

PIONEERS

The background of the entire page is a photograph of two hikers silhouetted against a bright sunset. They are standing on a rocky ridge, looking out over a vast landscape of rolling hills and a body of water. The sky is filled with soft, golden light and wispy clouds. The overall mood is one of adventure and exploration.

The
a2 Milk
Company

Annual Report
2015–2016



PIONEER;

noun

a person who is among the first to explore or settle a new country or area.

verb

develop or be the first to use or apply (a new method, area of knowledge, or activity).

synonyms

develop, evolve, begin, launch, initiate, take the lead in, give birth to, be the father/mother of, originate, set in motion, create, open up, lead the way for, lay the foundations of, blaze a trail, break new ground.



As the
A2 protein pioneers,
we are single-mindedly
determined to help
people enjoy
a better life.



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... a year in which
The a2 Milk Company has truly
transformed itself and made
extraordinary progress.



CHAIRMAN'S LETTER

It is a great pleasure to report on a year in which The a2 Milk Company¹ has truly transformed itself and made extraordinary progress – in market presence, in consumer awareness, in revenues and, ultimately, in earnings.

We started the year as a predominantly Australia focused brand with a significant and growing presence in the liquid milk market and an encouraging but still under-developed position in the infant formula market.

Outside Australia, we had footprints in China and the United Kingdom, with infant formula and liquid milk respectively; and had recently started on a supply and distribution build in Southern California, USA.

One year later, the picture is very different.

The Australian business is stronger still, with now two demonstrably successful brands – a2 Milk™ and a2 Platinum® infant formula – and a developing position being established in whole milk powder.

Brand awareness and consumer demand for a2 Platinum® infant formula in both Australia and China has grown exponentially, resulting in the creation of a significant revenue business and importantly contributing materially to our profitability. Importantly we believe that we have only just begun to scratch the surface of the opportunity in China and we see excellent prospects for further growth.

The UK business has successfully transitioned from a liquid milk focus to a premium specialty proposition across different product forms, with encouraging growth in sales rates and an improvement in our financial position as a result.

In the US, our build is taking longer than planned but is well under way, with distribution deepened in the original market and also extended to Northern California, the Pacific North West and Colorado. The results continue to validate what is clearly an attractive opportunity in this substantial and receptive market.

The outstanding progress of the past year has transformed our financial position, with earnings and cash flow considerably in excess of our expectations at the start of the year. Importantly, the equity raising carried out in October 2015 was instrumental in supporting the growth of the business, allowing us to execute our infant formula strategy – a key component of our success.

As advised along with the 2016 trading results, and in particular with the strong cash generation of the business, the Board will continue to review the Company's capital management strategy consistent with the requirements for ongoing growth of the business. This will be the subject of an update to the 2016 annual meeting, in November.

We have continued our program of board renewal, with the appointment of Peter Hinton as an independent non-executive Director. Peter is a highly regarded commercial lawyer who has advised the Company over many years and has very strong commercial skills and experience.


Shortly following the end of the financial year, Mel Miles elected to retire from the Board and Warwick Every-Burns was appointed an independent non-executive Director. Mel was a non-executive Director for six years, making a significant contribution to the Company, and will continue to do so in a consultancy role. Warwick has had a successful management career in global consumer goods companies Unilever, NationalPak and Clorox and is currently a Director of ASX-listed Treasury Wine Estates.

In parallel, the Board and senior management reviewed the Company's strategic position and direction, establishing a broader focus on dairy-based nutritional products centred on the unique strengths of the A1 protein-free proposition.

Our key priorities for the current year and beyond will be to consolidate the gains from the 2016 financial year and importantly continue to build our positions and the brands in our chosen development markets. We will also continue to develop our broader nutritional strategy over time.

The gains achieved in the 2016 financial year are due in large part to outstanding performance by our management team and their fellow employees. I take this opportunity to express the Board's appreciation for their efforts, and also to thank all shareholders for their continuing support of the Company.

I have no doubt that the Company has established a platform from which it can continue to grow and implement its long-term strategy with further success.



David Hearn
Chairman
16 September 2016

¹ The a2 Milk Company (or the "Group"), being The a2 Milk Company Limited ("Company" or "a2MC") together with its subsidiaries.

SIGNIFICANT GROWTH AND TRANSFORMATION

2000-2007

IP Company
licensing
knowledge to
others

FY07
\$7.6M*

2007-2012

Branded dairy
company
challenging
the industry

FY12
\$64.1M*

2012-2015

Branded dairy
company that
also makes
infant formula

FY15
\$155.1M*

*Group revenue NZ\$

TODAY



Dairy nutrition company
profitably making a
difference to peoples' lives

FY16

\$352.8M*





PORTFOLIO COMPOSITION¹

● Liquid milk ▨ Infant formula ● Other



¹Composition defined by net revenue per product type.



OUR EVOLVING STRATEGY

1

Continue to build a substantial premium milk business

- Strategic cornerstone of The a2 Milk Company
- Continue to build a substantial premium milk business in Australia
- Continue to build upon USA milk market entry
- Build sustainable premium milk presence in the UK
- Actively pursue China liquid milk opportunity utilising ANZ exports
- Investigate NZ liquid milk opportunity
- Explore other priority markets

2

Build a global infant nutrition business

- Extend from the nutritional start point of the a2 Milk™ brand into more advanced nutritional categories
- Leverage the Australian milk success to further develop the a2 Platinum® business
- Strengthen the a2 Platinum® brand presence and distribution in China
- Seek additional market opportunities

3

Establish an advanced adult nutrition business

- Extend from the nutritional start point of the a2 Milk™ brand into more advanced nutritional categories
- Continue to establish a2 Milk™ branded whole milk powder across ANZ and China
- Assess further opportunities to leverage the a2 Milk™ brand as a platform for a broader nutritionals portfolio in powder, liquid and/or supplement form
- Review application within core markets

4

Continue to invest in building distinct brands, an integrated IP portfolio and sponsoring a growing body of scientific evidence surrounding the A2 protein benefits (in the absence of the A1 protein)



The 2016 year brought significant progress in our evolution from a branded dairy products company to one increasingly focused on a broader nutrition platform.



- Total revenue of \$352.8 million – an increase of 127.4% over the prior corresponding period (pcp)
 - Net profit after tax of \$30.4 million, compared with a net loss after tax of \$2.1 million in the pcp
 - Group Operating EBITDA¹ of \$54.6 million, up from \$4.8 million²
 - Group Operating EBITDA as a percentage of sales, before investment in international growth, of 22.4%
 - Exceptional growth in sales of a2 Platinum[®] infant formula in Australia & New Zealand (ANZ) and China, with total revenue of \$214.4 million, up 414%
 - Continued growth of fresh milk in Australia, with total revenue up 4%
 - An improved financial performance in the United Kingdom, and further progress in repositioning the Company as a specialty milk supplier
 - Investment to support the a2 Milk™ launch programme in the United States
- (All currency amounts in NZ\$ unless stated otherwise)

CEO'S REPORT

Overview

The Group³ achieved a substantial lift in revenue and earnings in the 2016 financial year, with continued growth in the ANZ and China markets and further progress in its targeted investment in a number of international markets.

The ANZ business achieved exceptional growth in a2 Platinum[®] infant formula products, with continued steady volume growth in a2 Milk[™] branded fresh milk and initial sales of a2 Milk[™] branded whole milk powder.

Sales of a2 Platinum[®] infant formula in China grew strongly, and the China & other Asia business delivered positive operating earnings for the first time since the Company entered the China market.

The UK business delivered an improved financial performance as it continued to transition from a fresh milk focus to a broader portfolio strategy, while the focus for the US business remained on investment to grow distribution, consumer awareness and demand for a2 Milk[™].

The Company increased its overall investment in international growth and brand development from \$15.2 million in the 2015 financial year to \$20.5 million, in line with the strategy of expansion into target markets and product categories with significant growth potential.

The Company provided increased funding and support for relevant scientific research, and to develop and enhance its portfolio of brand assets and intellectual property. There was further progress in research around the digestive benefits of milk containing A2 beta-casein protein type in the absence of the A1 protein equivalent.

The 2016 financial year brought significant progress in the evolution from a branded dairy products company to one increasingly focused on a broader nutrition platform. Continued growth in the ANZ business, and infant formula in particular, has underpinned investment in targeted overseas markets and each of those positions was expanded during the year.

In China, there was a marked increase in sales of a2 Platinum[®] infant formula and a further expansion of the Company's supply chain following the changes made to distribution arrangements in the previous year.

In conjunction with those developments, the Company maintained a strong focus on understanding and adapting to changes in the regulatory environment for infant formula products in China. As a result of that focus, the Company considers itself well placed to respond to other potential changes over time.

The increase in demand for a2 Platinum[®] infant formula in Australia and China during the first half created challenges in balancing supply, production and logistics. These have been met in conjunction with our manufacturing partner Synlait Milk Limited (Synlait), and with an expansion of milk supply from affiliated farms in New Zealand. A new supply agreement was announced in August 2016 that strengthens the current business relationship between the Company and Synlait by providing certainty around medium term growth plans.

In the United States, we have been building distribution of fresh milk in California since our entry in April 2015 and now have distribution in over 1,800 stores. Progress has been behind our original plan given delays in achieving distribution with a number of larger retailers.

While the slower build represents a revision of our initial entry plans, it does not affect the fundamental characteristics of what remains a highly attractive market for the Company's branded products, nor our confidence in realising the opportunity.

In the United Kingdom, we have made pleasing progress in building sales rates of fresh milk and achieved an improvement in financial results.

Operating earnings

The annual result included:

- \$84.7 million EBITDA⁴ for the ANZ operations, an increase of 182% on the pcp
- \$9.2 million EBITDA⁴ for the China operations, up from a comparative loss of \$3.1 million
- (\$20.5) million EBITDA⁴ for the United Kingdom and United States
- Corporate and other costs before inter-company charges of \$18.8 million, compared with \$11.7 million in the pcp
- Income tax charge of \$21.9 million, compared with \$3.4 million in the pcp
- Basic earnings per share (EPS) of 4.43c and diluted EPS of 4.31c, compared with (0.33c) and (0.32c) for the pcp

The increase in corporate and other costs was due primarily to higher employee share scheme expenses, increased research and development costs, legal expenses and costs associated with international growth initiatives.

¹ Operating earnings before interest, tax, depreciation and amortisation (EBITDA) is a non GAAP measure, but the Company believes that it provides 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 49.

² Before non-recurring items in FY15 of \$1.7 million, representing costs associated with the Company's listing on the Australian Stock Exchange (ASX).

³ The a2 Milk Company Limited ("Company" or "a2MC") and its subsidiaries (together the "Group").

⁴ Before intercompany charges. Intercompany charges include licence fees and management fees payable to the Corporate Segment, and marketing and herd testing costs payable by the Corporate Segment.

CEO'S REPORT (CONT.)

Positive cash flow in the second half of the year, along with an equity raising carried out in October 2015, resulted in cash on hand of \$69.4 million at 30 June. Net operating cash flow for the year was \$21.5 million, compared with (\$8.1) million in the pcp.

The equity raising comprised a placement to institutional investors and shareholders to raise \$40 million and a Share Purchase Plan to raise a further \$3 million, both of which were substantially oversubscribed. This was undertaken primarily to fund the increase in working capital associated with the significant growth in infant formula sales and to maintain a conservative approach to managing the Company's capital position.

Strategic focus

The strategy of the Company is evolving consistent with its recent success in infant nutrition. For FY16, infant nutrition products represented 61% of total revenue and a higher proportion of earnings. These proportions are anticipated to increase further in FY17.

While the largest proportion of sales was within the Australian grocery and pharmacy channels, direct sales into China increased significantly and are expected to continue to do so.

The Company is focused on building a portfolio of dairy-based nutritional products centred on the unique strengths of the A1 protein-free proposition. The broader nutritional strategy, from Infant through to Adult products, represents a natural evolution that the Company expects to be more attractive in the medium term than one based purely on traditional dairy.

We remain focused geographically on growing the ANZ and China businesses and developing the market opportunities in the United Kingdom and United States. In the coming year we will also begin to explore growth initiatives in other priority Asian markets.

a2 Milk™ branded whole milk powder in retail packs was launched in June 2015, building sales in Australia and China. Further opportunities for this range, and for infant nutrition, are under review. a2 Ice Cream™ was also launched into a number of retailers in Australia from August 2015.

We are progressing plans for the New Zealand liquid milk market after the expiry of the last remaining non-exclusive licence with Fresha Valley in May 2017.

We recognise increased interest in A1 protein-free products from competitors following the recent expiry of two of the founding patents registered by the Company, along with increasing awareness by consumers.

From an overall market perspective, such interest is likely to increase the awareness and credibility of the A1 protein-free proposition. Moreover, the breadth and depth of the Company's intellectual property portfolio, together with its first mover advantage, is expected to continue to provide a protected position in its core markets.

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. The patent portfolio also remains strong, with 14 families of patents granted or in application at the end of the year. These cover a range of compositional benefits and therapeutic uses of A1 protein-free products, with protection for some applications through to 2035.

The Company will continue to actively protect its intellectual property rights. Meanwhile it remains open to cooperation with other parties in specific product or market segment opportunities.

ANZ

The ANZ business continued to perform very strongly, with sales and operating earnings in Australia substantially above those for the prior year. Total revenue across all product categories increased by 99% to \$296.3 million, and Operating EBITDA before intercompany charges was \$84.7 million, an increase of 182%.

Fresh milk sales increased by 4% aided by growth in emerging retailers, compared to flat category growth within mainstream grocery. Market share of a2 Milk™ branded fresh milk in Australia remained broadly stable at approximately 9.3% by value within mainstream retailers (Australian Grocery Weighted Scan, 3 July 2016, MAT). The result was assisted by a new "Believe in Better" marketing campaign encompassing the expanded product range of milk and infant formula. The Company is now ranked one of the highest in terms of advertising spend for fresh milk in Australia to support its market position and is the only dairy brand distributed by all six key grocery retailers in Australia.

Consistent with the Company's policy of vigorously protecting its brand and intellectual property portfolio, the Australian business initiated Federal Court action against a competitor for alleged misleading and deceptive conduct around the competitor's 'contains A2 protein' product claim.

a2 Platinum® has been the fastest growing infant formula brand in the Australian market during FY16. Its most recent market share in the grocery and pharmacy channels approximated 16% for the 52 weeks ending 5 July 2016 by value. The Company is anticipating further growth in infant formula sales in the coming year.



“The group achieved a substantial lift in revenue and earnings in the 2016 financial year.”

CEO'S REPORT (CONT.)

China

Total China sales grew strongly, with the segment revenue up from \$4.1 million to \$38.2 million and Operating EBITDA before intercompany charges up from (\$3.1) million to \$9.2 million, delivering a positive EBITDA for the region for the first time.

