom were considered independent during the whole of the reporting period. The Nomination Committee is chaired by Peter Hinton. The Nomination Committee meets as required to advise the Board on the matters outlined in the Nomination Committee Charter, including the recommendation of new appointments to the Board.

Every new director appointment that is approved by the Nomination Committee is considered and decided by the Board as a whole, taking into account the range of skills and experience (including matters such as independence and diversity) that a potential new director may offer the Board and his or her ability to fully commit the time needed to be effective as a director of the Company.

Following each Committee meeting, the Nomination Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the Nomination Committee's activities, findings and results for the past year.

Nominations, appointments and ongoing education

The Company's process for selection, appointment, and reappointment of directors is detailed in the Nomination Committee Charter.

The primary objectives of the Nomination Committee are to ensure that a formal and transparent process for the nomination and appointment of directors exists, to recommend director appointments to the Board and to regularly review the composition of the Board to ensure the right composition of directors is maintained. This may include seeking assistance from external advisers to ensure that the best candidates, sourced internationally, are available for consideration.

The Nomination Committee recommends to the Board suitable candidates for appointment as directors. The Committee considers, among other things:

- the candidate's experience as a director;
- his or her skills, expertise and competencies;
- the extent to which those skills complement the skills of existing directors;
- his or her contribution to diversity of Board membership;
- his or her degree of independence; and
- his or her ability to devote sufficient time to the directorship.

The Company undertakes appropriate checks before appointing a person, or putting forward a new candidate to shareholders for election as a director. Such checks have been undertaken in relation to all current Board members, and will be undertaken prior to appointment or election of any new Board candidate.

The Company will provide sufficient information to shareholders about candidates standing for election for the first time and directors seeking re-election at a general meeting to enable them to make an informed decision on whether or not to elect or re-elect the person, including their relevant qualifications and experience and the skills they bring to the Board, details of any other material directorships or positions currently held by the person, the term of office already served by the director (if applicable), the Board's view on whether the person is or will be considered to be independent, and a statement by the Board in respect of whether it supports the election or re-election of the person.

On appointment to the Board, each director receives a formal letter of appointment outlining his or her duties and obligations, and participates in an induction program, which provides such information and advice as may be considered necessary or desirable in connection with his or her appointment to the Board.

The Board (continued)

To ensure ongoing education, directors are regularly informed of developments that affect the Company's industry and business environment, as well as company and legal issues that impact the directors themselves. Directors receive comprehensive Board papers and briefing information before Board meetings and have unrestricted access to management and any additional information they consider necessary to perform their roles as directors effectively. Directors are also encouraged to undertake appropriate training to remain current on how best to perform their duties as directors.

A director may obtain independent professional advice relating to the affairs of the Company or his/her responsibilities as a director or Committee member. Where the director has the approval of the Board Chairman to obtain independent professional advice, the Company will meet the reasonable costs of the advice.

Performance review of the Board, Board committees and individual directors

The Board recognises that the performance of the Board and the Committees is pivotal to the Company's success and to the interests of shareholders. Under the Board Charter, the Board is required, with the advice and assistance of the Nomination Committee, to undertake an assessment of the performance of the Board, Committees and individual directors against the relevant charters, corporate governance policies and agreed goals and objectives, at least once a year.

During the financial year, the Board engaged a third-party professional service provider to carry out performance evaluations of the Board, Committees and individual directors.

Internal financial control

The Board, advised by the Audit and Risk Management Committee, approves the Company's system of internal financial control. This system includes clearly defined policies controlling treasury operations and capital expenditure authorisation.

The Chief Financial Officer is responsible to the Chief Executive Officer for ensuring that all operations within the Company comply with the Board approved financial control policies.

The Board has established a framework for the relationship between the Company and the external auditor. This framework ensures that:

- recommendations made by the external auditor and other independent advisers are critically evaluated and, where appropriate, applied;
- the ability of the external auditors to carry out their statutory audit is in no way impaired;
- consideration is given to what, if any, services other than their statutory audit role may be provided by the auditors;
- any other services provided by the auditors, other than their statutory audit role, are approved and monitored; and
- the Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively.

Internal audit function

The Company appointed Deloitte Touche Tohmatsu ("Deloitte") as the Company's internal auditors during the reporting period. Deloitte has commenced an assessment of the Group's risk management and internal control framework, and have initiated an audit program focussing initially on entity level controls and Group procurement processes.

Under its Charter, the Audit and Risk Management Committee is responsible for providing an assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control processes. The Board is also required, under the Risk Management Policy, to undertake an annual review of the effectiveness of the Company's risk management and internal control system.

CEO and CFO annual declaration

In line with ASX Principle 4.2, the Audit and Risk Management Committee and the Board receive an annual declaration from the Chief Executive Officer and Chief Financial Officer in relation to the Company's financial statements, that in their opinion:

- the Company's financial records have been properly maintained;
- the Company's financial statements and accompanying notes comply with generally accepted accounting practice in New Zealand and International Financial Reporting Standards; and
- the Company's financial statements and accompanying notes give a true and fair view of the financial position and performance of the Group.

This declaration is provided with an assurance that the opinion has been formed on the basis of a sound system of risk management and internal control, and that system is operating effectively with regard to the identification of material financial reporting risk.

Corporate governance policies

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

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.

The Board (continued)

Code of ethics

The Company expects its directors, officers and employees to conduct themselves in accordance with the highest ethical standards of corporate and individual behaviour. The Company's Code of Ethics is designed to set out the practices which are necessary to maintain confidence in the Company's integrity. Directors, officers and employees are required to comply with both the spirit and letter of the code.

The Company requires all directors, officers and employees who become aware of an actual or suspected violation of the code to report to a nominated and independent reporting person. This process allows for confidential reporting of any potential violation without disadvantage to the employee. No instances of violation were reported during the reporting period.

Continuous disclosure policy

The Company has adopted a set of procedures and guidelines to ensure that it complies with its disclosure obligations in accordance with all applicable legal and regulatory requirements, including the NZX Listing Rules and the ASX Listing Rules. This is to ensure the timely disclosure to the ASX and the NZX of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Shareholder communications policy

The Company has adopted a Shareholder Communications Policy which outlines the Company's approach and commitment to effective communication with shareholders. A copy of the policy is available on the Company's website at: thea2milkcompany.com/about-us/corporate-governance. The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is timely, clear and accessible. The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at: thea2milkcompany.com. The website includes copies of past annual reports, results announcements, other NZX and ASX announcements, media releases and general Company information.

All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's external auditor. Shareholders may also attend and participate at the meeting virtually via an online platform provided by the Company's share registrar.

Securities trading policy

The Company's Securities Trading Policy applies to directors, employees and contractors wishing to participate as shareholders in the Company.

Under New Zealand and Australian legislation, the insider trading laws operate to prohibit people in possession of non-public price sensitive information from dealing in securities or passing on the information to other people who may deal in securities. The Company's policy is designed to protect directors, employees and their associates, as well as the Company's shareholders against acts of insider trading that, either willingly or unknowingly, would disadvantage holders of the Company's securities.

The policy employs the use of blackout periods to restrict directors, officers, senior executives, and their associates, together with other persons identified by the Company from time to time, from trading during times where sensitive, non-public information may be held. In addition, those persons must notify the Company in advance of any proposed dealing in the Company's securities.

Under the terms of the policy, directors, officers, senior executives and their associates are prohibited from entering into hedging transactions which operate to limit the economic risk of their securities in the Company (including under any equity-based remuneration scheme).

Indemnities and insurance

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' and officers' liability insurance is in place for directors and officers acting on behalf of the Company.

Risk Management

The Company recognises that risk is an inherent characteristic of doing business and that risk taking is a necessary activity to grow and develop the business. Effective risk management anticipates risk, develops strategies to manage risk and enables the Company to capitalise on opportunities that bring value to shareholders. The Company's risk management program comprises a series of processes, structures and guidelines which assist the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile.

The Company's Risk Management Policy outlines the program implemented by the Company to ensure appropriate risk management within its systems and culture. A copy of the Risk Management Policy is available on the Company's website at: thea2milkcompany.com/about-us/corporate-governance

Risk governance

The Company has clearly defined the responsibility and authority of the Board to oversee and manage the risk management program, while conferring responsibility and authority on the Audit and Risk Management Committee to develop and maintain the risk management program in light of the day-to-day needs of the Company.

The Audit and Risk Management Committee is responsible for reviewing whether the Group has any material exposure to economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board. The Group Risk Register is an important tool used by the Audit and Risk Management Committee that helps the business identify, evaluate and communicate material risk exposures. The Audit and Risk Management Committee is of the view that the Company has appropriate strategies in place to manage material exposure to economic, environmental or social sustainability risks.

Risk management

The Company considers ongoing risk management to be a core component of the management of the Company. The Company's ability to identify and address risk is central to achieving its corporate objectives. The Company's risk management approach is supported by:

- a robust risk governance framework overseen by the Board and supported by the Audit and Risk Management Committee;
- a strong and experienced management team with relevant expertise in local markets;
- clearly articulated levels of authority and approval processes;
- established risk identification tools including the Group Risk Register;
- adequate external insurance cover in place, appropriate to the Company's size and risk profile;
- an internal audit function providing supplementary review of the internal control framework.

Risk management framework

Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control process. The Board must also annually, under the Risk Management Policy, review the effectiveness of the Company's risk management and internal control system. A review of the Company's risk management framework has been conducted in the reporting period by the Audit and Risk Management Committee. No significant changes to the framework or policy were identified.

Regular communication between management and the Board supplements the Company's quality system, complaint handling processes, employee policies and standard operating procedures which are all designed to address various forms of risk.

Risk Management (continued)

Key risks & mitigations

The Company has identified the following as key economic, environmental and social sustainability risks having the potential to impact on the Company's ability to achieve its future objectives. The Company has included in the table, examples of mitigations in place to assist in managing these various risks.

Product quality

Risks:

- The Company's products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption. This could result in regulatory penalties, termination of distribution agreements, liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and overall damage to the Company's brand and reputation

Mitigations:

- Food safety & quality management systems and programmes, internally and with vendors to the Company
- Partnering with high quality third-party manufacturers with a proven record for product safety and quality
- Comprehensive testing of the integrity of protein content and product quality prior to the release of every batch of finished product
- Employment of innovation and technology improving product security
- Consumer support systems

Supply chain

Risks:

The Company's ability to maintain supply to its customers, and maintain its position in existing markets or enter new markets may be impacted if:

- the operation of one or more suppliers change in a material and adverse way; or
- one or more suppliers reduce their support for the Company.