Growth reflected the increasing market profile of the Company and the a2 Platinum® brand, along with rising interest among Chinese consumers in matters of health and nutrition.

a2 Milk™ branded fresh milk sourced from Australia continued to grow and received increased exposure following the independent publication of a human clinical study conducted by Professor Sun Jianqin, as detailed below.

The Company has been progressively building a sales and distribution platform in China, and has invested significantly in marketing activity and sales support. The platform comprises:

- Local distribution, sales and marketing expertise in Shanghai, with supporting capabilities in health and nutrition
- Distribution through e-commerce channels including JD.com, Tmall, Kaola, VIP.com, and other emerging e-commerce platforms
- Distribution through approximately 1,450 mother & baby stores served by 42 distributors at fiscal year-end, with plans to continue to expand in Tier A and B cities
- An exclusive distributor agreement for five key provinces in China with DKSH (China) Co., Ltd, a well credentialed distributor in key Asian markets

These arrangements provide direct control of what is now a multi-product, multi-channel strategy for the China market. They represent a major reorganisation and expansion since late 2014, when the Company assumed sales and distribution responsibility from its former exclusive distributor.

The new structure and increased marketing support is delivering strong consumer engagement with The a2 Milk Company brands.

The a2 Milk Company™ store on Tmall was launched in July 2015, and the Company's presence on JD.com was launched in September 2015, selling a2 Platinum® infant formula direct to consumers.

The Company participated successfully in a number of online sales events including the high-profile "11/11" Singles Day sales event in November, Chinese New Year in February and an event in June. a2 Platinum® was showcased at the annual Children Baby Mother Expo in Shanghai in July 2015.

A key focus during the year was to manage the potential impact of changes to the infant formula regulatory environment. Changes announced during the year involved:

- Taxation of Cross-Border E-Commerce (CBEC) traded commodities – with the impact being an increase in taxation on larger consignments sold from the bonded warehouse / free trade zone in China
- Publication of product lists for CBEC traded commodities through China free trade zones – with the key implications for the Company being the inclusion of infant formula and whole milk powder products on 'positive lists'
- A Registration Rule for domestic and imported infant formula products, under which these have until 1 January 2018 to complete formulation registration with the China Food and Drug Administration

The Company believes it has responded satisfactorily to this phase of regulatory activity. We continue to adjust our manufacturing and distribution model in response to the changes, while remaining alert to potential future changes in the regulatory environment. A key agenda item in FY17 will be the future requirements for product registration and the Company is confident of meeting the requirements.

United States

The US business, commenced in Southern California from April 2015, made progress in building distribution while creating an initial marketing and communication platform. Distribution was extended to Northern California from September 2015 and to a number of retailers in the Pacific Northwest and the home market of Colorado from January 2016.

a2 Milk™ branded milk is available in four variants within the specialty milk section, the fastest growing segment of the total milk category.

While the business achieved broad trade acceptance across the state of California, the distribution build at store level has been slower than anticipated and sales performance has therefore been below the year's target. Distribution was achieved in the important Safeway chain in Northern California from February 2016, and we continue to work with Safeway Southern California to achieve distribution during FY17. Distribution in two additional accounts, Trader Joe's and Target, has been achieved since the financial year's end.

Sales focus remains on building unit sales per store per week (UPSW) relevant to the speciality milk category and pleasing progress has been made in our key retailer accounts. Marketing has included online activity, promotional programmes and television advertising focused on the Los Angeles and San Francisco markets.

Milk supply is centred on farms in Nebraska and the North East and the business has initiated a best practice on-farm management programme with suppliers. Operational support from the foundation contract processor, Byrne Dairy, has been important during the establishment phase and the business recently concluded an agreement with a second contract processor located in California. In conjunction with Byrne, this will enable the business to service the West Coast more efficiently and be well positioned for growth in new markets over time.

The US business' Chief Executive, Jeffrey O'Neill, encountered a serious health issue during the first half and has been replaced by another highly experienced executive, Blake Waltrip, who is already making a very strong contribution. We thank Jeff for his contribution during the year.

Notwithstanding the delay in achieving the desired level of distribution, the business is well positioned to move forward, albeit with higher establishment costs than originally anticipated. Our plan remains to focus on achieving the targeted distribution, sales velocity and consumer awareness targets in California before expanding into further markets.

The plan now assumes further Investment of approximately \$US20-25 million over the next two to three years prior to positive monthly EBITDA.

United Kingdom

The business returned a better than breakeven result for the fourth quarter of FY16 and anticipates a breakeven result for the full year FY17.

The UK business is migrating from a fresh milk focus to a portfolio strategy encompassing liquid milk and infant formula, and potentially products sold through distributors or under license in Europe. a2 Platinum® infant formula was introduced to the wholesale market from earlier in the year and UHT long life milk became available from September 2015.

Sales of a2 Milk™ branded fresh milk, whilst modest, continued to show growth, particularly in the last quarter. Distribution was stable in key retailer accounts, but the business continued to seek ways to increase facings in-store.

The business continues to improve point of sale presence, has undertaken targeted promotional activities and continues to build relationships with the health care professional community. A new 'a2tonishing' marketing campaign was developed and launched from May 2016 and will continue during FY17.

The business continues to be well supported by its fresh milk manufacturing partner Müller Milk & Ingredients and has recently negotiated an extension to its packaging agreement.

Science, research and development

Scientific understanding of the benefits from consumption of milk products containing only the A2 beta-casein protein type has continued to accumulate. This reflects the work of a number of institutions, some of which have been supported in financial and/or practical terms by the Company.

In December 2015 the New Zealand Government committed \$1.1 million over three years to High Value Nutrition research in association with AgResearch, a Crown Research Institute, and The University of Auckland.

In April 2016 the results of a study led by Professor Sun Jianqin from Huadong Hospital, an affiliate of the renowned Fudan University in Shanghai, were published in the UK-based Nutrition Journal. These indicated that digestive discomfort caused by the A1 protein can be avoided by consuming milk with only the A2 protein.

Several new research studies have been initiated, including:

- An expanded clinical trial in China, involving 600 participants, to build upon findings from the successful China study published in FY16
- Further clinical trials in China to assess the benefits of the A2 beta-casein protein amongst pre-schoolers and infants
- A clinical trial in the United States with a leading biomedical research centre into the benefits of a2 Milk® for digestive function

The Company will continue to provide support for research to clarify the consumer benefits of milk products containing only the A2 beta-casein protein type.

Outlook

The Company expects continued growth in the 2017 financial year, in particular from infant formula and milk powders in Australia and China and improved momentum in the US business. Whilst there are changing regulatory dynamics in the China market, the Company remains confident in the medium term opportunities and its ability to adapt to the evolving market circumstances.

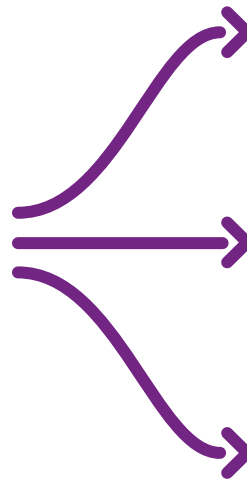


Geoffrey Babidge
Managing Director and CEO
16 September 2016

THE a2 MILK™ BRAND DIFFERENCE



Genetic variation occurred in European herds via migration and modern farming practices



Originally all cows produced milk containing only A2 protein type

Understanding that there are differences in beta-casein protein is only the start of the a2 Milk™ brand difference.

01

a2MC apply cow and farm selection procedures in the first instance

02

Assist accredited farmers to implement breeding, herd formation and maintenance procedures



All conventional milk contains a mix of A1 and A2 proteins

The a2 Milk™ brand naturally contains only the A2 protein and is free from any A1 protein

03

Codified milking, storage and transportation procedures to ensure A1 protein-free integrity throughout the supply chain from cow to cup

04

Integrated portfolio of intellectual property (IP), confidential information, advanced record keeping, proprietary testing (including strategic partnerships with third party laboratories) and standards associated with ensuring highest quality and product integrity of final products being sold and marketed

05

Continuing to build research and development investment to generate new IP in the areas of product benefits or improved operational effectiveness

THE SCIENCE TIMELINE

The foundation of differences between the A1 and A2 protein types has been growing and strengthening over recent years. In particular:

- The structural difference between A1 and A2 proteins leads to a difference in how they are broken down during digestion
- A1 protein releases a fragment upon digestion called BCM-7 that has been demonstrated to interact with aspects of digestive function (this doesn't occur with A2 protein)
- Recent human trials report consumption of the A1 protein can delay gut transit and trigger inflammation in human gut cells and tissue, leading to symptoms of milk digestive issues

2014- 2016

- New Zealand government awards a NZ\$1.1M research grant in partnership with AgResearch and The University of Auckland to further understand A1 and A2 protein digestion differences
- Human clinical trial reports digestive advantages of a2 Milk™ to Chinese participants
- Study demonstrates underpinning mechanism of a2 Milk™ digestive benefits
- A trifecta of rodent studies report benefits of A1 protein-free products to digestive outcomes
- First clinical trial into adult digestion reports potential suitability of a2 Milk™ to some consumers with milk digestive issues

2000'S

- A1 & A2 proteins reported to break down differently during digestion; established that A1 protein produces fragment BCM-7, but A2 protein does not
- Research on effects of beta-casein fragments from A1 vs A2 establish that BCM-7 can bind and interact with a range of tissues (including gut tissues)

1990'S

- Dr Corran McLachlan joins Prof Elliott in his research as it focuses on beta-casein protein

1980'S

- Prof Robert Elliott begins research into health effects of A1 vs A2 beta-casein protein types

1960'S

- Beta-casein protein first observed to exist as predominantly two different types: A1 & A2

THE DIFFERENCE OCCURS UPON DIGESTION

1

Conventional milk contains both A1 and A2 beta-casein protein types is consumed

2

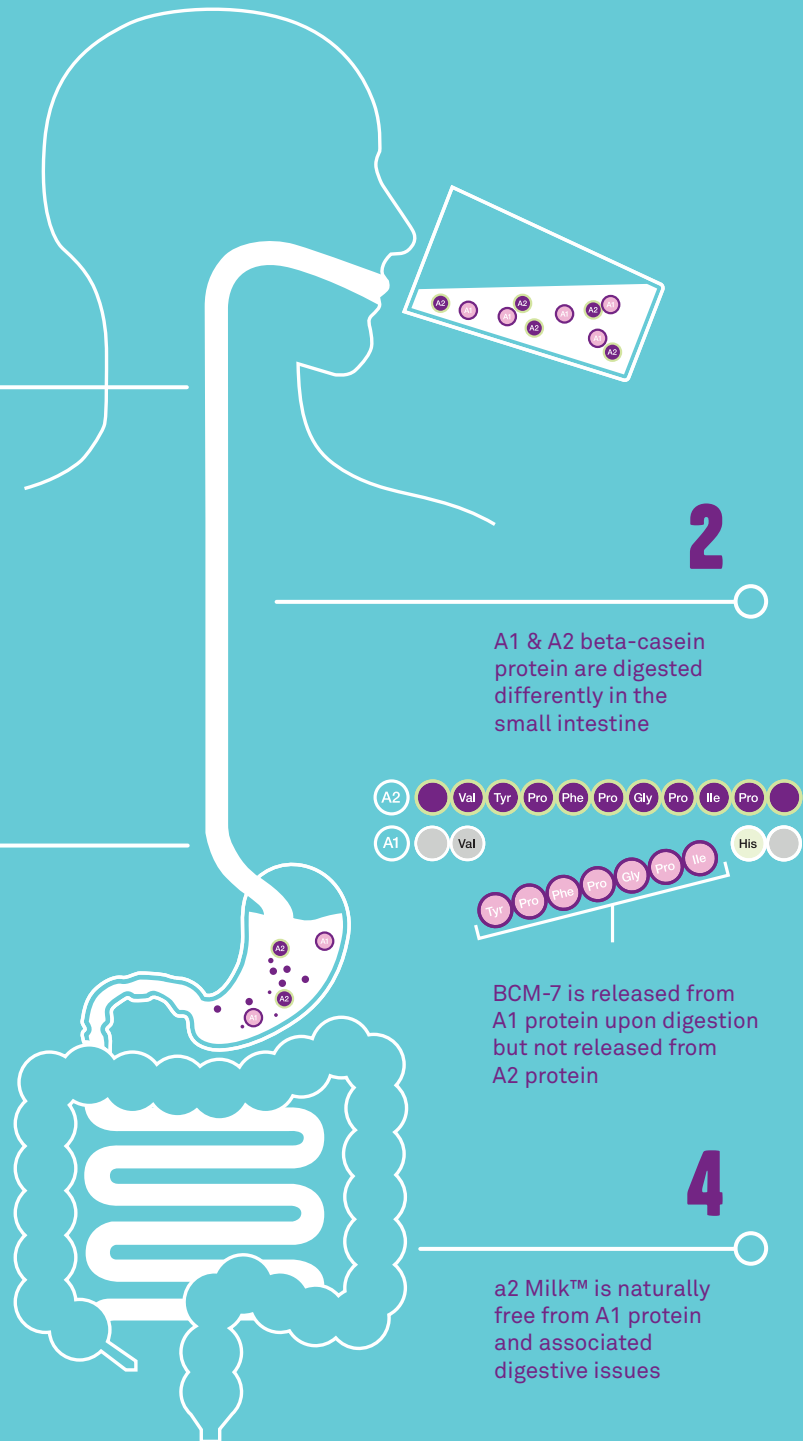
A1 & A2 beta-casein protein are digested differently in the small intestine

3

BCM-7 from A1 protein type can trigger inflammation and consequently gastrointestinal symptoms in some people

4

a2 Milk™ is naturally free from A1 protein and associated digestive issues



OUR COMMUNITY

Liz (Australia)

“Members of my family have all had problems with milk. We switched to a2 Milk™ about a year ago and the issues disappeared. The big bonus is that we are also supporting our dairy farmers!”



Beverly (USA)

“This milk has been a game changer for our family. We can start eating our favorite foods again.”



Siobhan (Australia)

“I wish this had been around with my first born. It has been amazing for my son who had an upset tummy on 3 other brands we tried first then within 5 days on a2 he was the happiest baby, no constipation, no wind, a different kid. Hands down the best.”

Andrew (UK)

“a2 Milk™ has allowed myself and 8 year old son to enjoy milk again without suffering from the issues we had from standard milk.”



Kristin (USA)

“This stuff changed my life.”