Mitigations:

- Focus on developing strong, long-term commercial relationships with key supply chain partners
- Due diligence on supply chain partners before entering commercial agreements
- Long-term partnership with infant formula manufacturing partner, Synlait Milk Limited (a dairy processing company listed on NZX/ASX), governed by a formal manufacturing agreement, and complemented by the Company's equity interest in Synlait Milk
- Contracts provide access to milk pools that exceed the Company's current usage requirements
- Multiple milk processors contracted in Australia and USA, mitigating reliance on a single processor

Risk Management (continued)

Regulations

Risks:

- Government actions which influence or restrict international trade in products including tariffs, quotas, price controls, taxes and non-tariff barriers such as product registrations, competition and consumer laws. For the Company, this risk is most pronounced in China's dynamic infant formula market. Failure to comply with regulatory requirements may result in legal action, financial penalties, trade embargoes or loss of market access

Mitigations:

- Maintaining a multi-product, multi-channel route to market strategy for the sale of infant formula into China
- Close partnership with Synlait Milk which manufactures a2 Platinum® infant formula out of their CNCA¹ registered manufacturing facility (Dunsandel, New Zealand), and which is progressing an application to have a2 Platinum® infant formula registered by China Food and Drug Administration (CFDA)
- Close ongoing monitoring by the Company and third party experts to maintain compliance with regulatory requirements

¹ CNCA registration is a market access requirement for establishments producing food for import and export into China

Intellectual property

Risks:

- Expiry or cancellation of some of the Company's intellectual property (IP) rights, which may limit the Company's ability to claim and enforce such IP
- Infringement of the Company's IP rights resulting from third-party conduct or claim against such IP, which may lead to protracted litigation, and/or negative publicity for the Company

Mitigations:

- Continued investment by the Company in developing and further broadening its trademark and patent portfolio including building exclusivity in trademarks in existing and future markets and expansion of the Company's suite of patent families
- Significant and ongoing investment in brand building activities globally
- Documenting and embedding proprietary know-how across quality systems and processes
- Monitoring of third-party applications and activity
- IP insurance to assist in defending the Company's IP rights

Scientific research

Risks:

The Company's differentiated and premium brand positioning may be undermined if:

- research or information is released that diminishes or rejects the scientific argument and consumer experiences as to the benefits of the Company's products; or
- competitors or third parties seek to discredit scientific research or consumer experiences.

Mitigations:

- Growing body of scientific research supporting the benefits of milk free of the A1 beta casein protein type
- Growing investment by the Company in sponsoring and supporting scientific research that progresses the understanding of A1 and A2 beta casein protein types consumption in people
- Strong and developed relationships with the healthcare professional community, ensuring it has access to the latest healthcare information associated with the consumption of A1 and A2 beta casein proteins in milk and milk products

Risk Management (continued)

Environment

Risks:

- Environmental concerns linked with the Company's supply of dairy-based products, including in relation to agricultural activity (including water access and usage) and animal welfare
- In turn, the impact of such environmental concerns could affect the Company's reputation, result in greater regulation, consent or licensing requirements or restrictions on the Company's operations

Mitigations:

- Sourcing of milk from diversified milk pools across New Zealand, Australia, USA and UK, with the majority sourced from New Zealand
- Introduction of an independently audited Animal Welfare Program

Key personnel

Risks:

- Loss of key management personnel, which could have a material effect on the Group's operating and financial performance

Mitigations:

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

Workplace health & safety

Risks:

- Actual or potential harm to all workers and other persons at the workplace
- Non-compliance with applicable laws and regulations which could result in actual or potential harm to all workers and other persons at the workplace (as well as potential financial penalties, drop in staff morale and productivity, increased insurance costs and damage to the Company's reputation, including as an employer)

Mitigations:

- Framework in place to assist the Board and senior management with the identification, control, reporting, investigation and monitoring of health and safety risks to the Group
- Measurable objectives established, aimed at ensuring continued improvement of health and safety in the workplace
- Use of qualified external consultants to ensure compliance with relevant laws in each jurisdiction and to identify improvement opportunities
- Health and safety training and supervision for employees

Remuneration

Remuneration model

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

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

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

Employees, not participating in the STI or LTI plans, may receive a bonus of 2% to 5% of fixed remuneration, subject to the Company achieving its financial objectives for the year.

Fixed remuneration

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

Variable remuneration

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

Short-Term Incentive plan (STI)

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

STI values are generally calculated as a percentage of fixed remuneration.

STI values and performance targets are approved by the Remuneration Committee at the start of each financial year. Participants may achieve a maximum STI of between 10% and 45% of fixed pay, with the STI payable up to the maximum subject to achievement of financial targets and specific agreed personal objectives, aligning with the strategic objectives of the Company.

Performance against financial targets is compared with agreed business unit or Group budgets, and achievement of personal objectives is tracked and discussed throughout the performance period as part of the Company's performance management process.

STI payments are determined and paid annually following the finalisation of audited company results and are contingent on achievement of business unit or Group financial targets and specific agreed personal objectives.

Long-Term Incentive plan (LTI)

The LTI has been established to:

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

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

Each Award granted represents a right to receive one fully paid share in the Company once the Award vests and is exercised. The number of Awards and the vesting conditions for Awards issued under the LTI Plan are determined by and at the sole discretion of The Board.

The FY2017 Award of Performance Rights vests subject to an Earnings Per Share (EPS) performance hurdle calculated over a three-year performance period, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over the performance period, with no retesting. 50% of the award will vest if diluted EPS CAGR of 15% is achieved, up to a maximum of 100% of the award if diluted EPS CAGR of 25% or more is achieved.

The diluted EPS growth performance hurdle was chosen as being a performance measure appropriate to the then current circumstances of the Company, with progress easily tracked against agreed performance targets, encouraging employee engagement and aligning with shareholder objectives.

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

Remuneration (continued)

Managing executive performance

The Company has robust processes for supporting and evaluating the performance of its CEO and other senior executives and managers.

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

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

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

For the financial year ended 30 June 2017, each member of the executive team who was an employee for the duration of the reporting period had at least one periodic performance discussion documented.

Directors' remuneration

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

A revised annual aggregate non-executive directors' remuneration pool, capped at \$950,000 (previously \$600,000), was approved by shareholders at the Company's Annual Meeting of Shareholders held on 22 November 2016. Details of the policy and considerations in increasing the non-executive director fee pool were set out in the explanatory notes to the Company's 2016 notice of annual meeting, available at: thea2milkcompany.com/newsroom/market-announcements/notice-annual-meeting-4/

The following fee structure, current as at 30 June 2017, took effect from 1 January 2017.

	30 June 2017	\$
Annual fee structure		
Base board fees:		
Chairman of the Board (refer below)	120,000	
Deputy Chairman	164,740	
Non-executive director	120,809	
Audit and Risk Management Committee:		
Chairman	32,948	
Committee member	16,474	
Remuneration Committee:		
Chairman	32,948	
Committee member	16,474	
Nomination Committee:		
Chairman	21,966	
Committee member	10,983	

Remuneration (continued)

Directors' remuneration (continued)

The Chairman, David Hearn, is regarded as an Executive Director on account of his executive role in relation to the Group's business in the Northern Hemisphere. He receives consultancy fees for services to the Company in the Northern Hemisphere through Lovat Partners Limited, an entity controlled by him. However, he is not an employee of the Company.

Prior to the Company's admission to the Official List of the ASX on 31 March 2015, 5,000,000 options over unissued ordinary shares were issued to Lovat Partners Limited under the Company's Long-Term Incentive plan. Each option has an exercise price of NZ\$0.63. As at the date of this report, 3,000,000 of these options are yet to vest.

The consultancy fees received for the year ended 30 June 2017, and the accounting charge to profit or loss for the options issued under the Long-Term Incentive plan, are included in the schedule of Directors' remuneration as Other Benefits. The current level of Chairman's fees recognises the contribution to total remuneration of these other benefits.

Remuneration paid to directors of the Group for the year ended 30 June 2017 was as follows:

Directors' remuneration for the year ended 30 June 2017

	Director fees ¹ \$	Other benefits received \$	Total remuneration \$
Company			
David Hearn (Chairman) ²	120,000	194,923	314,923
Julia Hoare (Deputy Chairman)	204,500	–	204,500
Richard Le Grice	126,750	–	126,750
Peter Hinton	121,750	–	121,750
Mel Miles ⁴	13,563	18,809	32,372
Warwick Every-Burns ³	138,401	–	138,401
Jesse Wu ³	19,331	–	19,331
Total	744,295	213,732	958,027
Subsidiary companies			
William Keane ⁵	42,745	–	42,745
Total	787,040	213,732	1,000,772

¹ Directors' fees for the year ended 30 June 2017 reflects the fee structures applicable for the periods pre and post January 2017, the period of service as a director, and any changes in committee responsibilities during the year

² Other benefits received includes consultancy fees of \$75,475 paid to Lovat Partners Limited, an entity controlled by David Hearn providing services solely to the Company, for consultancy services rendered during the year and charged at commercial rates, separate from the directors' fees reported above; and a non-cash accounting charge of \$119,448 for options issued under the LTI plan. The value of options exercised by David Hearn during the year was \$1,854,732

³ Warwick Every-Burns: appointed August 2016; Jesse Wu: appointed May 2017

⁴ Mel Miles: retired August 2016. Consultancy fees of \$18,809 were paid to Mel Miles for consultancy services rendered up to his date of retirement, separate from the directors' fees reported above

⁵ William Keane is included as a director of The a2 Milk Company Limited (UK). No other director of a subsidiary company was remunerated in their capacity as a director

Remuneration (continued)

Remuneration of the CEO

During the reporting period, Geoffrey Babidge received an annual base salary of AU\$700,000 inclusive of superannuation, and had the opportunity to receive up to 45% of his annual fixed remuneration in the form of a short-term incentive, subject to the achievement of performance objectives determined by the Chairman of the Company and the Chairman of the Remuneration Committee of the Board. The STI is allocated 25 percentage points to financial performance, and 20 percentage points to strategic and operational targets.

Geoffrey's employment as CEO under an executive service agreement with the Company commenced in 2010 and his employment now automatically extends for successive 12-month terms from 1 January each year unless the Company serves him with notice to terminate.

The Company may terminate Geoffrey's employment for any reason by giving at least six months' notice in writing. The Company may also terminate his employment without notice in certain circumstances, including breach of contract, criminal activity and serious misconduct.

Geoffrey may terminate his employment with the Company on six months' written notice for any reason. He may also terminate his employment by one month's written notice for certain "good reasons", including a material diminution to his status, level of authority, nature of responsibilities or accountabilities without his consent, a scheme of arrangement in respect of the Company proposed or sought by the Company's creditors, or a change of control of the Company.

On termination of the service agreement by the Company for cause or by Geoffrey for any reason, Geoffrey is entitled to receive payment from the Company, in respect of any accrued but untaken annual leave and long service leave and any annual remuneration, long and short term incentive entitlements accruing up to the date of termination. Alternatively, where the Company terminates Geoffrey's employment for any reason or Geoffrey terminates his employment for 'good reason', the Company must pay Geoffrey the amounts mentioned above, as well as certain additional amounts including an amount equal to the annual salary he received in the 12 month period up to the date of cessation of his employment, and an amount equal to the short term incentive he is entitled to receive in respect of the period up to the date of cessation of his employment.

Geoffrey's service agreement also includes a restraint of trade period of six months post termination of his employment. Enforceability of such restraint is subject to all usual legal requirements.

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

	2017 AU\$
Fixed remuneration	700,000
Short-Term Incentive paid	157,590
Total remuneration received	857,590

The Short-Term Incentive paid in the year of AU\$157,590 refers to the STI earned for the 2016 financial year.

The potential STI for the 2017 financial year is up to 45% of his FY17 annual fixed remuneration (or AU\$315,000).

At 30 June 2017, Geoffrey held 5 million partly paid shares previously issued to him in 2013 under the LTI scheme described in Note F2 to the financial statements. He has not participated in any other LTI plan since this award.

If Geoffrey does not, by the fifth anniversary of the issue date (being 11 November 2018) fully pay up these partly paid shares, the Company may, subject to the provisions of the Companies Act 1993 (NZ), the constitution of the Company and any relevant NZX Listing Rule either: (i) buy back; (ii) forfeit; or (iii) compulsorily sell, the partly paid shares.

The fair value of these partly paid shares is shown below:

Grant date	Partly paid shares issued	Amount paid up per share on issue	Amount payable per share	Fair value at grant date NZD
11 Nov 2013	5,000,000	\$0.0064	\$0.64	\$1,235,000

The percentage of these partly paid shares which are restricted from transfer decreases over time, with the final transfer restrictions coming to an end on the fifth anniversary of the issue date (being 11 November 2018).

Under the terms of the Company's Securities Trading Policy, directors are prohibited from entering into hedging transactions which operate to limit the economic risk of their securities in the Company (including under any equity-based remuneration scheme).

Diversity

The Company has a strong commitment to diversity and recognises the value of attracting and retaining employees with different backgrounds, gender, culture, knowledge, experience and abilities. Diversity contributes to the Group's business success and benefits individuals, clients, teams, shareholders and stakeholders. The Company's business policies, practices and behaviours promote diversity and equal opportunity and create an environment where individual differences are valued and all employees have the opportunity to realise their potential and contribute to the Group's success.

The Company has adopted a Diversity Policy, which is available on the Company's website at: thea2milkcompany.com/about-us/corporate-governance. The Company's policy requires the Board to establish objectives to assist the Company in achieving gender diversity, and provides for delegation to the Nomination Committee to review the Company's progress in meeting these objectives.

Board's responsibility

The Board is responsible for designing and overseeing the implementation of this diversity policy. The directors of the Company are responsible for promoting diversity within the Company's culture and monitoring the effectiveness of this diversity policy. The Board is also responsible for developing initiatives that will promote and achieve diversity goals.

The Board considers that overall the Company is making good progress in line with its diversity objectives and is performing well against the policy.

Gender representation across the Group

The following table shows gender representation across the Group as at 30 June 2017 and 30 June 2016.

	As at 30 June 2017				As at 30 June 2016			
	Male	Percentage Male (%)	Female	Percentage Female (%)	Male	Percentage Male (%)	Female	Percentage Female (%)
Directors of the Company ¹	5	83	1	17	5	83	1	17
Senior Executives ²	9	90	1	10	7	88	1	12
Managers	14	48	15	52	11	44	14	56
Other Staff	40	37	68	63	27	38	45	62
Total	68	44	85	56	50	45	61	55

These figures include permanent full-time, permanent part-time and fixed term employees, but not independent contractors.

¹ Includes executive directors: David Hearn (Chairman) and Geoffrey Babidge (CEO)

² Senior Executives are defined as those directly reporting to the CEO

Setting objectives

The Board's objective is to broaden the diversity of the Board and senior executive team over time.

The Board is presently focused on implementing the following steps to increase the breadth of diversity across the business:

- actively seeking a diverse candidate pool for all Board and senior management placements;
- providing management with the appropriate training and resources to understand the benefits of diversity in recruitment strategies and day-to-day management strategies;
- maintaining female representation above 35% at a managerial level, including directors, senior executives and managers; as well as encouraging increased female representation at the senior executive level; and
- Encouraging the Managing Director and CEO to consider the impacts of new placements on the diversity mix within the business.

The Board will continue to evaluate the effectiveness and appropriateness of its actions in achieving its aim of further developing a talented workforce with diverse backgrounds, qualifications, experience and perspectives.

Financial statements

Directors' approval of the financial statements	49
Independent Auditor's report	50
Consolidated statement of comprehensive income	53
Consolidated statement of changes in equity	54
Consolidated statement of financial position	55
Consolidated statement of cash flows	56
Notes to the financial statements	57

Directors' approval of the financial statements

for the year ended 30 June 2017

The directors of The a2 Milk Company Limited are pleased to present to shareholders the consolidated financial statements for The a2 Milk Company Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2017.

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 30 June 2017 and the results of its operations and cash flows for the period ended on that date.

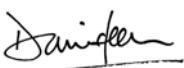
The directors consider the financial statements of the Group to have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

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

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

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

Signed on behalf of the Board by:



David Hearn
Chairman



Geoffrey Babidge
Managing Director
and Chief Executive Officer

22 August 2017

Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited
Report on the Financial Statements



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

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

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The a2 Milk Company Limited ("the company") and its subsidiaries (together "the group") on pages 48 to 87, which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 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 48 to 87 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2017 and its financial performance and cash flows for the period then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Ernst & Young has provided market research services in relation to brand health tracking and expert witness services in relation to a dispute. We have no relationship with, or interest in, the company or any of its subsidiaries. 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.

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 the 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,

Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited
Report on the Financial Statements



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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment assessment of goodwill and other intangible assets:

Why significant

In accordance with the requirements of NZ IAS 36 *Impairment of Assets*, the Group performs an annual impairment assessment of the Australian, UK, US and Asian goodwill and other intangible assets carrying values to determine whether the recoverable value is below the carrying amount as at 30 June 2017.

A value in use model which includes cash flow assumptions and discount rates is used to calculate the recoverable amount of each group of Cash Generating Units (CGUs).

A value in use model has significant judgment and estimation in respect of future cash flow forecasts, discount rate and terminal growth rate assumptions. Changes in certain assumptions can lead to significant changes in the assessment of the recoverable amount. This matter has been considered as a Key Audit Matter due to the level of judgment required to estimate the forecasted cash flows and discount rates used.

The Group's disclosure on goodwill and other intangible assets is included in note C5 to the financial statements.

How our audit addressed the key audit matter

The following procedures were performed:

- Assessed the Group's determination of CGUs based on our understanding of the nature of the Group and their operations, and assessed whether this was consistent with the internal reporting of the business.
- Assessed the value in use model and whether it is in accordance with the requirements of NZ IAS 36.
- Assessed the cash flow forecasts approved by the Board taking into account our knowledge of the business and relevant external information.
- Assessed the discount rate applied to the cash flows of each CGU to assess whether the rate reflects the risks associated with the respective cash flow forecasts.
- Involved our Valuation Specialists to assess the appropriateness of the assumptions adopted and assess alternative valuation methodologies (revenue multiple) for CCUs in the start-up phase.
- Assessed the Group's sensitivity analysis on CGUs in two main areas being the discount rate and terminal growth rate assumptions.
- Assessed the financial statement disclosures for compliance in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited
Report on 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 which we obtained prior to the date of this 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 entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing 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 External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners-auditors-responsibilities>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Daniel Cunningham

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young,
Sydney
22 August 2017

Consolidated statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Sales	B1	549,247	352,502
Cost of sales		(285,729)	(201,496)
Gross margin		263,518	151,006
Other revenue		279	274
Distribution expenses		(20,185)	(15,521)
Administrative expenses	B2	(32,446)	(27,033)
Marketing expenses		(42,010)	(32,997)
Other expenses	B2	(30,557)	(23,727)
Operating profit		138,599	52,002
Interest income		887	502
Finance costs	B2	(135)	(205)
Net finance income		752	297
Profit before tax		139,351	52,299
Income tax expense	B4	(48,705)	(21,863)
Profit after tax for the year		90,646	30,436
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		(1,896)	(3,341)
Listed investment fair value gain		13,372	–
Total comprehensive income		102,122	27,095
Earnings per share			
Basic (cents per share)	B3	12.66	4.43
Diluted (cents per share)		12.29	4.31

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2017

Year ended 30 June 2017	Foreign currency translation reserve \$'000	Fair value revaluation reserve \$'000	Employee equity settled payments reserve \$'000	Total reserves \$'000	Retained earnings \$'000	Share capital \$'000	Total equity \$'000
Balance 1 July 2016	(9,052)	–	7,211	(1,841)	4,371	130,548	133,078
Profit for the period	–	–	–	–	90,646	–	90,646
Foreign currency translation differences – foreign operations	(2,683)	–	–	(2,683)	–	–	(2,683)
Listed investment – fair value movement	–	13,372	–	13,372	–	–	13,372
Income tax	787	–	–	787	–	–	787
Total comprehensive income for the period	(1,896)	13,372	–	11,476	90,646	–	102,122
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	–	3,788	3,788
Share issue costs	–	–	–	–	–	(34)	(34)
Share-based payments	–	–	2,528	2,528	–	–	2,528
Total transactions with owners	–	–	2,528	2,528	–	3,754	6,282
Balance 30 June 2017	(10,948)	13,372	9,739	12,163	95,017	134,302	241,482
Year ended 30 June 2016	Foreign currency translation reserve \$'000	Employee equity settled payments reserve \$'000	Total reserves \$'000	Retained earnings \$'000	Share capital \$'000	Total equity \$'000	
Balance 1 July 2015	(5,711)	4,102	(1,609)	(26,065)	86,303	58,629	
Profit for the period	–	–	–	30,436	–	30,436	
Foreign currency translation differences – foreign operations	(5,150)	–	(5,150)	–	–	(5,150)	
Income tax	1,809	–	1,809	–	–	1,809	
Total comprehensive income for the period	(3,341)	–	(3,341)	30,436	–	27,095	
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	46,415	46,415	
Share issue costs	–	–	–	–	(2,170)	(2,170)	
Share-based payments	–	3,109	3,109	–	–	3,109	
Total transactions with owners	–	3,109	3,109	–	44,245	47,354	
Balance 30 June 2016	(9,052)	7,211	(1,841)	4,371	130,548	133,078	

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash & short-term deposits	D3	121,020	69,361
Trade & other receivables	C1	72,874	45,407
Prepayments		35,957	15,099
Inventories	C2	28,437	52,556
Total current assets		258,288	182,423
Non-current assets			
Property, plant & equipment	C4	8,358	8,018
Intangible assets	C5	13,281	16,393
Other financial assets	C6	62,049	–
Deferred tax assets	B4	1,954	3,318
Total non-current assets		85,642	27,729
Total assets		343,930	210,152
Liabilities			
Current liabilities			
Trade & other payables	C3	71,350	66,168
Income tax payable		30,998	10,640
Total current liabilities		102,348	76,808
Non-current liabilities			
Trade & other payables	C3	100	228
Deferred tax liabilities	B4	–	38
Total non-current liabilities		100	266
Total liabilities		102,448	77,074
Net assets		241,482	133,078
Equity attributable to owners of the Company			
Share capital	D5	134,302	130,548
Retained earnings		95,017	4,371
Reserves	D6	12,163	(1,841)
Total equity		241,482	133,078

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		524,323	342,269
Payments to suppliers & employees		(394,111)	(311,587)
Interest received		887	502
Interest paid		–	(37)
Taxes paid		(31,156)	(9,673)
Net cash inflow from operating activities	D4	99,943	21,474
Cash flows from investing activities			
Payments for property, plant & equipment	C4	(1,650)	(898)
Payments for intangible assets	C5	(821)	(1,156)
Payment for listed investment	C6	(48,677)	–
Net cash outflow from investing activities		(51,148)	(2,054)
Cash flows from financing activities			
Proceeds from issue of equity shares	D5	3,754	44,245
Net cash inflow from financing activities		3,754	44,245
Net increase in cash & short-term deposits		52,549	63,665
Cash & short-term deposits at the beginning of the year		69,361	6,092
Effect of exchange rate changes on cash		(890)	(396)
Cash & short-term deposits at the end of the year	D3	121,020	69,361

The accompanying notes form part of these financial statements.