GOVERNANCE & DISCLOSURES

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Director profiles

David Hearn
Chairman & Executive Director
Master of Arts
Director since February 2014

David has been Chairman of the Company since 30 March 2015. David is also a member of the Nomination and Remuneration Committees. David has experience and skills in executive management, sales and marketing and strategy development in Fast Moving Consumer Goods (FMCG) in international markets. He has held senior executive roles including Chief Executive Officer or Managing Director roles for FMCG companies including Goodman Fielder Limited, UB Snack Foods Europe/Asia, Del Monte UK and Smith's Crisps and for the marketing services group, Cordiant Communications Group.

In addition to his a2MC directorship, David is also the Executive Chairman of LifeCare Residences 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, MInstD¹
Director since November 2013

Julia has been Deputy Chairman of the Company since 30 March 2015. Julia is also Chairman of both the Nomination Committee and the Audit and Risk Management 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.

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

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. Julia resides in New Zealand.

Geoffrey Babidge
Managing Director & Chief Executive Officer (CEO)
Bachelor of Economics
Director since September 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.

Richard Le Grice
Non-Executive Director
Bachelor of Laws
Director since February 2007

Richard has experience in management of, and as a shareholder in, a number of private companies. He brings considerable international experience with these companies operating in a number of countries including Australia.

In addition to his Company directorship, Richard is also a director of several other companies including Thode Knife & Saw Limited. Richard is Chairman of the Remuneration Committee and a member of both the Audit and Risk Management Committee and the Nomination Committee. Richard resides in New Zealand.

Peter Hinton
Non-Executive Director
Bachelor of Commerce; Bachelor of Laws (Hons); Master of Laws (Harvard)
Director since February 2016

Peter is a partner at law firm Simpson Grierson in New Zealand and is a highly regarded commercial lawyer 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 was appointed to the Board with effect 16 February 2016. Peter resides in New Zealand.

¹Member of the Institute of Directors (New Zealand)

Director profiles cont.

Melvyn Miles

Non-Executive Director

Bachelor of Science (Hons)

Director from July 2010 to August 2016

Melvyn 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.

Until his retirement as a director in August 2016, Melvyn was a member of both the Audit and Risk Management Committee and the Remuneration Committee. Melvyn resides in Australia.

Warwick Every-Burns

Non-Executive Director

Advanced Management Program (Harvard)

Director since August 2016

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 an earlier 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.

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 will be of significant value to the Company.

Warwick was appointed to the Board with effect 23 August 2016. Warwick 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 & Company Secretary

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.

Peter Nathan

Chief Executive, Australia & New Zealand

Bachelor of Business (Marketing)

Peter joined the Group in 2008 and in 2010 took on the role of Chief Executive of the Australia and New Zealand region. During his time with the Company, Peter has led the successful re-launch of a2MC branded milk in the Australian market. He 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.

Executive team cont.

Scott Wotherspoon

*Chief Executive,
UK and China*

*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). More recently Scott's role has expanded to include responsibility for the China business. Prior to his appointment 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 also received a degree from Cambridge University.

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 Nestle USA beverage brands.

Susan Massasso

Chief Marketing Officer

*Bachelor of Commerce
(Accounting/Marketing)*

Susan has over 18 years' experience in the FMCG industry. She joined the Group in September 2013 as Chief Marketing Officer with oversight of marketing and brand development across all markets. Susan held several senior leadership positions across the Campbell Arnott's business including Asia Pacific Regional Marketing Director. Prior to this she held a number of commercial roles including Marketing Director Arnott's ANZ, Marketing Director Campbell's ANZ and General Manager Campbell's ANZ. Prior to this Susan spent a number of years at Unilever where she held a number of marketing, consumer insight and logistics roles. Susan attended the University of Sydney under scholarship from accounting firm Price Waterhouse where she also gained undergraduate employment throughout her degree.

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, CSCP²
(APICS)*

Shareef joined the Group in June 2012. He has over 13 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.

²Certified Supply Chain Professional

Corporate governance framework

The a2 Milk Company Limited (the “Company” or “a2MC”) is a company incorporated in New Zealand under the Companies Act 1993 (NZ) (Companies Act) and is listed on the New Zealand Main Board (NZX) and the Australian Securities Exchange (ASX).

The Board of a2MC is committed to ensuring that the Company maintains 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.

The Company’s corporate governance framework has been developed with regard to:

- the NZX Listing Rules and the NZX Corporate Governance Best Practice Code (NZX Code);
- the Financial Markets Authority’s Corporate Governance in New Zealand: Principles and Guidelines³; 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 Code.

For the year ended 30 June 2016, a2MC considers that its corporate governance framework materially aligns with the NZX Code, except where noted below:

<p>NZX Code, section 2.4 Directors should undertake appropriate training to remain current on how to best perform their duties as directors</p>	<p>The Company does not have specific training requirements for its directors. However, directors undertake their own training. The Nomination Committee has considered and is satisfied that the composition of the Board reflects an appropriate range of skills and experience for a2MC to effectively discharge its responsibilities.</p>
<p>NZX Code, section 2.7 Directors are encouraged to take a portion of their remuneration under a performance-based equity security compensation plan</p>	<p>The Directors do not take a portion of their remuneration as directors under a performance-based equity security plan.</p>

For the financial year ended 30 June 2016 a2MC considers that its corporate governance framework adhered to the recommendations in the ASX Principles, except where noted below. Where a recommendation in the ASX Principles has not been followed by a2MC, the reason(s) for not following the ASX Principles⁴ is/are also stated below:

<p>ASX Recommendation 2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board has or is looking to achieve in its membership</p>	<p>The Nomination Committee is in the process of developing a skills matrix for adoption by the Board and for publication in future annual reports.</p> <p>As a result of the changes in Board composition and ongoing development of the Company, the Board has determined that the Nomination Committee should be afforded more time to complete its work.</p> <p>Refer to ‘Board skills, size and structure’ on page 30 for more information.</p>
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³December 2014

⁴The ASX Corporate Governance Council has instilled an “if not, why not” approach with regard to reporting the Company’s compliance with its recommendations

Corporate governance framework cont.

ASX recommendation 2.4

A majority of the board should be independent directors

Between 1 July 2015 to 14 August 2015, the Company had five directors of whom the Board considered only two (Julia Hoare and Richard Le Grice) were independent for the purposes of the ASX Principles. Following his resignation as a director of Freedom Foods Group Limited (at the time, a substantial shareholder of the Company), the Board considered that then Director Melvyn Miles was also an independent director and independent directors comprised the majority of the Board.

From the appointment of Peter Hinton on 16 February 2016, the Company had six directors for the remainder of the reporting period of whom the Board considered four (Julia Hoare, Richard Le Grice, Melvyn Miles and Peter Hinton) to be independent.

In August 2016, Melvyn Miles resigned as a director and was replaced by Warwick Every-Burns. The Board considers Mr Every-Burns to be independent.

The independence of the directors is discussed further on pages 30 and 31.

The Board believes that the current mix of directors is appropriate for the Company's business and circumstances and is in the best interests of shareholders as a whole. Further, the Board believes that, the Board as a whole is not hindered in its ability to exercise independent view and judgement. The Chair of each Board sub-committee is an independent director.

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. The Board does not consider David to be an independent director for the purposes of the ASX Principles because he has a limited executive role with the Group. The Board is confident that David is capable of exercising independent view and judgement in exercising his role as Chairman. Further, the Board believes that the significant skills and experience gained in other businesses that David brings to the role of Chairman outweighs any perceived lack of independence.

The Board is mindful of the recommendation that the Chairman be an independent director and will continue to review David's performance in that capacity in the context of prevailing circumstances and the needs of the Company.

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

ASX recommendation 8.1(a)(1)

The board should have a remuneration committee which has at least three members, a majority of whom are independent directors

Throughout the reporting period the Remuneration Committee consisted of Richard Le Grice, Melvyn Miles and David Hearn. Whilst a majority of the members of the Committee during the reporting period were non-executive directors, between 1 July and 14 August 2015, the majority were not independent directors for the purposes of the ASX Principles as David Hearn and Melvyn Miles are not considered independent directors for the reasons outlined on page 31. Following his resignation as a director of Freedom Foods Group Limited (at the time, a substantial shareholder of the Company), the Board considered that existing Director Melvyn Miles was also now an independent director and independent directors comprised the majority of the Remuneration Committee.

The Board believes that the members of the Committee as a whole are not hindered in their ability to exercise independent view and judgement. Further, the Board believes the Committee maintains its independence as the Remuneration Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration.

The Remuneration Committee is chaired by Richard Le Grice, who is considered an independent director for the purposes of the ASX Principles.

This Corporate Governance statement is current as at 30 June 2016 (except where otherwise specified) and has been approved by the Board.

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 of the Board is set out in the Board Charter, which records the Board's roles and responsibilities. A copy of the Board Charter is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

The Board delegates certain functions to its three Board Committees (Audit and Risk Management Committee, Remuneration Committee and Nomination Committee). The role of each of these Committees is outlined on pages 33 to 35.

Board procedures ensure that all directors have the information needed to contribute to informed discussion on all monthly 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 clause 6 of the Board Charter and includes to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Chief Executive Officer. The Board supports the separation of the role of the Chairman (Mr David Hearn) and Chief Executive Officer (Mr Geoffrey Babidge) in accordance with the requirements of the NZX Code and the ASX Principles. The ASX Principles recommend that the Chairman should be an independent director. Mr David Hearn is not considered an independent director for the reasons outlined on page 31. However, the Board is confident that Mr David Hearn is capable of exercising an independent view and judgement in exercising his role as Chairman.

Role of Company Secretary

The Company Secretary, Craig Louttit, 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 clause 15 of the Board Charter.

Board size, skills and structure

At 30 June 2016, the Board comprised six directors (four 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 Nomination Committee has considered and is satisfied that the composition of the Board reflects an appropriate range of skills and experience for a2MC to effectively discharge its responsibilities. A description of each director's skills and experience of relevance to the Company and his or her term of office is set out in the 'Director Profiles' section commencing on page 25.

Nomination Committee

The Company's Nomination Committee is responsible for regularly reviewing the size, composition and skills of the Board to ensure that the Board is able to discharge its duties and responsibilities effectively and to identify any gaps in the skills or experience of the Board. The Nomination Committee is also responsible for reviewing the performance of the Board.

The Board Charter provides that it is intended the Board should, where practicable, comprise directors with a broad range of skills, expertise, and experience from a diverse range of backgrounds that is relevant to the Company and its strategy.

Director independence

The Board Charter provides that it is intended that, the Board should, 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

The Board cont.

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 Code. Based on those rules and recommendations, directors are considered to be independent by the Board if they are a non-executive director and he or she is 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.

As at 30 June 2016 the Board considered that Richard Le Grice, Julia Hoare, Melvyn Miles and Peter Hinton were independent directors.

Each of Richard Le Grice and Julia Hoare has been considered an independent director throughout the reporting period.

Melvyn Miles has been considered an independent director since 14 August 2015, the date he resigned as a director of Freedom Foods Group Limited (at the time, a substantial shareholder of the Company).

Peter Hinton has been considered an independent director since he was appointed on 16 February 2016. Although Peter is a partner of Simpson Grierson, a New Zealand law firm which provides legal services to the Company and has

himself participated in providing those legal services, the Board considers him to be independent. 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.

As at 30 June 2016, the Board considered that David Hearn and Geoffrey Babidge were not independent directors for the following reason(s):

- Chairman and Executive Director, David Hearn, was not considered to be independent because of his executive role in relation to the Group's business in the Northern Hemisphere. David brings a strong skill set in executive management, sales and marketing and strategy development in fast moving consumer goods in international markets. The Company believes that David's extensive experience in the industry and in business generally is invaluable and outweigh any perceived lack of independence
- CEO, Geoffrey Babidge, was not considered to be independent because of his executive role with the Company. Geoffrey was appointed to the Board in 2010 and has over 30 years senior management experience in the industry

Prior to 14 August 2015, Melvyn Miles, was not considered to be

independent because he was also a director of a substantial shareholder of the Company, Freedom Foods Group Limited. Melvyn was appointed to the Board in 2010 and has over 30 years domestic and international senior executive experience in the industry. During his service as a director, Melvyn brought extensive experience and in-depth knowledge of the industry to the Company and the Board considers that the interests of shareholders were well served by the contribution of Melvyn.

Whilst, the Board did not prior to 14 August 2015 comply with the ASX Principle that a majority of the Board should be independent directors, the Board considers that at all times during the reporting period it had an appropriate mix of skills, experience and independence to ensure that the Company was governed in a manner that ensured that the best interests of shareholders as a whole were represented. The Board is also confident that proper processes were in place to manage any actual or potential conflicts of interest. The Board Charter outlines the Board's policy on conflicts of interest.

Nominations, appointments and ongoing education

The Company's process for selection, appointment, and re-appointment of directors is detailed in the Nomination Committee Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

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 Board cont.

the composition of the Board to ensure the right composition of directors is maintained.

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

- the candidate’s experience as a director;
- their skills, expertise and competencies;
- the extent to which those skills complement the skills of existing directors;
- their degree of independence; and
- their ability to devote sufficient time to the directorship

The Company undertakes appropriate checks before appointing a person or putting forward to shareholders a new candidate 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 information to shareholders about directors seeking re-election at a general meeting to enable them to make an informed decision on whether or not to re-elect the director, including their relevant qualifications and experience and the skills they bring to the Board, details of any other material directorships currently held by the candidate, the term of office already served by the director, whether the director is considered to be independent, and a recommendation by the Board in respect of the re-election of the director.

The Company will, in the case of a candidate standing for election as

a director for the first time, provide information to shareholders about the candidate to enable them to make an informed decision on whether or not to elect the candidate, including any material adverse information revealed by any checks the Nomination Committee has performed on the candidate, details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect the candidate’s capacity to exercise judgement on Board matters or to act in the best interests of the Company and its shareholders, the Board’s view on whether the candidate will be considered to be an independent director, and a recommendation by the Board in respect of the election on the candidate.

On appointment to the Board, directors receive a formal letter of appointment outlining their duties and obligations, and participate in an induction program, which provides new directors with all such information and advice which may be considered necessary or desirable for the director to commence their appointment to the Board.

To ensure ongoing education, directors are regularly informed of developments that affect a2MC’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.

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.

Board renewal

In conjunction with the Company’s listing on the ASX on 31 March 2015, the Board brought into effect a number of changes consistent with the process of review and renewal of the Board, which the Company commenced during 2013. The following changes took place prior to the ASX listing:

- Clifford Cook resigned as both Chairman and a Director of the Company
- David Mair resigned as a Director of the Company
- David Hearn assumed the role of Chairman of the Company
- Julia Hoare assumed the role of Deputy Chairman of the Company

The reasons for these changes are discussed in the 2014/2015 Annual Report.

During the reporting period ended 30 June 2016, the Company continued its program of Board renewal with the appointment of Peter Hinton as an additional independent non-executive director on 16 February 2016. The Board had previously indicated its intention to broaden its independent directorship and Peter’s appointment is consistent with this messaging. Peter’s skills, experience, and expertise can be found in the ‘Director Profiles’ section on page 25.

On 23 August 2016 the Board announced the appointment of Warwick Every-Burns as an

The Board cont.

independent non-executive director of the Company. 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 will be of significant value to the Company.

Consistent with the ongoing process of Board renewal, Melvyn Miles determined the time was appropriate for him to retire as a non-executive director of the Company with effect 23 August 2016. Melvyn had been a director since July 2010 and had been a highly engaged contributor at Board level and assisted management in a number of advisory roles during his tenure. Melvyn continues to advise the Company in a consultancy role.

Performance review of the Board and individual directors

The Board recognises that the performance of the directors and the Board 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 annual assessment of the performance of the Board and individual directors against the relevant charters, corporate governance policies, and agreed goals and objectives.

During the period, the Board engaged a third party professional service provider to carry out performance evaluations of the Board and individual directors. The appropriateness of the Board renewal program was confirmed.

Performance review of senior executives

The Board ensures that a formal, rigorous evaluation process of the performance of all senior executives, including the Chief Executive Officer, is conducted annually. The results of its evaluation process are subsequently reviewed by the Remuneration Committee and ratified by the full Board.

See page 39 under the heading: 'Managing executive performance'

for the details of the evaluation process.

For the financial year ended 30 June 2016 a performance evaluation of the Chief Executive Officer and the other senior executives was undertaken in accordance with the evaluation process.

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 employees acting on behalf of the Company.

Director share ownership

All directors and employees are required to comply with the Company's Securities Trading Policy in undertaking any trading in the Company's shares. The number of shares held by each director and their dealings in the Company's securities during the financial year are disclosed on pages 43 and 44.

Board committees

The Board has three standing committees (the "Committees") to facilitate and assist the Board in fulfilling its responsibilities. Other committees are established from time to time with specific responsibilities as delegated by the Board.

Committee	Overview	Members
Audit and Risk Management Committee	Responsible for monitoring and advising the Board on the Company's audit, risk management and regulatory compliance policies and procedures	Julia Hoare (Chairman)* Melvyn Miles** Richard Le Grice*
Nomination Committee	Responsible for advising the Board on the composition of the Board and its Committees, reviewing the performance of the Board, its Committees, the individual directors and senior executives, ensuring the proper succession plans are in place and advising the Board in respect of the effectiveness of its corporate governance policies and developments in corporate governance	Julia Hoare (Chairman)* David Hearn*** Richard Le Grice*

The Board cont.

Board committees cont.

Committee	Overview	Members
Remuneration Committee	Responsible for establishing the policies and practices of the Company regarding the remuneration of directors and other senior executives and reviewing all components of the remuneration framework and associated performance	Richard Le Grice (Chairman)* Melvyn Miles** David Hearn***

* Independent Director during reporting period ended 30 June 2016

** Non-independent Director up to 14 August 2015 and an Independent Director during the remainder of the reporting period ended 30 June 2016

*** Non-independent Director during reporting period ended 30 June 2016

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

The Committees make recommendations to the Board. They have no decision making power except where expressly provided by the Board. The relevant qualifications and experience of individual Committee members are set out in the ‘Director Profiles’ section on pages 25 and 26. The number of times each Committee met and the attendance of individual members at each Committee meeting is set out on page 35.

The Board ensures that a formal evaluation process of the performance of the Committees is conducted annually. The results of its evaluation process are subsequently reviewed by the Nomination Committee and ratified by the full Board. During the period, the Board engaged a third party professional service provider to carry out performance evaluations of the Committees. The appropriateness

of the Board renewal program was confirmed.

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.

1. Audit and Risk Management Committee

During the reporting period, this Committee comprised three non-executive directors, two of whom were considered independent during the whole of the reporting period ended 30 June 2016 and one of whom was considered independent from 14 August 2015. The Committee is chaired by Julia Hoare (independent Director). The Chief Executive Officer and the Chief Financial Officer attend as ex-officio members; and the external auditors attend by invitation of the Chairman. This 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 relevant qualifications and experience of the members of the Audit and Risk Management Committee are set out in the ‘Director Profiles’ section of this Annual Report.

The Board cont.

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

2. Nomination Committee

This Committee comprises three directors, a majority of whom were considered independent during the whole of the reporting period. The Nomination Committee is chaired by Julia Hoare (independent Director). 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 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 Chairman of 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.

3. Remuneration Committee

During the reporting period, this Committee comprised two non-executive directors, one of whom was considered independent during the whole of the reporting period ended 30 June 2016 and a second who was considered independent from 14 August 2015, and one executive director. The Remuneration Committee is chaired by Richard Le Grice (independent Director).

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 38 to 41.

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.

Record of attendance at Board and committee meetings

There were four Board meetings during the reporting period to 30 June 2016. Director attendance at Board and Committee meetings is set out below.

	Meetings of the Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee	Total
Mr David Hearn (Chairman).....	13	–	4	4	21
Ms Julia Hoare (Deputy Chairman).....	13	4	–	4	21
Mr Geoffrey Babidge (CEO).....	13	–	–	–	13
Mr Melvyn Miles ⁵	13	4	4	–	21
Mr Richard Le Grice.....	13	4	4	4	25
Mr Peter Hinton ⁶	3	–	–	–	3

⁵ Melvyn Miles resigned as director of the Company on 23 August 2016

⁶ Peter Hinton was appointed as a director of the Company on 16 February 2016

The Board cont.

Board’s role in risk oversight

The Board’s role in risk oversight includes regularly receiving reports from management and the Audit and Risk Management Committee regarding material risks faced by the Group and applicable mitigation strategies and activities. Those reports detail the effectiveness of the risk management programme and identify and address material business risks such as technological, strategic, business, operational, financial, human resources and legal/regulatory risks. The Board and its Committees consider these reports, discuss matters with management and identify and evaluate any potential strategic or operational risks including appropriate activity to address those risks.

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 adhere to 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; and

- The Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively

Risk management

The Board ensures that adequate external insurance cover is in place appropriate to the Company’s size and risk profile.

The Company maintains a risk register that identifies the key risks facing the business, and the status of initiatives implemented to manage them.

This risk register is reviewed and updated on a regular basis.

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 Code and which are available on the Company’s website at www.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.

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 has developed a Code of Ethics designed to set out the practices which are necessary to maintain confidence in the Company’s integrity. Employees are required to comply with both the spirit and letter of the code.

A copy of the Code of Ethics is available on the Company’s website at www.thea2milkcompany.com/about-us/corporate-governance.

The Company requires all 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 Company discloses to the ASX and the NZX 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. A copy of the Continuous Disclosure Policy is available on the Company’s website at www.thea2milkcompany.com/about-us/corporate-governance.

Internal audit function

For the year ended 30 June 2016 the Company did not have an internal audit function. However, the Company initiated an evaluation of external providers, and has appointed Deloitte Touche Tohmatsu (“Deloitte”) as internal auditors. Deloitte will commence by performing an assessment of the Group’s risk management and internal control framework during the 2017 financial year.

The Board cont.

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 processes. The Board must also annually, under the Risk Management Policy, review the effectiveness of the Company's risk management and internal control system.

Risk management policy

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 has adopted a Risk Management Policy which 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 www.thea2milkcompany.com/about-us/corporate-governance.

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. To achieve this, 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 governed by the Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

The Audit and Risk Management Committee is responsible for reviewing whether the Company has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board. For the reporting period to 30 June 2016, 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.

The Company, at least annually, evaluates the effectiveness of its risk management framework to ensure that its internal control systems and processes are monitored and updated on an ongoing basis. 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 internal communication between the Company's management and 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 risks.

In addition, in line with ASX Principle 4.2, the Audit and Risk Management Committee is required to receive from the CEO and CFO an annual declaration in relation to the Company's financial statements, namely that in their opinion:

- the Company's financial records have been properly maintained; and
- 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 to the Board 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.

Shareholder communication policy

The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board, a copy of which is available on the

The Board cont.

Remuneration

Company's website at www.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 www.thea2milkcompany.com. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general Company information. The Company website also has a comprehensive corporate governance section for shareholders at www.thea2milkcompany.com/about-us/corporate-governance.

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.

Securities Trading Policy

The Company has adopted a Securities Trading Policy for directors and employees wishing to participate in the shareholding of the Company. A copy of the policy is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

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 a2MC 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, senior executives, employees and their associates from trading during times where sensitive, non-public information may be held. In addition, the Company must be notified in advance of any proposed dealing in the Company's securities.

Diversity policy

The Company has adopted a Diversity Policy. For further information see page 42.

REMUNERATION

a2MC 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 remuneration framework. A Remuneration Committee Charter has been developed that sets out the objectives, responsibilities and authority of the Remuneration Committee in relation to remuneration matters. The Charter stipulates that the Committee will countenance advice and 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 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 senior managers also have variable remuneration in the form of a short-term incentive (STI) as part of their remuneration package. In addition to this, selected senior executives have long-term incentives (LTI) as part of their remuneration package.

1. Fixed remuneration

The fixed remuneration model is informed and adjusted each year based on data from independent remuneration specialists and sources. 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 Board reviews and approves all movements in fixed remuneration.

2. Variable remuneration

All incentive programs that provide the potential to receive payment over and above fixed remuneration are based on a framework whereby such payments are discretionary, are appropriate to the results delivered

Remuneration cont.

by the Group, and are based on a principle of reward for performance.

There are two forms of variable remuneration used by a2MC.

2.1. Short Term Incentive plan (STI)

The STI model is focussed on clearly articulating performance goals that align with Company direction, driving outcomes, differentiating high performance and rewarding delivery over a 12-month period. Alignment with shareholder interests is maintained by the regular review of STI targets and objectives throughout the period. Individual progress towards objectives is tracked and discussed throughout the performance period as part of the a2MC performance management process.

STI values are calculated as either a percentage of fixed remuneration or as a fixed dollar amount, based on the complexity of the role.

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.

2.2. Long-Term Incentive plan (LTI)

The Company has adopted a Long Term Incentive Plan to assist in the reward, retention and motivation of certain employees and directors of the Company and its subsidiaries (“Participants”).

The LTI model has been established to:

- assist in the reward and retention of selected senior executives;
- link the reward available to senior executives to shareholder value creation; and

- align the interests of senior executives 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 by the relevant Participant. 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.

Further details on the Long-Term Incentive Plan can be found at Note 15.3.

No new Awards were granted to directors of the Company during the financial year ended 30 June 2016.

Managing executive performance

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

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 discussions provide a forum for regular feedback on progress and performance. They provide checkpoints for the Board and executive team to determine whether there is a need to realign priorities in order to deliver on the agreed objectives, and identify what support may be needed to do so. 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 2016, each member of the executive team has had at least one periodic performance discussion documented.

Remuneration cont.

Directors' fees

The Board approved revised annual remuneration arrangements for the directors, which took effect from 31 March 2015 in line with the Company's ASX Listing. The below table summarises the fees paid or payable to the directors of the Company and its subsidiaries. The Remuneration Committee is responsible for reviewing directors' fees.

	12-months ended 30 June 2016
	\$...
David Hearn (Chairman) ⁷	120,138
Julia Hoare (Deputy Chairman).....	175,000
Melvyn Miles	84,928
Richard Le Grice.....	95,000
Peter Hinton.....	31,276
William Keane ⁸	52,795
	<hr/>
	559,137
	<hr/>

Remuneration of the CEO

The Company entered into an executive services agreement with Geoffrey Babidge in respect of his employment as CEO of the Company. During the reporting period Geoffrey received an annual base salary of AU\$525,300 and had the opportunity to receive 30% 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. At 30 June 2016 Geoffrey held 5 million partly paid shares which were issued to him under the long term incentive scheme described in Note 15.3. Geoffrey's employment commenced in 2010 and continues until 31 December 2016, after which his employment automatically extends for successive 12 month terms unless the Company serves him with notice to terminate.

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

	AU\$
Fixed Remuneration.....	525,300
Short-Term Incentive ⁹	486,626
	<hr/>
Total remuneration received	1,011,926
	<hr/>

⁷ Director fees are in addition to, and separate from, consultancy fees paid to Lovat Partners Limited, an entity controlled by David Hearn, for services rendered during the year. Refer Note 27.3 Related Party Transactions for details of consultancy fees paid during the year

⁸ William Keane shown in his capacity as director of The a2 Milk Company Limited (UK). Other subsidiary directors were not remunerated in their capacity as directors

⁹ The short term incentive includes amounts paid during the year related to year ended 30 June 2016 and an additional discretionary bonus approved by the Board

Remuneration cont.

Remuneration of the CEO cont.

In addition, the fair value of partly-paid shares granted to Geoffrey and the applicable vesting period is shown below:

	Grant date	Shares issued	Exercise price	Vesting date	Expiry date	Fair value at grant date NZD
Geoffrey Babidge	29 Oct 2013	5,000,000	\$0.64	29 Oct 2018	1 Dec 2050	\$1,235,000
Total		<u>5,000,000</u>				

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

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, except for the CEO) 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 2016.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range \$ (Gross)	Number of employees in the year ended 30 June 2016 (Based on actual payments)
\$110,000 – \$119,999	2
\$120,000 – \$129,999	2
\$130,000 – \$139,999	2
\$140,000 – \$149,999	2
\$150,000 – \$159,999	2
\$160,000 – \$169,999	2
\$170,000 – \$179,999	2
\$180,000 – \$189,999	2
\$190,000 – \$199,999	5
\$210,000 – \$219,999	1
\$240,000 – \$249,999	2
\$250,000 – \$259,999	1
\$280,000 – \$289,999	1
\$320,000 – \$329,999	1
\$470,000 – \$479,999	1
\$490,000 – \$499,999	1
\$510,000 – \$519,999	1
\$530,000 – \$539,999	1
\$570,000 – \$579,999	1
\$980,000 – \$989,999	1
\$1,000,000 – \$1,099,999	1
Total	<u>34</u>

Diversity

DIVERSITY

The Company has a strong commitment to diversity and recognises the value of attracting and retaining employees with different backgrounds, gender, culture, knowledge, experiences and abilities. Diversity contributes to the Group's business success and benefits individuals, clients, teams, shareholders and stakeholders. Our 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 www.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.

1. 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 Company recognises that it needs to provide management with appropriate guidance in order to foster a value for diversity within its management culture. To achieve this, the Company is committed to providing its management with the appropriate training and resources to understand the benefits of diversity in recruitment strategies and day-to-day management strategies.