Notes to the financial statements

Contents

	Page
A Basis of preparation	58
B Group performance	60
B1 Operating segments	60
B2 Expenses	62
B3 Earnings per share	63
B4 Income taxes	64
C Operating assets and liabilities	68
C1 Trade & other receivables	68
C2 Inventories	68
C3 Trade & other payables	69
C4 Property, plant & equipment	70
C5 Intangible assets	71
C6 Other financial assets	73
D Capital and financial risk management	74
D1 Capital risk management	74
D2 Financial risk management	74
D3 Cash & short-term deposits	78
D4 Cash flow information	78
D5 Share capital	79
D6 Reserves	79
D7 Capital expenditure commitments	80
D8 Operating lease commitments	80
D9 Contingent liabilities	80
E Group structure	81
E1 Consolidated entities	81
E2 Deed of cross guarantee	82
F Other disclosures	84
F1 Related party transactions	84
F2 Share-based payments	85
F3 Auditor's remuneration	87
F4 Subsequent events	87

Notes to the financial statements – Basis of preparation

for the year ended 30 June 2017

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 2017 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 an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is also registered as a foreign company in Australia under the *Corporations Act 2001* (Cth, Australia). The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX), the Australian Securities Exchange (ASX) and Chi-X Australia (Chi-X). The Group's reporting currency is the New Zealand dollar.

The principal activity of the Company is the commercialisation of a2™ brand milk and related products as supported by the ownership of intellectual property.

The consolidated financial statements were authorised for issue by the directors on 22 August 2017.

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

Significant accounting policies have been:

- included in the relevant note to which each policy relates, other than the accounting policy for foreign currency, set out below; and
- consistently applied to all periods presented in these consolidated financial statements.

Accounting policy: Foreign currency

Transactions

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

Foreign operations translation to reporting currency

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

Judgements, estimates and assumptions

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

- This may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- Estimates and underlying assumptions are reviewed on an ongoing basis.
- Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
- Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
 - Note B4: Deferred tax assets and liabilities – Recovery of deferred tax assets
 - Note C2: Inventories – Estimation of net realisable value
 - Note C5: Intangibles assets – Goodwill and intangibles

Notes to the financial statements – Basis of preparation (continued)

for the year ended 30 June 2017

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 2017.

New standards and interpretations not yet adopted

Certain new accounting standards have been published that are relevant to the Group's operations but are not yet mandatory for the 30 June 2017 accounting period. The Group's current assessment of the impact of these is set out below.

Accounting standard	Requirement	Impacts in future periods
<i>NZ IFRS 15: Revenue from Contracts with Customers</i>	<p>NZ IFRS 15 will become mandatory for the Group's annual reporting period ending 30 June 2019.</p> <p>It replaces the existing revenue standard and interpretations and is based on the identification of performance obligations under a contract to determine revenue treatment.</p>	<p>The Group is in the process of assessing the full impact of this standard, including the commencement of an implementation plan.</p> <p>The standard is unlikely to materially change the way the Group recognises revenue for products it sells; and it is likely that additional disclosures will be required including the disaggregation of total revenue; information about performance obligations; movements in contract receivables and payables; and key judgements and estimates employed.</p> <p>The Group does not expect to adopt the new standard before 1 July 2018.</p>
<i>NZ IFRS 9 (2014): Financial Instruments</i>	<p>NZ IFRS 9 will become mandatory for the Group's annual reporting period ending 30 June 2019.</p> <p>It addresses the classification, measurement and derecognition of financial assets and liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets.</p> <p>The standard also introduces expanded disclosure requirements and changes in presentation.</p>	<p>The Group is in the process of assessing the full impact of this standard. However, based on the Group's current use of financial assets and liabilities, the application of this standard is unlikely to materially impact on the Group's accounting for financial instruments.</p> <p>The Group plans to adopt this standard in the 2018 financial year, and expects to elect to classify its holdings in a listed investment at fair value through other comprehensive income (OCI).</p>
<i>NZ IFRS 16: Leases</i>	<p>NZ IFRS 16 will become mandatory for the Group's annual reporting period ending 30 June 2020, replacing the existing leases standard.</p> <p>The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on balance sheet, with limited exceptions for short-term leases and low value assets.</p>	<p>As a right-to-use asset and a lease liability will be recognised for operating leases, the change will result in a more front-loaded expense pattern for operating leases as compared to current straight-lining, with lease expense allocated to interest and depreciation.</p> <p>The Group does not plan to adopt this standard early, and the full extent of the impact has not yet been determined.</p>

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

Notes to the financial statements – Group performance

for the year ended 30 June 2017

B. Group performance

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

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

B1. Operating segments

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

For management purposes, the Group is organised into business units based on geographical location along with a corporate function, and has four reportable operating segments as follows:

- The *Australia and New Zealand segment* receives external revenue from infant formula, milk and other dairy products, along with royalty and licence fee income
- The *China and other Asia segment* receives external revenue from the export of infant formula, milk and other dairy products to China and other Asia. This segment is responsible for the infant formula supply chain from New Zealand to all markets
- The *United Kingdom and USA segment* receives external revenue from milk and infant formula sales
- The *Corporate and other segment* external revenue comprises external royalty and licence fee income

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 consistently with operating profit or loss in the consolidated financial statements.

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B1. Operating segments (continued)

2017	Australia and New Zealand \$'000	China and other Asia \$'000	UK and USA \$'000	Corporate and other \$'000	Total \$'000
Consolidated sales	439,342	88,885	21,020	–	549,247
Other revenue	223	–	–	56	279
Reportable segment revenue	439,565	88,885	21,020	56	549,526
Reportable segment results (Segment EBITDA)	155,348	32,747	(22,500)	(24,442)	141,153
Reconciliation to consolidated statement of comprehensive income:					
Interest income					887
Depreciation and amortisation	(1,104)	(576)	(811)	(198)	(2,689)
Income tax expense					(48,705)
Consolidated profit after tax					90,646
2016	Australia and New Zealand \$'000	China and other Asia \$'000	UK and USA \$'000	Corporate and other \$'000	Total \$'000
Consolidated sales	296,082	38,163	18,257	–	352,502
Other revenue	231	–	–	43	274
Reportable segment revenue	296,313	38,163	18,257	43	352,776
Reportable segment results (Segment EBITDA)	84,687	9,158	(20,490)	(18,779)	54,576
Reconciliation to consolidated statement of comprehensive income:					
Interest income					502
Interest expense					(37)
Depreciation and amortisation	(1,097)	(486)	(793)	(366)	(2,742)
Income tax expense					(21,863)
Consolidated profit after tax					30,436
Revenue by product type				2017 \$'000	2016 \$'000
Infant formula				394,026	214,376
Liquid milk				125,872	120,326
Other				29,628	18,074
				549,526	352,776

Two customers within the Australia and New Zealand segment each contributed revenue in excess of 10% of Group revenue of \$77,509,000 (2016: \$73,548,000) and \$72,248,000 (2016: \$61,210,000) respectively.

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B1. Operating segments (continued)

Recognition and measurement

Revenue is recognised and measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods results from the sale of a2™ branded infant formula, milk and related products, and is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods. Revenue is recognised net of trade discounts and volume rebates.

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.

Other segment information

	Australia and New Zealand \$'000	China and other Asia \$'000	UK and USA \$'000	Corporate and other \$'000	Total \$'000
2017					
Additions to non-current assets	845	134	193	1,299	2,471
Segment assets	101,472	108,816	10,877	122,765	343,930
Segment liabilities	24,759	37,461	4,904	35,324	102,448
2016					
Additions to non-current assets	993	218	96	747	2,054
Segment assets	89,001	60,140	15,962	45,049	210,152
Segment liabilities	29,550	33,141	4,671	9,712	77,074

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

B2. Expenses

Administrative expenses	2017 \$'000	2016 \$'000
Equity settled share-based payments	2,528	3,109
Salary and wage costs	20,477	16,045
Travel costs	3,969	3,994
Other administrative expenses	5,472	3,885
	32,446	27,033

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B2. Expenses (continued)

	2017 \$'000	2016 \$'000
Other expenses		
Audit fees	434	416
Bad and doubtful debts	–	69
Consultancy, accounting and secretarial fees	7,022	6,903
Directors' fees and expenses	787	559
Foreign exchange losses	265	753
Legal expenses	4,300	2,597
Loss on disposal, plant and equipment	103	–
Patents, trademarks, and research and development	4,389	2,366
Occupancy expenses	1,489	768
Depreciation and amortisation	2,689	2,742
Promotion and merchandising	1,072	3,462
Impairment of intangible assets	2,435	–
Other operating expenses	5,572	3,092
	30,557	23,727
Finance costs		
Interest expense	–	37
Other finance costs	135	168
	135	205

B3. Earnings Per Share (EPS)

	2017	2016
Profit attributable to members of the Company used in calculating basic and diluted EPS (\$'000)	90,646	30,436
Weighted average number of ordinary shares ('000) for basic EPS	716,047	686,870
Effect of dilution due to partly paid ordinary shares, share options and performance rights ('000)	21,468	19,263
Weighted average number of ordinary shares ('000) for diluted EPS	737,515	706,133
Basic EPS (cents)	12.66	4.43
Diluted EPS (cents)	12.29	4.31

Recognition and measurement

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

Diluted EPS adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the financial statements – Group performance (continued)
for the year ended 30 June 2017

B4. Income taxes

	2017 \$'000	2016 \$'000
Income tax expense recognised in profit or loss		
Current tax	46,788	23,087
Prior period adjustment to tax expense – current tax	875	605
Prior period adjustment to tax expense – deferred tax	(424)	68
Deferred tax origination and reversal of temporary differences	1,466	(1,897)
Total tax expense	48,705	21,863
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from operations	139,351	52,299
Income tax expense calculated at 28% (2016: 28%)	39,018	14,644
Difference in income tax rates: UK (19.75%), Australia (30%), USA (40.75%), and China (25%)	1,168	344
Non-deductible expenses	3,473	1,614
Prior period adjustment to tax expense	451	673
Deferred tax impact to tax expense for permanent establishments	(91)	517
Unutilised foreign tax credits forfeited	259	564
Deferred tax asset not recognised	4,427	3,507
Total tax expense	48,705	21,863
Income tax expense recognised directly in equity		
Current tax	(1,071)	(1,071)
Deferred tax	284	(738)
Tax benefit in Other Comprehensive Income (OCI)	(787)	(1,809)

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B4. 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.

2017	Opening balance \$'000	Charge to profit & loss \$'000	Charge to OCI \$'000	Closing balance \$'000
Gross deferred tax assets				
Patents	49	65	–	114
Accrued expenses	2,628	(713)	(2)	1,913
Tax losses	694	(355)	(12)	327
Other	418	(400)	3	21
	3,789	(1,403)	(11)	2,375
Gross deferred tax liabilities				
Property, plant & equipment	(607)	(55)	–	(662)
Foreign exchange (gains)/losses recognised in FCTR	98	416	(273)	241
	(509)	361	(273)	(421)
Net deferred tax				1,954
2016	Opening balance \$'000	Charge to profit & loss \$'000	Charge to OCI \$'000	Closing balance \$'000
Gross deferred tax assets				
Patents	192	(143)	–	49
Accrued expenses	1,025	1,650	(47)	2,628
Tax losses	1,011	(252)	(65)	694
Other	–	458	(40)	418
	2,228	1,713	(152)	3,789
Gross deferred tax liabilities				
Property, plant & equipment	(777)	116	54	(607)
Foreign exchange (gains)/losses recognised in FCTR	(738)	–	836	98
	(1,515)	116	890	(509)
Net deferred tax				3,280

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B4. Income taxes (continued)

Deferred tax balances (continued)

	2017 \$'000	2016 \$'000
Net deferred tax balances recognised in the financial statements		
Net deferred tax assets	1,954	3,318
Net deferred tax liabilities	–	(38)
Net deferred tax	1,954	3,280

Tax losses

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

	2017 \$'000	2016 \$'000
United Kingdom	21,360	16,298
United States of America	17,504	10,435
Australia	955	1,105
Total	39,819	27,838

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 imputation credits and franking credits available for distribution to the shareholders of each Group company and ultimately the Parent Company are subject to the relevant Income Tax and Corporations legislation in New Zealand and Australia being satisfied. The franking credit account balance is stated in NZD, with the balance available for distribution dependent on future exchange rate movements.

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

	2017 \$'000	2016 ¹ \$'000
Imputation credits	12,323	1,610
Franking credits	58,927	21,133

¹ Comparative figures have been adjusted to conform with the current year's presentation

Notes to the financial statements – Group performance (continued)

for the year ended 30 June 2017

B4. Income taxes (continued)

Recognition and measurement

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

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

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which those deductible temporary differences can be utilised.

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

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

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

Key estimates and judgements

Recovery of deferred tax assets

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

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

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

Notes to the financial statements – Operating assets and liabilities

for the year ended 30 June 2017

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

	2017 \$'000	2016 \$'000
Trade receivables	68,818	44,720
Allowance for doubtful debts	(96)	(112)
Other receivables	4,152	799
	72,874	45,407

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 and 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 impairment losses.

C2. Inventories

	2017 \$'000	2016 \$'000
Raw materials	1,142	12,517
Finished goods	10,028	31,846
Goods in transit	17,267	8,193
Total inventories at the lower of cost and net realisable value	28,437	52,556

During the year, \$50,000 (2016: \$2,612,000) was recognised as an expense in cost of sales for inventories written down to net realisable value.

Recognition and measurement

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

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

Key estimates and judgements

Recovery of inventory

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

Notes to the financial statements – Operating assets and liabilities (continued)

for the year ended 30 June 2017

C3. Trade and other payables

Trade and other payables – current

	2017 \$'000	2016 \$'000
Trade payables	34,084	36,980
Accruals	32,933	27,421
Employee entitlements	4,333	1,767
	71,350	66,168

Trade and other payables – non-current

	2017 \$'000	2016 \$'000
Employee entitlements	100	228

Recognition and measurement

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost due to their short-term nature, and they are not discounted. They represent liabilities recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services. The amounts are unsecured.

Employee entitlements

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

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

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

Notes to the financial statements – Operating assets and liabilities (continued)

for the year ended 30 June 2017

C4. Property, plant & equipment

2017	Office & computer \$'000	Furniture & fittings \$'000	Leasehold improvements \$'000	Plant & equipment \$'000	Total property, plant & equipment \$'000
Carrying amount 1 July 2016	113	152	27	7,726	8,018
Additions	241	217	814	378	1,650
Disposals	–	(69)	–	–	(69)
Depreciation	(104)	(30)	(159)	(934)	(1,227)
Net foreign currency exchange differences	(1)	(4)	(10)	1	(14)
Carrying amount 30 June 2017	249	266	672	7,171	8,358
Cost	722	338	904	11,771	13,735
Accumulated depreciation	(473)	(72)	(232)	(4,600)	(5,377)
Carrying amount 30 June 2017	249	266	672	7,171	8,358

2016	Office & computer \$'000	Furniture & fittings \$'000	Leasehold improvements \$'000	Plant & equipment \$'000	Total property, plant & equipment \$'000
Carrying amount 1 July 2015	175	290	48	8,561	9,074
Additions	65	50	64	719	898
Depreciation	(108)	(177)	(81)	(954)	(1,320)
Net foreign currency exchange differences	(19)	(11)	(4)	(600)	(634)
Carrying amount 30 June 2016	113	152	27	7,726	8,018
Cost	484	383	147	11,400	12,414
Accumulated depreciation	(371)	(231)	(120)	(3,674)	(4,396)
Carrying amount 30 June 2016	113	152	27	7,726	8,018

Recognition and measurement

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

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

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

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

Notes to the financial statements – Operating assets and liabilities (continued)

for the year ended 30 June 2017

C5. Intangible assets

2017	Patents \$'000	Trademarks \$'000	Software \$'000	Project development \$'000	Goodwill \$'000	Total \$'000
Carrying amount 1 July 2016	832	902	707	3,571	10,381	16,393
Additions	39	250	301	231	–	821
Disposals	–	–	(34)	–	–	(34)
Amortisation	(19)	–	(410)	(1,033)	–	(1,462)
Impairment	–	(372)	–	(1,715)	(348)	(2,435)
Net foreign currency exchange differences	–	–	(4)	(6)	8	(2)
Carrying amount 30 June 2017	852	780	560	1,048	10,041	13,281
Cost	1,011	780	1,744	4,282	10,041	17,858
Accumulated amortisation and impairment	(159)	–	(1,184)	(3,234)	–	(4,577)
Carrying amount 30 June 2017	852	780	560	1,048	10,041	13,281

2016	Patents \$'000	Trademarks \$'000	Software \$'000	Project development \$'000	Goodwill \$'000	Total \$'000
Carrying amount 1 July 2015	279	913	717	4,547	10,993	17,449
Additions	333	239	419	165	–	1,156
Transfers	250	(250)	–	–	–	–
Amortisation	(28)	–	(384)	(1,010)	–	(1,422)
Net foreign currency exchange differences	(2)	–	(45)	(131)	(612)	(790)
Carrying amount 30 June 2016	832	902	707	3,571	10,381	16,393
Cost	972	902	1,507	5,770	10,381	19,532
Accumulated amortisation	(140)	–	(800)	(2,199)	–	(3,139)
Carrying amount 30 June 2016	832	902	707	3,571	10,381	16,393

Trademarks are allocated to the following cash generating units (CGUs) for the purposes of impairment testing: Australia and New Zealand \$198,000 (2016: \$189,000); China and other Asia \$489,000 (2016: \$414,000); UK and USA \$93,000 (2016: \$299,000).

During the year the total value of research and development costs expensed was \$2,948,000 (2016: \$1,781,000).

Recognition and measurement

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

Patents

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

Trademarks

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

Notes to the financial statements – Operating assets and liabilities (continued)

for the year ended 30 June 2017

C5. Intangible assets (continued)

Recognition and measurement (continued)

Software

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

Project development costs

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

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

Goodwill

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

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

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

Goodwill allocation

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

CGUs	2017 \$'000	2016 \$'000
Australia & New Zealand	7,980	7,972
UK	2,061	2,061
USA	–	348
	10,041	10,381

The movement in goodwill is attributable to foreign exchange movements; and the write-off of goodwill in the USA CGU.

Recognition and measurement

Impairment testing of non-financial assets

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

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

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

Key estimates and judgements

Goodwill and intangibles

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

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

Impairment testing as at 31 December 2016

USA CGU

Indications of impairment were assessed at 31 December 2016, including consideration of the financial performance of the Group's CGUs to which Goodwill is allocated. In performing this assessment an operating loss in the USA CGU (in the UK and USA reportable segment) for the six month period ended 31 December 2016 was noted, which triggered impairment testing of the USA CGU.

Notes to the financial statements – Operating assets and liabilities (continued)

for the year ended 30 June 2017

C5. Intangible assets (continued)

Impairment testing as at 31 December 2016 (continued)

The USA CGU receives external revenue from the sale of liquid milk products in the USA. The business plan was amended during the year to accelerate expansion of distribution within the USA. This acceleration is expected to require a higher level of expenditure in future periods prior to the CGU achieving a cash break-even position. The recoverable amount of the USA CGU at 31 December 2016 was determined using a value-in-use calculation applying risk adjusted cash flow projections based on financial estimates from the revised business plan. The discount rate applied in this calculation was 10%, with a terminal growth rate of 2%, consistent with the calculation for the year ended 30 June 2016.

As a result of this testing, the following assets of the USA CGU were written off: goodwill; project development costs; and USA specific trademarks. Other CGU assets, including working capital and property, plant & equipment, were assessed as being fully recoverable, with no impairment booked on these items. The total impairment charge included in other expenses relating to goodwill, trademarks and project development costs in the UK and USA segment was \$2,235,000.

Corporate Segment – Trademark assets

A number of trademark assets belonging to the Corporate and other segment that are no longer likely to be used were identified, indicating that these assets were impaired. The impairment of these assets, totalling \$200,000, has been included in the impairment charge for the period.

The total impairment charge of \$2,435,000 is recorded within other expenses in the consolidated statement of comprehensive income.