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

2. Setting objectives

The Board's objective is to broaden the diversity of the Board and management team over time. Presently, the Board is focused on implementing the following steps to increase the breadth of diversity across the business:

- Actively seek a diverse candidate pool for all Board and senior management placements; and
- Encourage the Managing Director and CEO to consider the impacts of new placements on the diversity mix within the business

The Board will continue to reflect on the effectiveness and appropriateness of its actions in achieving its diversity objective.

3. Gender representation across the Group

The following table shows gender representation across the Group as at 30 June 2016 and 30 June 2015.

	As at 30 June 2016				As at 30 June 2015			
	Male	Percentage Male (%)	Female	Percentage Female (%)	Male	Percentage Male (%)	Female	Percentage Female (%)
Directors of the Company ¹⁰ ..	5	83%	1	17%	4	80%	1	20%
Senior Executives ¹¹	7	87%	1	13%	8	89%	1	11%
Remaining Staff	38	39%	59	61%	40	50%	40	50%
Total	50	45%	61	55%	52	55%	42	45%

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

¹⁰Includes executive directors: David Hearn (Chairman) and Geoffrey Babidge (CEO)

¹¹Senior executives are defined as those directly reporting to the CEO

Disclosures

DISCLOSURES

1. Substantial product holders

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 2016 (such disclosure being required pursuant to Subpart 5 of Part 5 of the Financial Markets Conduct Act 2013 (NZ)) and as at 1 September 2016 (such disclosure being required pursuant to ASX Listing Rule 4.10.4):

	As at 30 June 2016		As at 1 September 2016	
	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
Challenger Limited ¹²	59,956,362	8.29	52,282,797	7.21
Greencape Capital Pty Ltd ¹³	53,433,733	7.39	53,433,733	7.37
Harbour Asset Management.....	(Was not a substantial product holder)		36,671,038	5.06

The total number of voting shares on issue as at 30 June 2016 was 723,300,065 (1 September 2016: 725,320,065) consisting of 712,000,065 fully paid shares (1 September 2016: 715,570,065) and 11,300,000 partly paid shares (1 September 2016: 9,750,000).

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.

3. Directors' relevant interests & 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 2015 to 30 June 2016:

Name of director/ former director	Registered holder	Beneficial/ Non-beneficial	Acquired/ (sold) No's	Class of financial product	Date	Consideration paid/ (received)
David Mair ¹⁴	Public Trust Forte Nominees Limited	Non-beneficial	500,000	Fully paid ordinary shares	03 Jul 15	\$375,000
David Mair	Public Trust Forte Nominees Limited	Non-beneficial	200,000	Fully paid ordinary shares	06 Jul 15	\$147,000
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	6,000,000 ¹⁵	Fully paid ordinary shares	24 Jul 15	\$594,000
David Mair	Public Trust Forte Nominees Limited	Non-beneficial	(160,328)	Fully paid ordinary shares	22 Jul 15	(\$131,613)
David Mair	David William Mair	Beneficial	(1,700,000)	Fully paid ordinary shares	18 Aug 15	(\$1,360,000)
David Mair	Public Trust Forte Nominees Limited	Non-beneficial	(800,000)	Fully paid ordinary shares	18 Aug 15	(\$640,000)
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(1,000,000)	Fully paid ordinary shares	16 Oct 15	(\$720,000)
David Hearn	David Lovat Gordon Hearn	Beneficial	100,000	Fully paid ordinary shares	14 Oct 15	\$78,200

¹² According to a disclosure notice given on 10 June 2016

¹³ According to a disclosure notice given on 10 June 2016. According to the disclosure notice, as its ultimate holding company, Challenger Limited has a relevant interest in the same shares as Greencape Capital Pty Ltd

¹⁴ In line with Financial Markets Conduct Act 2013 section 301 a person is treated as being a director or senior manager for the purposes of relevant interest disclosures for 6 months after that person ceases to be a director or senior manager of the Company. For David Mair, the obligation to disclose relevant interest acquisitions or disposals ceased 30 September 2015, 6 months after his resignation on 30 March 2015

¹⁵ Represents payment up in full of 6,000,000 partly paid shares to fully paid ordinary shares

Disclosures cont.

3. Directors' relevant interests & share dealings cont.

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 2015 to 30 June 2016:

Name of director/ former director	Registered holder	Beneficial/ Non-beneficial	Acquired/ (sold) No's	Class of financial product	Date	Consideration paid/ (received)
Melvyn Miles	Melvyn Miles and Joanna Lesley Miles as trustees of The Miles Superannuation Fund	Beneficial	180,000	Fully paid ordinary shares	04 Nov 15	\$138,236
Melvyn Miles	Melvyn Miles and Joanna Lesley Miles as trustees of The Miles Superannuation Fund	Beneficial	4,147	Fully paid ordinary shares	09 Nov 15	\$3,175
Julia Hoare	Julia Cecile Hoare	Beneficial	50,000	Fully paid ordinary shares	19 Nov 15	\$49,200
David Hearn	David Lovat Gordon Hearn	Beneficial	7,000	Fully paid ordinary shares	21 Dec 15	\$11,760
David Hearn	David Lovat Gordon Hearn	Beneficial	(7,000)	Fully paid ordinary shares	21 Dec 15	Nil ¹⁶
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(1,000,000)	Fully paid ordinary shares	21 Dec 15	(\$1,686,872)
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(500,000)	Fully paid ordinary shares	30 Dec 15	(\$1,181,899)
David Hearn	David Lovat Gordon Hearn	Beneficial	50,000	Fully paid ordinary shares	31 Dec 15	\$101,000
David Hearn	David Lovat Gordon Hearn	Beneficial	(50,000)	Fully paid ordinary shares	31 Dec 15	Nil ¹⁷
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	(1,000,000)	Fully paid ordinary shares	23 Mar 16	(\$1,990,000)

Directors of the Company held the following relevant interests in the financial products of the Company as at 30 June 2016:

Name of director	Registered holder	Beneficial/ Non-beneficial	Balance held No's	Class of financial product
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	2,500,000	Fully paid ordinary shares
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	5,000,000	Partly paid ordinary shares
David Hearn	David Lovat Gordon Hearn	Beneficial	5,000,000	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
Melvyn Miles	Melvyn Miles and Joanna Lesley Miles as trustees of The Miles Superannuation Fund	Beneficial	184,417	Fully paid Ordinary Shares
Peter Hinton	Peter Bruce Hinton	Beneficial	1,100,000	Fully paid Ordinary Shares

¹⁶ Transferred as gifts to family members

¹⁷ Transferred as gift to family member

Disclosures cont.

4. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 1 September 2016 are listed below:

	No's	%
HSBC Custody Nominees (Australia) Limited	87,124,292	12.01
J P Morgan Nominees Australia Limited	44,711,065	6.16
Citicorp Nominees Pty Limited.....	39,209,564	5.41
JPMORGAN Chase Bank.....	28,140,304	3.88
National Nominees Limited	27,896,535	3.85
Accident Compensation Corporation.....	22,332,017	3.08
Citibank Nominees (NZ) Ltd.....	20,044,891	2.76
National Nominees New Zealand Limited.....	17,771,645	2.45
HSBC Nominees (New Zealand) Limited	17,634,047	2.43
HSBC Nominees (New Zealand) Limited	15,662,558	2.16
Tea Custodians Limited	15,262,610	2.10
Cogent Nominees Limited.....	12,930,132	1.78
BNP Paribas Noms Pty Ltd.....	10,643,912	1.47
GCAA Investments Pty Ltd	6,500,000	0.90
Ulrike Mclachlan	6,485,163	0.89
Mountain Road Investments Limited.....	5,965,000	0.82
Premier Nominees Limited	5,786,292	0.80
Guardian Nominees No 2 Ltd	5,728,561	0.79
Bond Street Custodians Limited (Macq High Conv Fund) & Bond Street Custodians Limited.....	4,317,573	0.60
Massasso Pty Limited	3,941,249	0.54

5. Spread of security holders as at 1 September 2016 and number of holders

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	%	Numbers
1–1,000	4,764	0.43	3,060,675
1,001–5,000	9,848	3.90	27,876,119
5,001–10,000	4,215	4.54	32,460,007
10,001–50,000	4,284	12.71	90,913,931
50,001–100,000	481	4.77	34,156,100
100,001–500,000	326	8.82	63,111,107
500,001–1,000,000	21	1.95	13,956,639
1,000,001 shares or more	37	62.89	450,035,487
	23,976	100.00	715,570,065 ¹⁸

As at 1 September 2016, the number of holders holding between 1 and 199 ordinary shares (a minimum holding under the NZX Listing Rules based on the closing market price) was 222 and the number of holders holding 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 429.

¹⁸The total number of fully paid shares as at 1 September 2016 includes 1,550,000 partly paid shares, which were paid up in full after 30 June 2016

Disclosures cont.

5. Spread of security holders as at 1 September 2016 and number of holders cont.**b) Partly paid ordinary shareholders (unlisted securities not quoted by the ASX)**

Size of Shareholding	Number of holders	%	Numbers
1,000,001 shares or more	3	100.00	9,750,000
	3	100.00	9,750,000

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

Size of holding	Number of holders	%	Numbers
1,000,001 options or more	7	100.00	18,300,000
	7	100.00	18,300,000

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

Size of holding	Number of holders	%	Numbers
1,000,001 performance rights or more	1	100.00	1,280,000
	1	100.00	1,280,000

6. Credit rating status

Not applicable.

7. Changes in directors

During the accounting period, the following changes took place:

- Peter Hinton was appointed as a non-executive Director of the Company with effect from 16 February 2016
- John Scott Wotherspoon was appointed as an executive Director of A2 Infant Nutrition Limited with effect 22 September 2015

8. NZX trading halt

On 1 September 2015, NZX halted trading in the Company's ordinary shares for less than two hours pending an announcement in relation to an Expression of Interest received in respect of the acquisition of all the shares in the Company.

On 8 October 2015, NZX halted trading in the Company's ordinary shares pending an announcement of the completion of a book-build for an NZ\$40 million institutional placement. Trading of the Company's ordinary shares resumed prior to market open the following day.

Disclosures cont.

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

9.1 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 2016 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 43 and 44.

Please refer to Note 27.3 Transactions with Related Parties for consultancy arrangements entered into with David Hearn and Melvyn Miles.

9.2 Other positions held

During the reporting period ended 30 June 2016, directors advised the Company of changes to interests in the following entities:

<u>Name of director</u>	<u>Entity</u>	<u>Position</u>
David Hearn.....	LifeCare Residences Ltd	Executive Chairman
Melvyn Miles	Freedom Foods Group Ltd Brewtique Pty Ltd	Ceased to be a Director Ceased to be a Director
Richard Le Grice	Mesjas Limited Colorite Engraving Limited The Gravitas Group Limited Tapme Media Limited 7Bomb Limited Energi Advertising Limited	Ceased to be a Director Ceased to be a Director Ceased to be a Director Ceased to be a Director Ceased to be a Director Ceased to be a Director
Julia Hoare	Port of Tauranga Limited	Director
Peter Hinton	Haroto Holdings Limited St Marks Road Holdings Limited Simpson Grierson	Director/Shareholder Director/Shareholder Partner

9.3 Sub-committees

The Board has formally constituted the following sub-committees, which convene twice annually or as required:

<u>Audit & Risk</u>	<u>Remuneration</u>	<u>Nomination</u>
Julia Hoare (Chairman)	Richard Le Grice (Chairman)	Julia Hoare (Chairman)
Melvyn Miles	Melvyn Miles	David Hearn
Richard Le Grice	David Hearn	Richard Le Grice

Disclosures cont.**9. Particulars of notices or statements given to or approved by the Board cont.****9.4 Directors of subsidiary companies**

The following persons respectively held office as directors of subsidiary companies as at 30 June 2016.

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
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 Melvyn Miles David Hearn
The a2 Milk Company LLC (USA)	Geoffrey Babidge Craig Louttit

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 41.

9.5. 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.

10. Limitations on the acquisition of securities

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

Disclosures cont.

10. Limitations on the acquisition of securities (cont.)

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 in accordance with the New Zealand Takeovers Code, a partial takeover offer in accordance with the New Zealand Takeovers Code, 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.
- (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.

11. On-market buy-back

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

12. Disclosure following admission to ASX

As previously noted, the Company achieved its ASX listing on 31 March 2015. For the reporting period ended 30 June 2016, the Company has used its cash and assets that it had at the time of admission, for purposes consistent with its strategic objectives as set out in the Company's Information Memorandum dated 24 February 2015.

13. Donations

The company has made donations of cash and inventories totalling NZD 297,000 during the year ended 30 June 2016 (2015: NZD 196,000), primarily related to donations of inventory to charitable organisations.

14. Reconciliation of EBITDA to Net Profit after Tax (NPAT):

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.

	2016	2015
	\$'000	\$'000

EBITDA.....	54,576	3,129
EBITDA before non-recurring items	54,576	4,810
Depreciation/amortisation	(2,742)	(1,949)
EBIT before non-recurring items	51,834	2,861
Non-recurring items ¹⁹	-	(1,681)
Interest income	502	150
Interest expense.....	(37)	(49)
Income tax income/(expense)	(21,863)	(3,372)
Net Profit After Tax	<u>30,436</u>	<u>(2,091)</u>

¹⁹Non-recurring items in 2015 relate to costs associated with the ASX listing process during the period.

Disclosures cont.

.....

15. Summaries of the material terms of the following agreements

15.1. Lease of Smeaton Grange Premises and Option to Purchase the Site

The Smeaton Grange milk processing plant is leased by The a2 Milk Company (Australia) Pty Ltd ("a2MC Australia") from RRT Investments Pty Limited, a company owned by the Perich Group, under a lease dated 1 February 2012. The lease was negotiated at arm's length and provides for an annual adjustment to the rent payable by a2MC Australia and for a mark-to-market rent review process to be undertaken every five years. The lease is for a term of 10 years with an option for a2MC Australia to renew the lease for a further 10 years and an option for a2MC Australia to purchase the site on the expiry of the initiator extended lease term for fair market value.

15.2. Leppington Pastoral Milk Supply Agreement

a2MC Australia and Leppington Pastoral Co Pty Ltd (Leppington) entered into a contract for the supply of A1 protein-free milk commencing 1 July 2014. Leppington acknowledges that its appointment is not exclusive in any respect and that a2MC Australia is entitled to purchase milk from any third party at any time.

Term and renewal

The initial term of the agreement is for three years commencing on 1 July 2014, unless or until the agreement is terminated in accordance with its terms.

Quality assurance

Leppington agrees that it shall be responsible for the compliance with all laws, regulations, codes of practice, food standards and other requirements of any governmental or regulatory authority applicable to its operations and the agreement.