Annual impairment testing as at 30 June 2017

The recoverable amount of the CGUs to which goodwill and trademarks were allocated has been determined on a value in use basis using a discounted cash flow approach, and projections based on financial budgets and five-year forward plans approved by the Board.

Key assumptions

- Discount rate (pre-tax): 10.0% (2016: 9.0% to 11.0%)
- Terminal growth rate: 2.0%. (2016: 2.0%)

Sensitivity to change in assumptions

The calculation of value in use for the above operating segments 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 FY2018, and conservative estimates for future years, which have been 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 operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account 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 2017, 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 FY2018 budget and five-year forward looking plans, and adjusted for recent performance trends across the particular regions (where necessary). A conservative approach has been adopted by the Company to reduce the risk of inflating estimated recoverable values.

Terminal growth rate – A terminal growth rate of 2.0% has been used for future cash flow growth beyond the five-year forecast period. This is a conservative rate when compared to annual growth rates during 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 2017, the recoverable amount of the Group's CGUs exceed their carrying amounts. The directors believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of a CGU to be less than its carrying value. On the basis of this assessment, no impairment write downs are considered necessary.

C6. Other financial assets

	2017 \$'000	2016 \$'000
Listed investment at fair value	62,049	–

In March 2017, the Group purchased 8.169% of the share capital of Synlait Milk Limited (Synlait) for NZ\$48,677,000. Synlait is a dairy processing company (listed on the New Zealand Stock Exchange) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement.

Recognition and measurement

This listed investment is classified as an available-for-sale asset. The Group does not control or have significant influence over the investee.

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

Notes to the financial statements – Capital and financial risk management

for the year ended 30 June 2017

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 risk 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 Company's Board of Directors reviews the capital structure, including dividend policy, at least twice a year before announcing results.

As foreshadowed during 2017, the Board has been evaluating capital management alternatives whilst continuing to maintain a flexible and conservative capital structure. Accordingly, the Company intends to establish an on-market buyback of its shares over the next 12 months of up to \$40 million. Furthermore, the Board remains open to considering the merits of a special dividend in light of progress on the buyback and future market conditions.

D2. Financial risk management

Financial risk management objectives

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

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

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

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

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

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

Maximum exposures to credit risk at balance date:	2017 \$'000	2016 \$'000
Cash and short-term deposits (counterparty risk)	121,020	69,361
Trade and other receivables (customer credit risk)	72,874	45,407
	193,894	114,768

Counterparty risk

At balance date, the Group's bank accounts were held with National Australia Bank Limited, Bank of New Zealand Limited, HSBC Bank, Great Western Bank and Clydesdale 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 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.

There is significant concentration of credit risk within the Group. In 2017, 36% of sales were to three customers, all of whom are major retailers (2016: 41% sales to three customers). There is no history of default for these customers.

A provision for impairment is recognised when there is a clear indication that an individual trade receivable is impaired.

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

D2. Financial risk management (continued)

Ageing of trade receivables at the reporting date:

	Gross 2017 \$'000	Impairment 2017 \$'000	Gross 2016 \$'000	Impairment 2016 \$'000
Not past due	65,393	–	40,317	–
Past due up to 90 days	2,818	–	3,814	–
Past due 91 to 180 days	493	(54)	136	–
Past due 181 days to one year	114	(42)	449	(108)
More than one year	–	–	4	(4)
	68,818	(96)	44,720	(112)

The average credit period on sales is 38 days (2016: 42 days). No interest is charged on trade receivables outstanding.

Movement in allowance for doubtful debts

	2017 \$'000	2016 \$'000
Balance at beginning of year	112	48
Amount charged to the statement of comprehensive income	–	69
Provisions reversed	(16)	–
Net foreign currency exchange differences	–	(5)
	96	112

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. The Group's holding of a listed available-for-sale investment also exposes it to equity price risk.

Market risk exposures are monitored by management on an ongoing basis and, other than exposure to equity price risk arising from the purchase of a listed available-for-sale investment in the current year, there has been no change during the year to the Group's exposure to market risks or the manner in which it manages and measures risk.

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

D2. Financial risk management (continued)

Foreign currency risk management

The Group operates in Australia, the US, the United Kingdom, and China; and is exposed to currency risk arising from movements in the currencies of those countries against the NZ dollar. The Group does not hedge this risk, but may transfer cash balances from time-to-time between currencies to reduce exposure or to match underlying liabilities.

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

The analysis is performed consistently from year to year.

2017	Net exposure on reporting date	Impact on pre-tax profit or (loss)	
		\$'000	\$'000
Movement on exchange rate	–	+10%	–10%
AU Dollar	586	65	(53)
US Dollar	5,728	636	(521)
GB Pounds	(245)	(27)	22
Chinese Yuan Renminbi	(6,279)	(698)	571

2016	Net exposure on reporting date	Impact on pre-tax profit or (loss)	
		\$'000	\$'000
Movement on exchange rate	–	+10%	–10%
AU Dollar	584	66	(53)
US Dollar	1,126	125	(102)
GB Pounds	302	34	(27)
Chinese Yuan Renminbi	(1,596)	(177)	145

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

Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
AU Dollar	0.9454	0.9185	0.9524	0.9534
US Dollar	0.7130	0.6671	0.7326	0.7080
GB Pounds	0.5619	0.4546	0.5631	0.5290
Chinese Yuan Renminbi	4.8391	4.7044	4.9588	4.7044

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

D2. Financial risk management (continued)

Equity price risk

The Group is exposed to equity price risk on its listed available-for-sale investment. This risk is not hedged.

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

As at 30 June 2017 the exposure to the listed available-for-sale investment at fair value was \$62,049,000. A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of \$6,205,000 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, but has a standby AU\$10 million debtor finance facility available, undrawn as at 30 June 2017 (2016: AU\$10 million, undrawn).

Contractual maturities of financial liabilities

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

	2017 \$'000	2016 \$'000
Financial liabilities		
Trade payables	34,084	36,980
Accruals	32,933	27,421
Total	67,017	64,401

These financial liabilities are all payable within three months (2016: three months), with no interest payable.

Fair values

Fair value hierarchy

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

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

The listed available-for-sale investment is the only financial instrument carried by the Group at fair value, with a Level 1 valuation method applied. Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the statement of financial position at fair value.

	2017		2016	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Cash & short-term deposits	121,020	121,020	69,361	69,361
Trade & other receivables	72,874	72,874	45,407	45,407
Other financial assets at fair value (Level 1)	62,049	62,049	–	–
Trade & other payables	(67,017)	(67,017)	(64,401)	(64,401)
Total	188,926	188,926	50,367	50,367

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

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

- listed investment – closing share price as at 30 June 2017 on the New Zealand Stock Exchange; and
- trade and other receivables and payables – carrying amount equals fair value.

D3. Cash and short-term deposits

	2017 \$'000	2016 \$'000
Cash at banks and on hand	91,020	58,361
Short-term deposits	30,000	11,000
	121,020	69,361

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 on hand includes AUD 25,697,000 (2016: AUD 32,890,000), GBP 1,332,000 (2016: GBP 2,245,000), and USD 11,455,000 (2016: USD 9,158,000).

Recognition and measurement

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

D4. Cash flow information

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

	2017 \$'000	2016 \$'000
Net profit for the year	90,646	30,436
Adjustments for non-cash items:		
Depreciation & amortisation	2,689	2,742
Loss on disposal	103	–
Impairment of goodwill, trademarks and project development costs	2,435	–
Share-based payments	2,528	3,109
Net foreign exchange gain	(991)	(1,520)
Deferred tax	1,326	(2,567)
Changes in working capital:		
Trade and other receivables	(27,467)	(5,463)
Prepayments	(20,858)	(5,448)
Inventories	24,119	(47,710)
Trade and other payables	5,055	37,850
Income tax payable	20,358	10,045
Net cash inflow from operating activities	99,943	21,474

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

D5. Share capital

	2017		2016	
	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	712,000,065	130,548	633,326,979	86,303
Exercise of options	3,368,002	2,122	–	–
Vesting of rights	320,000	–	–	–
Partly paid shares fully paid	2,550,000	1,666	15,440,000	3,415
Share purchase plan	–	–	4,409,557	3,000
Underwritten placement	–	–	58,823,529	40,000
Share issue costs	–	(34)	–	(2,170)
Balance at end of year	718,238,067	134,302	712,000,065	130,548
Partly paid ordinary shares				
Balance at beginning of year	11,300,000	–	26,740,000	–
Partly paid shares fully paid	(2,550,000)	–	(15,440,000)	–
Balance at end of year	8,750,000	–	11,300,000	–
Total ordinary shares on issue:	726,988,067	134,302	723,300,065	130,548

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.

Partly paid ordinary shares carry the same rights and entitlements on a fractional basis, as fully paid ordinary shares, with such fractions being the equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

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

D6. 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 available for sale.

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.

Notes to the financial statements – Capital and financial risk management (continued)

for the year ended 30 June 2017

D7. Capital expenditure commitments

As at 30 June 2017, there were no capital expenditure commitments (2016: \$nil).

D8. Operating lease commitments

The Group has entered into operating leases for office and industrial premises, and motor vehicles. There are no financial restrictions placed upon Group entities by entering into these leases. All lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company has an option to purchase a leased industrial property at the expiry of the relevant lease period.

Non-cancellable operating lease payments

	2017 \$'000	2016 \$'000
Not longer than 1 year	1,702	1,214
Longer than 1 year and not longer than 5 years	4,720	2,316
Longer than 5 years	–	309
Total	6,422	3,839

Recognition and measurement

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

Group as a lessee

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

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

D9. Contingent liabilities

As at 30 June 2017, there were no material contingent liabilities (2016: \$nil).

Notes to the financial statements – Group structure

for the year ended 30 June 2017

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 2017 are as follows:

	Parties to Deed of Cross Guarantee (note E2)*	Principal place of business	Proportion of ownership interest	
			2017	2016
Parent entity:				
The a2 Milk Company Limited	✓	New Zealand	–	–
Subsidiaries:				
A2 Exports 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 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 ¹	–	China	100%	–

¹ A2 Infant Nutrition (Shanghai) Co., Ltd was incorporated on 19 September 2016. There were no other entities over which the Company gained or lost control during the period.

* 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*.

Indicates an entity added as a party to the Deed of Cross Guarantee by an assumption deed with effect from 28 June 2017.

All subsidiaries have a balance date of 30 June, except for The a2 Milk Company LLC which has a balance date of 31 December.

Recognition and measurement

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Transactions eliminated on consolidation

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

Notes to the financial statements – Group structure (continued)

for the year ended 30 June 2017

E2. Deed of cross guarantee

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, the Australian-incorporated wholly owned subsidiaries listed in Note E1 as parties to the Deed of Cross Guarantee are relieved from the *Corporations Act 2001* (Cth) 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). 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 2017 are set out as follows:

Statement of comprehensive income and retained earnings for the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Revenue	528,507	334,519
Expenses	(384,625)	(273,297)
Finance income (net)	1,246	1,899
Profit before tax	145,128	63,121
Income tax expense	(47,641)	(21,911)
Profit after tax	97,487	41,210
Other comprehensive income	4,197	1,463
Total comprehensive income for the year	101,684	42,673
Retained earnings at beginning of the year	29,278	(11,932)
Transfers to and from reserves	(4,197)	(1,463)
Retained earnings at end of year	126,765	29,278

Notes to the financial statements – Group structure (continued)
for the year ended 30 June 2017

E2. Deed of cross guarantee (continued)

**Statement of financial position
as at 30 June 2017**

	2017 \$'000	2016 \$'000
Assets		
Current assets		
Cash & short-term deposits	112,289	58,247
Trade & other receivables	79,564	62,610
Prepayments	35,284	14,831
Inventories	27,871	52,277
Total current assets	255,008	187,965
Non-current assets		
Property, plant & equipment	8,019	7,730
Intangible assets	11,093	14,175
Other financial assets	85,462	14,701
Deferred tax asset	1,730	2,352
Total non-current assets	106,304	38,958
Total assets	361,312	226,923
Liabilities		
Current liabilities		
Trade & other payables	65,784	57,779
Income tax payable	31,173	11,224
Total current liabilities	96,957	69,003
Non-current liabilities		
Trade & other payables	1,225	228
Total non-current liabilities	1,225	228
Total liabilities	98,182	69,231
Net assets	263,130	157,692
Equity		
Share capital	134,302	130,548
Retained earnings	126,765	29,278
Reserves	2,063	(2,134)
Total equity	263,130	157,692

Notes to the financial statements – Other disclosures

for the year ended 30 June 2017

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 executives reporting directly to the Managing Director.

Key management personnel compensation:

	2017 \$'000	2016 \$'000
Short-term employee benefits	5,770	5,749
Other long-term benefits	105	44
Share-based payments	2,033	3,109
	7,908	8,902

Key management personnel include the following employees of the Group who report directly to the Managing Director:

Chief Financial Officer

Chief Marketing Officer

Chief Scientific Officer

General Manager, International Development

General Manager, Operations

Chief Executive, Asia Pacific

Chief Executive, UK & Europe

Chief Executive, USA

Head of Business Development, Emerging Markets

Transactions with key management personnel and their related parties

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

Related parties	Sales		Other transactions		Outstanding transactions	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
The a2 Milk Company (USA) – consultancy fees paid to Melvyn Miles, a former director of the Company (retired August 2016). The fees were charged at commercial rates.	–	–	19	60	–	–
A2 Holdings UK Limited – consultancy fees paid to Lovat Partners Limited, an entity controlled by David Hearn, Chairman of the Company. The fees were charged at commercial rates.	–	–	75	89	–	–
A2 Infant Nutrition Australia Pty Ltd sells infant formula and whole milk powder products to a pharmacy owned and managed by the spouse of a member of the key management personnel of the Company. Sales are made at arm's length, on standard commercial terms.	8,540	1,757	–	–	–	–

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given and no expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Notes to the financial statements – Other disclosures (continued)

for the year ended 30 June 2017

F1. Related party transactions (continued)

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 2017 and 2016 financial years.

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.

During the year, the Board authorised the issue of 982,000 performance rights (2016: 1,600,000) to senior employees under the LTI plan. The Board authorised the issue of 15,000,000 options in 2016.

The FY2017 awards vest subject to an earnings per share (EPS) performance hurdle calculated over a three-year performance period, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over the performance period, with no retesting. 50% of the award will vest if diluted EPS CAGR of 15% is achieved, up to a maximum of 100% of the award if diluted EPS CAGR of 25% or more is achieved.

The FY2016 awards vest subject to share price growth performance hurdles over a five-year performance period, and continuing employment. The absolute share price growth hurdle is a minimum share price CAGR of 10% over the performance period, subject to annual retesting until the performance condition is met, or the performance period ends.

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

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

LTI as at 30 June 2017	Number	Grant Dates	Vesting Date	Expiry Date
Performance Rights – FY2016 grants	1,280,000	12-Aug-15	12-Aug-16 – 12-Aug-20	12-May-21
Performance Rights – FY2017 grants	982,000	8-Feb-17 & 10-Mar-17	8-Feb-20 & 10-Mar-20	8-Feb-20 & 10-Mar-20
2,262,000				
Options – FY2015 grants	4,000,000	30-Mar-15	30-Mar-16 – 30-Mar-20	30-Jun-20
Options – FY2016 grants	12,631,998	12-Aug-15	12-Aug-16 – 12-Aug-20	12-May-21
16,631,998				

Performance rights granted in FY2017 vest on the third anniversary after the grant date. The options and performance rights granted in FY2015 and FY2016 will vest in five equal tranches over five years, commencing on the first anniversary of the date of the grant.

Performance rights movements:

	Number 2017	Number 2016
Outstanding at the beginning of the year	1,600,000	–
Forfeited during the period	–	–
Granted during the period	982,000	1,600,000
Vested during the period	(320,000)	–
Outstanding at end of year	2,262,000	1,600,000

The weighted average remaining contractual life of rights is 2.9 years (2016: 4.1 years)

Notes to the financial statements – Other disclosures (continued)

for the year ended 30 June 2017

F2. Share-based payments (continued)

Long-term incentives (LTI) cont

Options movements:

	Weighted average exercise price 2017	Number 2017	Weighted average exercise price 2016	Number 2016
Outstanding at the beginning of the year	\$0.63	20,000,000	\$0.63	5,000,000
Forfeited during the period	–	–	–	–
Granted during the period	–	–	\$0.63	15,000,000
Exercised during the period	\$0.63	(3,368,002)	–	–
Outstanding at end of year	\$0.63	16,631,998	\$ 0.63	20,000,000
Exercisable at end of year		1,631,998		1,000,000

The weighted average remaining contractual life of options is 3.7 years (2016: 4.7 years)

The weighted average share price on exercise of the options in the period was \$2.10.

The fair value of services received in return for options or performance rights granted to employees is measured by reference to the fair value of the options or performance 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 Monte Carlo simulation option pricing model.

Fair value of performance rights granted during the year and assumptions

	2017	2016
Fair value at measurement date	\$2.40	\$0.58
Share price at grant date	\$2.40	\$0.80
Performance rights life	2.62yrs	5.75yrs
Expected dividend yield	–	–
Risk-free interest rate	1.93%	2.66%
Historical volatility	30%	30%

Fair value of options granted during the year and assumptions

	2017	2016
Fair value at measurement date	–	\$0.30
Share price at grant date	–	\$0.80
Performance rights life	–	5.75yrs
Expected dividend yield	–	–
Risk-free interest rate	–	2.66%
Historical volatility	–	30%

Notes to the financial statements – Other disclosures (continued)

for the year ended 30 June 2017

F2. Share-based payments (continued)

Partly paid shares (PPS) – legacy scheme

Partly paid ordinary shares were issued in financial years prior to 30 June 2014. No further grants will be awarded under this scheme. A total of 8,750,000 PPS (2016: 11,300,000) remain unexercised as at 30 June 2017, held by three senior executives.

The PPS vest in tranches during the vesting period, with final vesting dates between July 2018 and April 2019 (settlement date). The employees have an unconditional right to put the partly paid shares to the Company prior to settlement date and receive a full refund of any monies paid.

Partly paid shares carry the same rights and entitlements, on a fractional basis, as fully paid ordinary shares, with such fractions being equivalent to the proportion which the amount paid is of the total amount paid and the amounts still payable on the shares.

Partly paid shares movements:

	Number 2017	Number 2016
Outstanding at the beginning of the year	11,300,000	26,740,000
Forfeited during the period	–	–
Exercised during the period	(2,550,000)	(15,440,000)
Outstanding at end of year	8,750,000	11,300,000
Exercisable at end of year	2,950,000	2,800,000

The weighted average remaining contractual life of PPS is 1.4 years (2016: 2.5 years)

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2017, a \$2,528,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2016: \$3,109,000).

Recognition and measurement

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

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:

	2017 \$'000	2016 \$'000
An audit or review of the financial report of the Group	434	416
Market research and tax advisory services	177	74
	611	490

F4. Subsequent events

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

Other information

Company disclosures	89
Corporate directory	IBC

Company disclosures

1. Substantial product holders

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

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the fully paid ordinary shares of the Company as at 30 June 2017 (such disclosure being required pursuant to Subpart 5 of Part 5 of the Financial Markets Conduct Act 2013 (NZ)) and as at 1 August 2017 (such disclosure being required pursuant to ASX Listing Rule 4.10.4):

Name	As at 30 June 2017		As at 1 August 2017	
	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
UBS Group AG	58,853,304	8.10	58,853,304	8.10
Challenger Limited	56,271,983	7.74	56,271,983	7.74
Colonial First State Asset Management	46,289,905	6.37	46,289,905	6.37
Commonwealth Bank of Australia	45,932,888	6.32	45,932,888	6.32
Greencape Capital Pty Ltd	43,888,093	6.04	43,888,093	6.04
Harbour Asset Management	36,953,295	5.08	36,953,295	5.08

The total number of voting shares on issue as at 30 June 2017 and 1 August 2017 was 726,988,067, consisting of 718,238,067 fully paid shares and 8,750,000 partly paid shares.

2. Voting rights

Each fully paid ordinary share of the Company gives 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.

Each partly paid ordinary share carries a fractional voting right, such fractions being the equivalent to the proportion which the amount paid is of the total amount paid and amounts still payable on the shares.