Volume

For each year, commencing 1 July 2014, Leppington agrees to maintain sufficient quantities of A1 protein-free milk to supply to a2MC Australia's specified minimum volume requirements. Separately, a2MC Australia undertakes to purchase a minimum volume of A1 protein-free milk from Leppington each year until the termination of the agreement.

Price

Generally, the price per litre that a2MC Australia will pay Leppington for its supply of A1 protein-free milk will increase each year.

Intellectual property

Unless otherwise agreed in writing by the Company or a2MC Australia, Leppington is not licensed to use, licence or sub-license any trademark or brand forming part of the Company's intellectual property. Further, Leppington agrees that it, and any related parties, will not at any time during the term or after expiry or early termination of the agreement directly or indirectly challenge the validity or ownership of the Company's intellectual property.

Termination

A party is entitled to terminate the agreement by written notice to the other party upon the occurrence of a breach of any obligation or duty owed under the agreement or if a party is or becomes unable to pay all of the party's debts as and when they become due and payable. a2MC Australia may also terminate the agreement where there is a proposed or actual change of control of Leppington by giving 30 business days' notice or immediately on written notice in the event that the license granted from the Company to a2MC Australia is terminated. Both parties may terminate the agreement at any time for any reason on 180 days' written notice to the other party.

Indemnity

Leppington indemnifies a2MC Australia against any losses incurred by a2MC or the Group arising from any negligent act or omission by Leppington, its employees, consultants or representatives or any breach, non-performance or negligent performance of Leppington's obligations under the agreement.

FINANCIAL STATEMENTS

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Directors' approval of the financial statements

For the year ended 30 June 2016

The directors of The a2 Milk Company Limited are pleased to present to shareholders the consolidated financial statements for The a2 Milk Company Limited ("Company" or "a2MC") and its subsidiaries (together the "Group") for the year ended 30 June 2016.

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 2016 and the results of its operations and cash flows for the period ended on that date.

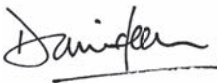
The directors consider the financial statements of the Group to have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

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.

These financial statements are prepared on a going concern basis.

Signed on behalf of the Board by:



David Hearn
Chairman
16 September 2016



Geoffrey Babidge
Managing Director and Chief Executive Officer



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Independent Auditor's Report

To the Shareholders of The a2 Milk Company Limited

Report on the Financial Statements

We have audited the financial statements of The a2 Milk Company Limited and its subsidiaries (together "the group") on pages 51 to 104, which comprise the statement of financial position of The a2 Milk Company Limited and the group as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

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.

Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interest in, The a2 Milk Company Limited 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.

Opinion

In our opinion, the financial statements on pages 51 to 104 present fairly, in all material respects, the financial position of The a2 Milk Company Limited and the group as at 30 June 2016 and the financial performance and cash flows of the company and group for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst & Young
16 September 2016
Sydney, Australia

Consolidated statement of comprehensive income

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Sales		352,502	154,803
Cost of sales		(201,496)	(100,387)
Gross margin		151,006	54,416
Interest income		502	150
Other revenue	12.1	274	306
Administrative expenses	12.2	(27,033)	(15,369)
Finance costs	12.3	(205)	(130)
Marketing expenses		(32,997)	(10,253)
Occupancy expenses		(768)	(495)
Other expenses	12.4	(38,480)	(27,344)
Profit before tax		52,299	1,281
Income tax expense	13.1	(21,863)	(3,372)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR		30,436	(2,091)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that may be reclassified to profit or loss:			
Foreign currency translation (loss)/gain	13.2 & 25	(3,341)	954
TOTAL COMPREHENSIVE GAIN/(LOSS)		27,095	(1,137)
Earnings/(Loss) per share			
Basic (cents per share)	14.1	4.43	(0.33)
Diluted (cents per share)	14.2	4.31	(0.32)

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Equity at beginning of year		58,629	58,644
Total comprehensive gain/(loss) for the year		27,095	(1,137)
		<u>85,724</u>	<u>57,507</u>
TRANSACTIONS WITH OWNERS			
Issue of ordinary shares	23	46,415	39
Share issue costs	23	(2,170)	-
Employee equity settled payments reserve	24	3,109	1,083
Equity at end of year		<u>133,078</u>	<u>58,629</u>
EQUITY COMPRISES:			
Share capital			
Balance at beginning of year		86,303	86,264
Issue of ordinary shares		46,415	39
Share issue costs		(2,170)	-
Balance at end of year	23	<u>130,548</u>	<u>86,303</u>
Retained earnings/(deficit)			
Balance at beginning of year		(26,065)	(23,974)
Net profit/(loss) for the period		30,436	(2,091)
Balance at end of year	26	<u>4,371</u>	<u>(26,065)</u>
Foreign currency translation reserve			
Balance at beginning of year		(5,711)	(6,665)
Movements during the period		(3,341)	954
Balance at end of year	25	<u>(9,052)</u>	<u>(5,711)</u>
Employee equity settled payments reserve			
Balance at beginning of year		4,102	3,019
Movements during the period		3,109	1,083
Balance at end of year	24	<u>7,211</u>	<u>4,102</u>
EQUITY AT END OF YEAR		<u>133,078</u>	<u>58,629</u>

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash & short term deposits	9	69,361	6,092
Trade and other receivables.....	17	45,407	39,944
Prepayments		15,099	9,651
Inventories	18	52,556	4,846
Total current assets		<u>182,423</u>	<u>60,533</u>
Non-current assets			
Property, plant & equipment	19	8,097	9,301
Goodwill	21	10,381	10,993
Other intangible assets	20	5,933	6,230
Deferred tax assets	13.4	3,318	1,810
Total non-current assets		<u>27,729</u>	<u>28,334</u>
TOTAL ASSETS		<u>210,152</u>	<u>88,867</u>
LIABILITIES			
Current liabilities			
Accounts payable.....	22.1	66,168	28,357
Current tax liabilities		10,640	595
Total current liabilities		<u>76,808</u>	<u>28,952</u>
Non-current liabilities			
Accounts payable.....	22.2	228	189
Deferred tax liabilities	13.4	38	1,097
Total non-current liabilities		<u>266</u>	<u>1,286</u>
TOTAL LIABILITIES		<u>77,074</u>	<u>30,238</u>
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	23	130,548	86,303
Retained earnings/(deficit)	26	4,371	(26,065)
Foreign currency translation reserve.....	25	(9,052)	(5,711)
Employee equity settled payments reserve.....	24	7,211	4,102
Total equity		<u>133,078</u>	<u>58,629</u>
TOTAL LIABILITIES & EQUITY		<u>210,152</u>	<u>88,867</u>

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers.....		341,995	144,708
Interest received		502	150
Other income		274	306
Payments to suppliers & employees.....		(311,587)	(150,633)
Interest paid		(37)	(49)
Taxes paid.....		(9,673)	(2,548)
Net cash inflow/(outflow) from operating activities	10	21,474	(8,066)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant & equipment.....	19	(1,172)	(995)
Investment in other intangible assets	20	(882)	(2,632)
Net cash outflow from investing activities		(2,054)	(3,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares.....		44,245	39
Net cash inflow from financing activities		44,245	39
Net increase/(decrease) in cash & short term deposits		63,665	(11,654)
Cash & short term deposits at the beginning of the year.....		6,092	15,979
Effect of exchange rate changes on cash.....		(396)	1,767
Cash and short term deposits at the end of the year		69,361	6,092
COMPRISED OF:			
Cash & short term deposits	9	69,361	6,092

The accompanying notes form part of these financial statements.

NOTES

to the financial statements

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Corporate and Group Information

Basis of Preparation and Other Significant Accounting Policies

1. CORPORATE INFORMATION

The a2 Milk Company Limited (the “Company”) is a profit-oriented entity incorporated and domiciled in New Zealand. The registered office is located at c/o Simpson Grierson, Level 27, 88 Shortland Street, Auckland, New Zealand.

The principal activity of the Company and its subsidiaries (together the “Group”) is the commercialisation of a2MC branded milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of A1 protein-free milk products. The Company sources and supplies a2MC branded milk and related products in Australia through its 100% owned subsidiary The a2 Milk Company (Australia) Pty Ltd, in the UK through its 100% owned subsidiary The a2 Milk Company Limited (UK), and in the USA through its 100% owned subsidiary The a2 Milk Company (USA). The Company supplies a2MC branded nutritional products to Australia, China and the UK through its 100% owned subsidiaries A2 Infant Nutrition Limited, A2 Infant Nutrition Australia Pty Ltd, The a2 Milk Company (Australia) Pty Ltd and The a2 Milk Company Limited (UK). Further information on the Group’s revenue streams can be found in Segment Note 8 on page 73.

The a2 Milk Company Limited is registered in New Zealand under the Companies Act 1993. The Company is a FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act and the Companies Act 1993. The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange

(NZX), and the Australian Securities Exchange (ASX).

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

2. BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

3. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”). They comply with the New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards (‘IFRS’).

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES*(i) Standards and interpretations in issue and adopted during the year*

Reference	Summary	Application to the group
2014 Omnibus Amendments to NZ IFRS	Includes an amendment to FRS-44 that requires an entity to disclose the statutory basis or other reporting framework, if any, under which the financial statements have been prepared.	The disclosure of the basis of accounting for the Group has not changed as a result of the adoption of this amendment to the standard.

(ii) Standards and interpretations in issue not yet adopted

The following new standards and amendments to existing standards are not a comprehensive list of standards and amendments but are only those that are likely to affect the Group.

Reference	Summary	Application to the group	Date of application
NZ IFRS 15: Revenue from Contracts with Customers	NZ IFRS 15 supersedes a number of existing revenue standards, including the current guiding revenue standard for the Group, being NZ IAS 18 Revenue. The new standard establishes principles for revenue recognition that focus on the achievement of performance obligations, such that revenue is recognised in line with the pattern of transfer of control.	<p>The Group is in the process of assessing the full impact of this standard. However, the following observations are noted:</p> <p>(i) The standard is unlikely to materially change the way the Group recognises revenue for the milk and milk-based products it sells;</p> <p>(ii) Consideration will need to be given to the way revenue is booked in relation to licence fees, royalties, or other revenues generated from the use of the Group's Intellectual Property (IP); and</p> <p>(iii) 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>	1 July 2018 for application in the financial year ended 30 June 2019 (unless adopted sooner)

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONT.(ii) *Standards and interpretations in issue not yet adopted cont.*

Reference	Summary	Application to the group	Date of application
NZ IFRS 9 (2014): <i>Financial Instruments</i>	<p>This version of the standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9</p> <p>The amendments to the previous standard are comprehensive. However, the key changes relevant (or potentially relevant) to the Group are as follows:</p> <p>(i) The number of categories of financial assets has been reduced. The revised categories are (a) assets held at fair value, (b) assets held at amortised cost, and (c) assets carried at fair value through Other Comprehensive Income (OCI);</p> <p>(ii) There is an option for investments in equity instruments which are not held for trading to be carried at fair value through OCI. For such investments in equity instruments, gains and losses in OCI are not recycled upon sale and there is no impairment through profit and loss;</p> <p>(iii) Where the fair value option has been used for financial liabilities, the change in fair value related to credit risk is presented in OCI, with the remaining change presented in profit or loss, unless this creates an accounting mismatch; and</p> <p>(iv) New hedge accounting requirements relating to effectiveness testing, treatment of hedging costs, risk components and disclosures</p>	NZ IFRS 9 was issued on 4 September 2014 by the New Zealand Accounting Standards Board. The Group is yet to assess the full impact of this standard. However, a full and thorough assessment will be performed in due course	1 July 2018 for application in the financial year ended 30 June 2019 (unless adopted sooner)

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONT.

(ii) *Standards and interpretations in issue not yet adopted cont.*

Reference	Summary	Application to the group	Date of application
<i>NZ IAS 34: Interim Financial Reporting</i>	<p>The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g. in the management commentary or risk report)</p> <p>The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.</p> <p>The amendment must be applied retrospectively.</p>	It is anticipated that the current interim financial reporting of the Group is in compliance with these amendments.	1 July 2016 for application in the half yearly report for the six months ended 31 December 2016
<i>Amendments to For-profit Accounting Standards as a Consequence of XRB A1 and Other Amendments</i>	<p>This standard includes amendments to the following standards:</p> <p>NZ IFRS 9 (2014):</p> <p>The amendment clarifies that on initial application of this standard, contracts already existing at that date for the purchase or sale of a non-financial item may be designated as measured at fair value through profit or loss, if NZ IFRS 9 (2014) would have allowed these contracts to be so designated upon inception. The resulting change in net assets is recognised in retained earnings at the date of initial application of NZ IFRS 9 (2014).</p> <p>FRS-43:</p> <p>Requires an entity to display which accounting requirements the financial statements have been prepared under.</p> <p>FRS-44:</p> <p>Clarifies the statement of compliance with NZ IAS 34 to be made by Tier 1 entities.</p>	The Group is yet to assess the full impact of these amendments. However, these amendments are unlikely to materially affect the Group's financial statements.	1 July 2016 for application in the financial year ended 30 June 2017

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONT.(ii) *Standards and interpretations in issue not yet adopted cont.*

Reference	Summary	Application to the group	Date of application
NZ IAS 1: <i>Presentation of Financial Statements</i>	Amendments to this standard clarify the existing NZ IAS 1 disclosure requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. Consequential amendments have been made to NZ IFRS 7 and NZ IAS 34.	The Group is in the process of assessing the full impact of this amendment. However, in line with the requirements of NZ IAS 1.113, notes to the financial statements have been re-ordered in the current financial year to improve the readability and usefulness of the financial statements.	1 July 2016 for application in the financial year ended 30 June 2017
NZ IAS 16: <i>Property, Plant & Equipment</i> and NZ IAS 38: <i>Intangible Assets</i>	<p>The standards establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	The application of this standard is consistent with the way the Group currently applies depreciation and amortisation across its assets.	1 July 2016 for application in the financial year ended 30 June 2017
NZ IAS 7: <i>Statement of Cash Flows</i>	<p>The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.</p> <p>The amendments are intended to provide information to help investors better understand changes in a company's debt.</p>	The Group is in the process of assessing the full impact of this amendment. However, the application of this standard is unlikely to materially affect the way the Group reports its cash flows.	1 July 2017 for application in the financial year ended 30 June 2018 (unless adopted sooner)

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONT.(ii) *Standards and interpretations in issue not yet adopted cont.*

Reference	Summary	Application to the group	Date of application
<i>NZ IAS 12: Income Taxes</i>	<p>The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.</p> <p>An entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.</p> <p>The amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.</p>	The Group is in the process of assessing the full impact of this standard.	1 July 2017 for application in the financial year ended 30 June 2018 (unless adopted sooner)
<i>NZ IFRS 2: Share-based Payments</i>	<p>The amendments relate to the classification and measurement of share based payment transactions.</p> <p>The amendments clarify the accounting requirements in the following three main areas:</p> <p>(i) The effects of vesting conditions on the measurement of a cash-settled share based payment transaction;</p> <p>(ii) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and</p> <p>(iii) The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.</p>	The Group is in the process of assessing the full impact of this standard.	1 July 2018 for application in the financial year ended 30 June 2019 (unless adopted sooner)

Basis of Preparation and Other Significant Accounting Policies cont.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES CONT.*(ii) Standards and interpretations in issue not yet adopted cont.*

Reference	Summary	Application to the group	Date of application
NZ IFRS 16: Leases	<p>NZ IFRS 16 is a new standard that supersedes the current standard on leases (NZ IAS 17: Leases) and all related interpretation standards.</p> <p>NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17.</p> <p>Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.</p> <p>Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, and discount rate) by the lessee is required upon certain events.</p>	<p>The Group is in the process of assessing the full impact of this standard. However, the following observations are noted:</p> <p>(i) The Group will be required to record its existing operating leases in the balance sheet. This will include the lease for the Smeaton Grange premises, other occupancy leases and any material leases entered into from now until the standard becomes effective;</p> <p>(ii) A review of existing contracts will be required for evidence of lease arrangements, including those arrangements not called leases; and</p> <p>(iii) Consideration will be given to how this will alter information recording and accounting for operating leases across the Group.</p>	1 July 2019 for application in the financial year ended 30 June 2020 (unless adopted sooner)

Basis of Preparation and Other Significant Accounting Policies cont.

5. CRITICAL ACCOUNTING JUDGEMENTS

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

6. KEY SOURCES OF ESTIMATE AND UNCERTAINTY

Judgements made by directors in the application of the Group's accounting policies that have significant effects on the financial statements; and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant Notes to the Financial Statements.

Key sources of estimation uncertainty include:

- Assessment of impairment of goodwill (refer Note 7.6 and Note 21)
- Assessment of impairment of intangible assets (refer Note 7.6)

- Capitalisation of intangible assets (refer Note 7.5 and Note 20)
- Estimation of fair value of share based payments (refer Notes 15.2 & 15.4)
- Assessment of recognition of deferred tax on temporary differences and tax losses (refer Note 13)
- Estimation of net realisable value of inventory (refer Note 7.12 and Note 18)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be measurable under the circumstances.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income

from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. The exception to this is any foreign exchange gain or loss relating to intra-group transactions that represents a real exposure to foreign currency for the Group.

7.2 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is

Basis of Preparation and Other Significant Accounting Policies cont.

achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with NZ IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured.

7.3 Property, plant & equipment

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
Lease 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.

7.4 Goodwill

Goodwill arising on the acquisition of a subsidiary or a joint venture represents 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 subsidiary or joint venture 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. For the Group, this allocation is performed at the level of operating segments.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation for the purposes of calculating the gain or loss on disposal.

7.5 Intangible assets

Intellectual property

The cost of intellectual property

including patents, trademarks and licenses are capitalised where there is sufficient evidence to support the probability of the expenditure generating sufficient future economic benefits for the Group.

Patents are considered to have a finite life and amortisation is charged on a straight line basis over the lifetime of the patent. Software is amortised on a straight line basis over 2 to 3 years. All other intellectual property, where there is a probability of generating sufficient future economic benefits, is considered to have an infinite life. These assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Project development costs

An intangible asset arising from project development expenditure on an internal project is recognised only when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Following the initial recognition of the project development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is only commenced

Basis of Preparation and Other Significant Accounting Policies cont.

once the asset is complete and ready for use. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from project development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

7.6 Impairment of tangible and intangible assets including goodwill

Further disclosures relating to the impairment of goodwill can be found in Note 21.

At each balance sheet date, the Group considers whether there is any indication that its assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the

risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount, and an impairment loss recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Non-financial assets requiring additional focus:

Goodwill

Goodwill is tested for impairment annually (whether or not there is an indication that the asset is impaired), and more frequently when indicators suggest that the carrying value may be impaired.

Impairment for goodwill is assessed by determining the recoverable amount of each CGU to which the goodwill relates (has been assigned). When the recoverable amount of the CGU is less than the carrying value of the CGU, an impairment loss is recognised. Impairment losses in relation to goodwill are not reversed in a subsequent period.

Other intangible assets

Intangible assets with indefinite useful lives, and intangible assets

not yet available for use are tested for impairment annually (whether or not there is an indication that the asset is impaired), and more frequently when indicators suggest that the carrying value may be impaired.

7.7 Share-based payment transactions

The Group has a range of ownership-based compensation schemes for executives and senior employees of the Group, whereby equity instruments are provided as consideration for services rendered. The Group uses independent experts for the valuation of its share-based payment schemes.

Equity-settled transactions

This is applicable to the following:

- Partly paid shares provided under the Company's Partly Paid Share scheme; and
- Share options and performance rights provided under the Company's Long-Term Incentive Plan (LTIP)

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes pricing model, Binomial option pricing model or a Monte Carlo Simulation model, further details of which are given in Notes 15.2 and 15.4.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of The a2 Milk Company Limited if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in

Basis of Preparation and Other Significant Accounting Policies cont.

equity, over the period in which the service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- The grant date fair value of the award;
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled transaction are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise

beneficial to the employee, as measured at the date of modification.

If an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

There is a dilution effect on earnings per share (EPS) from the offer of unsettled equity instruments. This is reflected in diluted earnings per share (refer note 14).

Cash-settled transactions

The Group had no cash-settled transactions outstanding as at 30 June 2016.

7.8 Revenue recognition

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

Sale of goods

Revenue from the sale of goods 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.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Management fees

Management fees are recognised on a 'cost-plus' basis and are due and payable when services are rendered.

Other income

Licence fee income is spread over the term of the licence where there is a specified termination date. Where the licence fee is for an indefinite period, income is recognised when received.

7.9 Operating segments

The Group has adopted NZ IFRS-8 Operating Segments with effect from 1 January 2009. NZ IFRS-8 requires operating segments to be 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.

Information regarding the Group's reportable segments is presented in Note 8.

7.10 Taxation

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

Current and deferred tax are recognised as an expense or

Basis of Preparation and Other Significant Accounting Policies cont.

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. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the 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 against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects

neither the taxable profit nor the accounting profit.

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. Deferred tax assets are reduced when it is no longer probable that sufficient taxable profits will be available in the future to utilise the asset. Likewise, unrecognised tax assets (not booked to balance sheet) are re-assessed at each reporting date, and recognised, to the extent that future taxable profits are deemed likely to allow the asset to be recovered.

7.11 Goods & Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of Goods and Service Tax (GST) and other similar taxes such as Value Added Tax, except:

- Where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

7.12 Inventories

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.

7.13 Financial assets

All the Group's financial assets are classified as loans and receivables.

The Group does not currently hold any financial assets that are classified as fair value through profit or loss (FVTPL), held to maturity or available-for-sale. At the reporting date, the Group held no derivative financial assets, and had no designated hedging relationships for hedge accounting purposes.

Basis of Preparation and Other Significant Accounting Policies cont.

Loans & receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. These are initially recorded at fair value. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can

be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

7.14 Financial liabilities

Financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

At the reporting date, the Group held no derivative financial liabilities, and had no designated hedging relationships for hedge accounting purposes.

7.15 Employee benefits

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.

7.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

7.17 Leases

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

Basis of Preparation and Other Significant Accounting Policies cont.

arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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.

7.18 Foreign currency

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in New Zealand dollars, which is the functional currency of the Company, and the presentation

currency for the consolidated financial statements. The Group uses the direct method of consolidation.

For the purpose of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Differences arising on settlement or translation of monetary items that form part of the Company's net investment in a foreign operation are recognised in Other Comprehensive Income (OCI) until the net investment is disposed of.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated

using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

7.19 Statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents include cash at bank and in hand and short term deposits, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

- Operating Activities – are the principal revenue producing activities of the Group and other activities that are not investing or financing activities
- Investing Activities – are the acquisition and disposal of long-term assets and other investments not included in cash equivalents
- Financing Activities – are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity

Cash flows of foreign subsidiaries, and cash flows from transactions denominated in a foreign currency, have been translated at the prevailing average exchange rate in the month when the cash flow took place.

7.20 Trade & other payables

Trade and other payables are carried at amortised cost due to their short term nature and they

Basis of Preparation and Other Significant Accounting Policies cont.

Operating Segments

are not discounted. Initially these are recognised at fair value. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured.

7.21 Earnings per Share (EPS)

Basic earnings per share 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, adjusted for options that can be exercised at less than the current market price.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares

This is divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for options that can be exercised at less than the current market price. More detail is contained in Note 14.

7.22 Cash and cash equivalents

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.

8. OPERATING SEGMENT INFORMATION

The Group has adopted NZ IFRS-8 *Operating Segments*. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company 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 milk, cream, infant formula, whole milk powder and ice cream sales, along with royalty and licence fee income
- The *China and other Asia segment* receives external revenue from milk, infant formula, and whole milk powder sales. 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

Change in segment EBITDA from prior period

For the 2016 financial year, the Group amended the way it discloses segment earnings before interest, tax, depreciation and amortisation (segment EBITDA) in keeping with the way the chief operating decision maker reviews performance and manages the affairs of the Group. Previously, segment EBITDA was shown after inter-company charges comprising licence fee and management fee income from subsidiaries; and after the reimbursement of costs associated with the development of intellectual property such as marketing and herd testing. Segment EBITDA is now shown before inter-company charges, which better reflects the underlying performance of the segments. The effect of this change has been an increase in the reported EBITDA profits in the Australia and New Zealand, and China and other Asia segments, and an increase in the reported EBITDA losses in the UK and USA, and Corporate and other segments, with no impact on the net reported EBITDA for the Group.

Prior year comparatives have been adjusted for consistency to reflect the amendments outlined above.

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 evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Operating Segments cont.

8. OPERATING SEGMENT INFORMATION CONT.

	Segment revenue		Segment EBITDA ²⁰	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Continuing operations				
Australia and New Zealand.....	296,313	149,097	84,687	30,006
China and other Asia.....	38,163	4,044	9,158	(3,103)
UK and USA.....	18,257	1,929	(20,490)	(12,062)
Corporate and other.....	43	39	(18,779)	(11,712)
Segment revenue & EBITDA	352,776	155,109	54,576	3,129
Interest income			502	150
Interest expense.....			(37)	(49)
Depreciation and amortisation.....			(2,742)	(1,949)
Income tax expense			(21,863)	(3,372)
Consolidated segment profit/(loss)			30,436	(2,091)
	2016 \$'000	2015 \$'000		
Reconciliation of revenue				
Sales.....	352,502	154,803		
Other revenue (Note 12.1)	274	306		
Segment revenue	352,776	155,109		

Over 41% of sales are to three customers. (2015: over 67% to three customers)

²⁰Segment EBITDA for 2015 includes non-recurring ASX listing costs of \$1,681,000.

Operating Segments cont.

Cash Reporting and Financial Risk Management

8. OPERATING SEGMENT INFORMATION CONT.

	Depreciation & amortisation		Additions to non-current assets	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Australia and New Zealand.....	1,097	1,155	993	288
China and other Asia.....	486	393	218	4
UK and USA.....	793	172	96	2,680
Corporate and other.....	366	229	747	655
	<u>2,742</u>	<u>1,949</u>	<u>2,054</u>	<u>3,627</u>

	Assets		Liabilities	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Australia and New Zealand.....	89,001	47,969	29,550	14,691
China and other Asia.....	60,140	18,372	33,141	8,522
UK and USA.....	15,962	6,412	4,671	3,818
Corporate and other.....	45,049	16,114	9,712	3,207
	<u>210,152</u>	<u>88,867</u>	<u>77,074</u>	<u>30,238</u>

9. CASH & CASH EQUIVALENTS

	2016	2015
	\$'000	\$'000
Cash at banks and on hand.....	58,361	6,092
Short term deposits.....	11,000	-
Balance at end of the year.....	<u>69,361</u>	<u>6,092</u>

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 32,890,000 (2015: AUD 3,741,000), GBP 2,245,000 (2015: GBP 127,000), USD 9,158,000 (2015: USD 730,000) and EUR nil (2015: EUR 2,500).

The Group had available an AUD 10,000,000 debtor finance facility, which was undrawn as at 30 June 2016.

Cash Reporting and Financial Risk Management cont.

10. NOTES TO THE CASH FLOW STATEMENT**a. Reconciliation of net profit/(loss) after taxation with net cash flows from operating activities**

	2016 \$'000	2015 \$'000
Net profit/(loss) for the year	30,436	(2,091)
Adjustments for non-cash items:		
Depreciation & amortisation expense	2,742	1,949
Loss on disposal.....	-	17
Expense recognised in profit & loss in respect of equity settled share-based payments.....	3,109	1,083
Net foreign exchange gain.....	(1,520)	(1,732)
Deferred tax.....	(2,567)	849
	<u>32,200</u>	<u>75</u>
Movements in working capital		
(Increase) in trade and other receivables	(5,463)	(12,586)
(Increase) in prepayments.....	(5,448)	(7,659)
(Increase)/decrease in inventories.....	(47,710)	737
Increase in current accounts payable.....	37,811	10,482
Increase in current tax liabilities.....	10,045	820
	<u>21,435</u>	<u>(8,131)</u>
Plus/(less) items classified as investing and financing activities:		
Movement in non-current accounts payable	39	65
Net cash inflow (outflow) from operating activities	<u>21,474</u>	<u>(8,066)</u>

Cash Reporting and Financial Risk Management cont.

11. FINANCIAL INSTRUMENTS**a. Financial risk management objectives**

Exposure to credit, interest rate, foreign currency, equity price and liquidity risks arises in the normal course of the Group's business.

The Group's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by reviewing compliance with policies and exposure limits on a continuous basis.

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

b. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and short term deposits, and equity attributable to equity holders of the parent comprising issued capital, retained earnings and reserves as disclosed in Notes 9, 23, 24, 25 and 26.

The Group is not subject to externally imposed capital requirements and the Group's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

	2016	2015
	\$'000	\$'000
c. Categories of financial instruments		
Financial assets		
Cash and short term deposits	69,361	6,092
Trade and other receivables.....	45,407	39,944
Financial liabilities at amortised cost		
Trade creditors	33,521	15,178
Accruals	27,421	10,447

Cash Reporting and Financial Risk Management cont.

11. FINANCIAL INSTRUMENTS CONT.**d. Market risk**

Market risk is the potential for change in the value of on and off balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities, both on and off balance sheet, and from controlled funding undertaken in pursuit of profit. The Group's activities expose it to the financial risks of change in foreign currency exchange rates and interest rates (see (e), (f), and (g) below).