Company disclosures (continued)

3. Directors' relevant interests and share dealings

Directors and a former director of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2016 to 30 June 2017:

Name of Director/ Former Director	Registered holder	Beneficial/ Non-beneficial	Acquired/ (Sold) No's	Class of financial product	Date	Consideration paid/(received)
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(1,000,000)	Fully paid ordinary shares	25 Aug 16	(NZ\$2,125,838)
Warwick Every-Burns	Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Fully paid ordinary shares	29 Aug 16	AU\$147,910
Warwick Every-Burns	Kathryn Every-Burns	Beneficial	25,000	Fully paid ordinary shares	29 Aug 16	AU\$48,955
Peter Hinton	Peter Bruce Hinton	Beneficial	(50,000)	Fully paid ordinary shares	19 Oct 16	(AU\$94,480)
David Hearn	Lovat Partners Limited	Beneficial	1,000,000	Fully paid ordinary shares	15–17 Feb 17	NZ\$630,000 ¹
David Hearn	David Lovat Gordon Hearn	Beneficial	(1,000,000)	Fully paid ordinary shares	15–17 Feb 17	(NZ\$2,484,732) ¹
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(900,000)	Fully paid ordinary shares	17 & 20 Feb 17	(NZ\$2,242,060)
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(600,000)	Fully paid ordinary shares	08 May 17	(NZ\$2,108,349)
Richard Le Grice	Richard Oram Le Grice	Beneficial	15,000	Fully paid ordinary shares	10 May 17	NZ\$54,750
Jesse Wu	Jesse Jen-Wei Wu	Beneficial	27,000	Fully paid ordinary shares	19 June 17	AU\$105,041

¹ Reflects (i) issue of 1,000,000 ordinary shares following exercise of 1,000,000 options held by Lovat Partners Limited; (ii) subsequent transfer of 1,000,000 ordinary shares from Lovat Partners Limited to David Hearn; and (iii) subsequent sale by David Hearn of 1,000,000 ordinary shares on market

Directors of the Company held the following relevant interests in the financial products of the Company as at 30 June 2017:

Name of Director	Registered holder	Beneficial/ Non-beneficial	Balance held No's	Class of financial product
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	5,000,000	Partly paid ordinary shares
David Hearn	Lovat Partners Limited	Beneficial	4,000,000	Unlisted options to acquire ordinary shares
David Hearn	David Lovat Gordon Hearn	Beneficial	100,000	Fully paid ordinary shares
Julia Hoare	Julia Cecile Hoare	Beneficial	50,000	Fully paid ordinary shares
Peter Hinton	Peter Bruce Hinton	Beneficial	1,050,000	Fully paid ordinary shares
Warwick Every-Burns	Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Fully paid ordinary shares
Warwick Every-Burns	Kathryn Every-Burns	Beneficial	25,000	Fully paid ordinary shares
Richard Le Grice ¹	Richard Oram Le Grice	Beneficial	15,000	Fully paid ordinary shares
Jesse Wu	Jesse Jen-Wei Wu	Beneficial	27,000	Fully paid ordinary shares

¹ Retired on 30 June 2017

Company disclosures (continued)

4. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 1 August 2017 are listed below:

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	132,870,682	18.50
Citicorp Nominees Pty Limited	62,366,611	8.68
J P Morgan Nominees Australia Limited	43,426,734	6.05
National Nominees Limited	29,556,423	4.12
Accident Compensation Corporation	24,357,489	3.39
Citibank Nominees (NZ) Ltd	21,784,456	3.03
JPMORGAN Chase Bank	19,520,805	2.72
HSBC Nominees (New Zealand) Limited	18,742,186	2.61
Tea Custodians Limited	15,493,918	2.16
Cogent Nominees Limited	13,800,162	1.92
National Nominees New Zealand Limited	12,182,870	1.70
HSBC Nominees (New Zealand) Limited	10,630,770	1.48
Guardian Nominees No 2 Ltd	9,645,312	1.34
BNP Paribas Noms Pty Ltd	9,309,777	1.30
Premier Nominees Limited	7,870,600	1.10
Ulrike McLachlan	6,435,163	0.90
Bainpro Nominees Pty Limited	5,134,906	0.71
HSBC Custody Nominees (Australia) Limited Gsco Eca	4,949,819	0.69
New Zealand Superannuation Fund Nominees Limited	4,523,177	0.63
Citicorp Nominees Pty Limited	4,507,440	0.63
Total	457,109,300	63.66

Company disclosures (continued)

5. Spread of security holders as at 1 August 2017 and number of holders

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	Number of shares	%
1–1,000	7,186	4,173,638	0.58
1,001–5,000	9,999	27,182,675	3.78
5,001–10,000	3,398	26,172,153	3.64
10,001–50,000	3,069	63,859,626	8.89
50,001–100,000	359	25,747,922	3.59
100,001–500,000	238	46,040,272	6.41
500,001–1,000,000	23	16,260,323	2.26
1,000,001 shares or more	29	508,801,458	70.85
	24,301	718,238,067	100.00

As at 1 August 2017, the number of holders with between 1 and 99 ordinary shares (being less than a minimum holding under the NZX Listing Rules based on the closing market price) was 262 and the number of holders with less than a marketable share parcel of the Company's fully paid ordinary shares of AU\$500 (under the ASX Listing Rules), based on the closing market price, was 289.

b) Partly paid ordinary shareholders (unlisted securities not quoted by the ASX)

Size of Shareholding	Number of holders	Number of shares	%
1 to 1,000,000 shares	1	1,000,000	11.43
1,000,001 shares or more	2	7,750,000	88.57
	3	8,750,000	100.00

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

Size of holding	Number of holders	Number of options	%
1 to 1,000,000 options	1	800,000	4.81
1,000,001 options or more	6	15,831,998	95.19
	7	16,631,998	100.00

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

Size of holding	Number of holders	Number of rights	%
1 to 100,000 performance rights	18	852,000	37.66
100,001 to 1,000,000 performance rights	1	130,000	5.75
1,000,001 performance rights or more	1	1,280,000	56.59
	20	2,262,000	100.00

Company disclosures (continued)

6. Credit rating status

Not applicable.

7. NZX Waivers

On 22 August 2016, NZX granted the Company a waiver from NZX Listing Rule 9.1.1. The waiver allowed a wholly owned subsidiary of the Company to enter into a supply contract with a subsidiary of Synlait Milk Limited without obtaining shareholder approval.

On 19 October 2016, NZX granted the Company a waiver from NZX Listing Rule 5.5.1(b). The waiver allowed the Company to hold its Annual Meeting physically in Sydney, Australia and virtually using the Link Platform.

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 2017 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 on page 90

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

8.2 Other positions held

During the reporting period ended 30 June 2017, directors advised the Company of changes to interests in the following entities:

Name of Director	Entity	Position
Peter Hinton	Simpson Grierson	Changed from Partner to Special Counsel

Company disclosures (continued)

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

8.3 Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2017.

Subsidiary	Directors
A2 Exports Limited	Geoffrey Babidge Craig Louttit
a2 Australian Investments Pty Limited	Geoffrey Babidge Craig Louttit
a2 Botany Pty Ltd	Geoffrey Babidge Craig Louttit
The a2 Milk Company (Australia) Pty Ltd	Geoffrey Babidge Peter Nathan
A2 Infant Nutrition Limited	Geoffrey Babidge Simon Hennessy John Scott Wotherspoon
A2 Holdings UK Limited	Geoffrey Babidge Craig Louttit
a2 Infant Nutrition Australia Pty Ltd	Geoffrey Babidge Simon Hennessy Peter Nathan
a2 Exports Australia Pty Limited	Geoffrey Babidge Craig Louttit
The a2 Milk Company (New Zealand) Limited	Geoffrey Babidge Peter Nathan (Resigned: 2 March 2017) Julia Hoare (Appointed: 2 March 2017)
The a2 Milk Company Limited (Canada)	Geoffrey Babidge Craig Louttit
The a2 Milk Company Limited (UK)	David Hearn William Keane Geoffrey Babidge John Scott Wotherspoon
The a2 Milk Company (Delaware, USA)	Geoffrey Babidge Mel Miles (Resigned: 23 August 2016) David Hearn
The a2 Milk Company LLC (USA)	Geoffrey Babidge Craig Louttit
A2 Infant Nutrition (Shanghai) Co., Ltd (China)	John Scott Wotherspoon (Appointed: 19 September 2016)

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 on page 95.

8.4 Use of company information

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

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 New Zealand Overseas Investment Office will likely be required where an 'overseas person' acquires shares or an interest in shares in the Company that amount to more than 25% of the shares issued by the Company or, if the overseas person already holds 25% or more, the acquisition increases that holding.
- (iv) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

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

10. On-market buy-back

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

11. Donations

The Company and its subsidiaries have made donations of cash and inventories totalling NZ\$193,000 during the year ended 30 June 2017 (2016: NZ\$297,000), primarily related to donations of inventory to not for profit and charitable organisations including to Foodbank Australia, one of Australia's largest hunger relief organisations.

12. 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 2017.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range \$ (Gross)	Number of employees in the year ended 30 June 2017	Value of exercised options and rights included in remuneration range
\$100,000 – \$109,999	6	–
\$110,000 – \$119,999	4	–
\$120,000 – \$129,999	3	–
\$130,000 – \$139,999	4	–
\$140,000 – \$149,999	5	–
\$150,000 – \$159,999	1	–
\$160,000 – \$169,999	3	–
\$170,000 – \$179,999	2	–
\$180,000 – \$189,999	1	–
\$200,000 – \$209,999	1	–
\$230,000 – \$239,999	1	–
\$240,000 – \$249,999	2	–
\$250,000 – \$259,999	1	–
\$300,000 – \$309,999	1	–
\$320,000 – \$329,999	1	–
\$360,000 – \$369,999	1	–
\$510,000 – \$519,999	1	–
\$730,000 – \$739,999	1	\$298,000
\$740,000 – \$749,999	1	\$298,000
\$880,000 – \$889,999	1	\$546,000
\$1,050,000 – \$1,059,999	1	\$596,000
\$1,460,000 – \$1,469,999	1	\$832,492
\$1,870,000 – \$1,879,999	1	\$1,192,000
Total	44	\$3,762,492

The table includes base salaries, short-term incentives, vested performance rights and exercised options. The table does not include amounts paid after 30 June 2017 relating to FY17, long term incentives that have been granted and have not yet vested or been exercised (as applicable), 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.

Company disclosures (continued)

13. 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.

	2017 \$'000	2016 \$'000
EBITDA	141,153	54,576
Depreciation and amortisation	(2,689)	(2,742)
EBIT	138,464	51,834
Interest income	887	502
Interest expense	–	(37)
Income tax expense	(48,705)	(21,863)
Net profit after tax	90,646	30,436

Corporate directory

Company	The a2 Milk Company Limited c/o Simpson Grierson Level 27 88 Shortland Street Auckland 1010 New Zealand	Financial Advisor	Goldman Sachs New Zealand Limited Level 39 Vero Centre 48 Shortland Street Auckland 1010 New Zealand
----------------	---	--------------------------	--

New Zealand Share Registry	Link Market Services Limited PO Box 91976 Victoria Street West Auckland 1142 New Zealand Telephone: +64 9 375 5998	Auditor	Ernst & Young 200 George Street Sydney NSW 2000 Australia
-----------------------------------	--	----------------	---

Australian Share Registry	Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia Telephone: +61 1300 554 474	Bank	National Australia Bank 255 George Street Sydney NSW 2000 Australia Bank of New Zealand 80 Queen Street Auckland 1140 New Zealand
----------------------------------	--	-------------	--

Legal Advisors	Simpson Grierson Level 27 88 Shortland Street Auckland 1010 New Zealand Johnson Winter & Slattery Level 25 20 Bond Street Sydney NSW 2000 Australia	Registered offices	c/o Simpson Grierson Level 27 88 Shortland Street Auckland 1010 New Zealand Level 4 182 Blues Point Road McMahons Point NSW 2060 Australia Telephone: +61 2 9697 7000
-----------------------	--	---------------------------	---

Corporate investor website	www.thea2milkcompany.com
-----------------------------------	--



thea2milkcompany.com