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

e. Foreign currency risk management

In the course of normal trading activities, the Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group does not hedge this risk.

The carrying amount of the Group's foreign currency denominated financial instruments at the balance date are as follows:

	2016 \$'000	2015 \$'000
US Dollars		
Assets:		
Cash and short term deposits	12,935	1,080
Trade and other receivables.....	1,786	4,139
	<u>14,721</u>	<u>5,219</u>
Liabilities:		
Trade creditors and accruals	9,934	3,740
	<u>9,934</u>	<u>3,740</u>
AUS Dollars		
Assets:		
Cash and short term deposits	34,497	4,225
Trade and other receivables.....	43,947	33,862
	<u>78,444</u>	<u>38,087</u>
Liabilities:		
Trade creditors and accruals	23,996	12,647
	<u>23,996</u>	<u>12,647</u>
GB Pounds		
Assets:		
Cash and short term deposits	4,243	293
Trade and other receivables.....	522	763
	<u>4,765</u>	<u>1,056</u>
Liabilities:		
Trade creditors and accruals	2,579	2,486
	<u>2,579</u>	<u>2,486</u>
Chinese Yuan Renminbi		
Liabilities:		
Trade creditors and accruals	1,596	-
	<u>1,596</u>	<u>-</u>

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2016 and 30 June 2015.

Cash Reporting and Financial Risk Management cont.

11. FINANCIAL INSTRUMENTS CONT.**f. Foreign currency sensitivity analysis**

The Group is exposed to foreign currency risk arising from revenues and costs denominated in currencies other than the Group's functional currency. The majority of foreign currency related exposures relate to balances of inter-entity advances. The Group is mainly exposed to the currency of Australia (AUD), the currency of the United Kingdom (GBP), the currency of the United States of America (USD) and the currency of China (RMB).

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand dollar against the relevant foreign currencies, as it effects profit or loss and equity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external bank accounts, external receivables and external payables. A positive number below indicates an increase in profit or equity and a negative number indicates a decrease in profit or equity.

	2016 \$'000	2015 \$'000
Currency impact on profit or loss		
Strengthening in NZD/AUD	58	(4)
Weakening in NZD/AUD	(58)	4
Strengthening in NZD/GBP	30	12
Weakening in NZD/GBP	(30)	(12)
Strengthening in NZD/USD	113	232
Weakening in NZD/USD	(113)	(232)
Strengthening in NZD/RMB	160	-
Weakening in NZD/RMB	(160)	-
Currency impact on equity		
Strengthening in NZD/AUD	14,079	4,288
Weakening in NZD/AUD	(14,079)	(4,288)
Strengthening in NZD/USD	909	266
Weakening in NZD/USD	(909)	(266)
Strengthening in NZD/GBP	667	(73)
Weakening in NZD/GBP	(667)	73
Strengthening in NZD/RMB	160	-
Weakening in NZD/RMB	(160)	-

In management's opinion, the sensitivity analysis is not representative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. But with the continuing volatile global financial markets, management continue to monitor offshore monetary investments on a regular basis.

g. Interest rate risk

The Group has been exposed to interest rate risk during the period as it invests cash on call at floating interest rates and cash in short term deposits at fixed interest rates.

The directors consider that the Group's sensitivity to a reasonably possible change in interest rates would not have a material impact on profit or equity.

Cash Reporting and Financial Risk Management cont.

11. FINANCIAL INSTRUMENTS CONT.

h. Other price risk management

The Group is not exposed to equity price risks arising from equity investments. All equity investments are investments in 100% owned subsidiaries.

i. Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with banks that are rated the equivalent of investment grade and above. The Group utilises information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group has credit risk exposure as a large portion of sales are to three customers. However this risk is mitigated as these customers are all creditworthy, have sufficient collateral and are not related entities.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	2016 \$'000	2015 \$'000
	<u> </u>	<u> </u>
The maximum exposures to credit risk at balance date are:		
Cash, short term deposits and short term borrowings	69,361	6,092
Trade and other receivables.....	45,407	39,944
	<u>114,768</u>	<u>46,036</u>

At balance date, the Group's bank accounts were held with National Australia Bank Limited, Bank of New Zealand Limited, Great Western Bank and Clydesdale Bank. The Group does not have any other concentrations of credit risk. The Group does not require any collateral or security to support financial instruments.

j. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profiles of the Group's interest bearing investments are disclosed later in this note.

Cash Reporting and Financial Risk Management cont.

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items**11. FINANCIAL INSTRUMENTS CONT.****k. Liquidity & interest risk tables**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those assets or liabilities except where the Group is entitled and intends to repay a liability before its maturity. The tables also disclose those financial liabilities subject to interest rate risk.

	Weighted average effective interest rate	Fixed maturity dates					Total
		Less than 1 month	1–3 months	3 months – 1 year	1–5 years	5+ years	
2016	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors	N/A	24,479	9,042	–	–	–	33,521
Accruals	N/A	27,421	–	–	–	–	27,421
		<u>51,900</u>	<u>9,042</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>60,942</u>

	Weighted average effective interest rate	Fixed maturity dates					Total
		Less than 1 month	1–3 months	3 months – 1 year	1–5 years	5+ years	
2015	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:							
Trade creditors	N/A	12,994	2,184	–	–	–	15,178
Accruals	N/A	10,447	–	–	–	–	10,447
		<u>23,441</u>	<u>2,184</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>25,625</u>

2016	2015
\$'000	\$'000
<u>274</u>	<u>306</u>

12. REVENUE & EXPENSES**12.1 Other revenue**

Royalties	155	192
Other	119	114
	<u>274</u>	<u>306</u>

Royalties are received in relation to the sale of a2 milk products under licencing agreement with third parties.

12.2 Administrative expenses

Employee equity compensation	3,109	1,083
Salary and wage costs	16,045	10,177
Travel costs	3,994	2,121
Other administrative expenses	3,885	1,988
	<u>27,033</u>	<u>15,369</u>

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

	2016 \$'000	2015 \$'000
	<u> </u>	<u> </u>
12. REVENUE & EXPENSES CONT.		
12.3 Finance costs		
Interest expense.....	37	49
Other finance costs.....	168	81
	<u>205</u>	<u>130</u>
12.4 Other expenses		
Bad and doubtful debts.....	69	–
Consultancy, accounting & secretarial fees	6,903	4,693
Directors' fees and expenses.....	559	489
Freight.....	15,521	9,283
Foreign exchange loss/(gain)	753	(831)
Legal expenses.....	2,597	1,739
Loss on disposal, plant & equipment.....	–	17
Patents, trademarks and research & development	2,366	868
Costs associated with ASX listing	–	1,681
Depreciation & amortisation	2,742	1,949
Promotion & merchandising	3,462	4,235
Other operating expenses.....	3,508	3,221
	<u>38,480</u>	<u>27,344</u>

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

	2016 \$'000	2015 \$'000
	<u> </u>	<u> </u>
13. INCOME TAXES		
13.1 Income tax recognised in profit or loss		
Current tax expense.....	22,520	2,962
Prior period adjustment to tax expense – current tax	605	299
Deferred tax (income) relating to the origination and reversal of timing differences and tax losses	(5,401)	(1,295)
Prior period adjustment to tax expense – deferred tax timing differences	68	(701)
Tax losses utilised (previously not recognised).....	–	(19)
Effect on deferred tax balances due to the change in UK income tax rates	–	148
Unutilised foreign tax credits forfeited	564	30
Deferred tax asset not recognised	3,507	1,948
Total tax expense	<u>21,863</u>	<u>3,372</u>
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from operations	52,299	1,281
Income tax expense calculated at 28% (2015: 28%)	14,644	359
Difference in UK (20%), Australian (30%), and USA income tax rate (40.75%).....	344	214
Non-deductible expenses	1,614	917
Tax losses utilised (previously not recognised).....	–	(19)
Prior period adjustment to tax expense	673	(402)
Effect on deferred tax balances due to the change in UK income tax rates	–	148
Deferred tax impact to tax expense for permanent establishments.....	517	(21)
Unutilised foreign tax credits forfeited	564	228
Deferred tax asset not recognised	3,507	1,948
Total tax expense	<u>21,863</u>	<u>3,372</u>

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

	2016 \$'000	2015 \$'000
13. INCOME TAXES CONT.		
13.2 Income tax recognised in other comprehensive income		
The tax charge relating to components of other comprehensive income is as follows:		
Foreign currency translation reserve before tax	(5,150)	1,881
Tax charge relating to foreign currency translation reserve (FCTR)	1,809	(927)
Movement in foreign currency translation reserve after tax.....	<u>(3,341)</u>	<u>954</u>

13.3 Tax losses

The Group has estimated gross tax losses at balance date not recognised as follows:

United Kingdom.....	16,298	16,163
United States of America	10,435	3,373
Australia.....	1,105	1,393
Total.....	<u>27,838</u>	<u>20,929</u>

These are subject to confirmation by the HM Revenue & Customs, the Internal Revenue Service and the Australian Tax Office and their utilisation is subject to meeting the requirements of the income tax legislation in each jurisdiction.

13.4 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. The Group has a net deferred tax asset of \$3,318,000 (2015: \$1,810,000), and a net deferred tax liability of \$38,000 (2015: \$1,097,000).

	Opening Balance \$'000	Charge to Profit & Loss \$'000	Charged to OCI ²¹ \$'000	Closing Balance \$'000
2016				
Gross deferred tax assets				
Intellectual property.....	192	(143)	–	49
Provisions	1,025	1,650	(47)	2,628
Tax losses.....	1,011	(252)	(65)	694
Other ²²	–	458	(40)	418
	<u>2,228</u>	<u>1,713</u>	<u>(152)</u>	<u>3,789</u>
Gross deferred tax liabilities				
Property, plant & equipment	(777)	116	54	(607)
Unrealised foreign exchange (gains)/losses recognised in FCTR (Note 13.2).....	(738)	–	836	98
	<u>(1,515)</u>	<u>116</u>	<u>890</u>	<u>(509)</u>
Net deferred tax				<u>3,280</u>

²¹ Other Comprehensive Income

²² Other includes the tax effect of inventory eliminations on inter-company sales

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

13. INCOME TAXES CONT.

13.4 Deferred tax balances cont.

	Opening Balance \$'000	Charge to Profit & Loss \$'000	Charged to OCI \$'000	Closing Balance \$'000
2015				
Gross deferred tax assets				
Intellectual property.....	469	(277)	–	192
Provisions	563	438	24	1,025
Tax losses.....	1,008	3	–	1,011
	<u>2,040</u>	<u>164</u>	<u>24</u>	<u>2,228</u>
Gross deferred tax liabilities				
Property, plant & equipment	(478)	(263)	(36)	(777)
Unrealised foreign exchange gains recognised in FCTR (Note 13.2)	–	–	(738)	(738)
	<u>(478)</u>	<u>(263)</u>	<u>(774)</u>	<u>(1,515)</u>
Net deferred tax				<u>713</u>
			2016 \$'000	2015 \$'000
Net deferred tax balances recognised in the financial statements				
Net deferred tax assets.....			3,318	1,810
Net deferred tax liabilities			(38)	(1,097)
Net deferred tax			<u>3,280</u>	<u>713</u>

The net deferred tax position of the Group has been shown in accordance with accounting standards.

13.5 Imputation credit account balances

	2016 \$'000	2015 \$'000
Balance at beginning of the year	984	314
Provisional tax paid.....	5,687	196
Tax (receivable)/payable.....	(5,061)	474
Balance at end of the year.....	<u>1,610</u>	<u>984</u>

The Company is a member of a Consolidated Tax Group. Balances in the Imputation Credit Account represent the imputation credits available to the Company as a member of the Consolidated Tax Group.

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

	2016 \$'000	2015 \$'000
13. INCOME TAXES CONT.		
13.6 Franking credit account balances		
Balance at beginning of the year	4,311	2,035
Income tax paid	1,335	1,747
Impact of foreign exchange movement.....	(280)	103
Tax payable	10,553	426
Balance at end of the year.....	<u>15,919</u>	<u>4,311</u>

Balances in the Franking Credit Account are shown in NZD and refer exclusively to credits held by the Company and available to shareholders in the event of future payment of dividends.

	2016 Cents per share	2015 Cents per share
14. EARNINGS PER SHARE		
14.1 Basic earnings/(loss) per share		
From continuing operations.....	4.43	(0.33)
Total basic earnings per share.....	<u>4.43</u>	<u>(0.33)</u>

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2016 \$'000	2015 \$'000
Net profit/(loss):		
From continuing operations	30,436	(2,091)
	<u>30,436</u>	<u>(2,091)</u>
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share.....	686,870	633,337

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

	2016 Cents per share	2015 Cents per share
14. EARNINGS PER SHARE CONT.		
14.2 Diluted earnings/(loss) per share		
From continuing operation.....	4.31	(0.32)
Total diluted earnings per share.....	<u>4.31</u>	<u>(0.32)</u>
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:		
	2016 \$'000	2015 \$'000
Net profit/(loss):		
From continuing operations	30,436	(2,091)
	<u>30,436</u>	<u>(2,091)</u>
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share.....	686,870	633,337
Effect of dilution due to partly paid ordinary shares, share options and performance rights ('000).....	19,263	9,736
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share.....	<u>706,133</u>	<u>643,073</u>

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS

15.1 Partly paid shares

Partly paid ordinary shares have been issued to certain key management personnel (the purchasers). The partly paid shares were issued on the following terms:

a) Restrictions on transfer

Each partly paid share is issued on terms that require a vesting period (settlement date) to pass before the purchaser can transfer the shares (settlement date). This restriction applies even if the shares have been fully paid prior to the settlement date. Under the various agreements these vesting periods range from 1-5 years.

b) Issue price

The issue price of each partly paid share is set at the lesser of:

- The closing price quoted on the New Zealand Exchange Limited's NZX Market for the Company's shares as at the date the parties enter into the share subscription agreement; and
- The average closing price on the New Zealand Exchange Limited's NZX Market for the Group's shares over the three months prior to the date the parties enter into the share subscription agreement;

provided that such price must not be lower than 10 cents per share for Tranches II-IV and 15 cents per share for Tranches V-VII.

Under the share subscription agreements the issue prices were calculated as follows:

- 10 cents per share for Tranches II-IV;
- 15 cents per share for Tranches V-VII;
- 55 cents per share for Tranches VIII-IX;
- 64 cents per share for Tranche X; and
- 72 cents per share for Tranche XI.

These Tranches were issued as partly paid shares at 1% of the issue price.

The purchasers 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.

c) Rights

Each partly paid ordinary share issued carries a fractional right to a distribution and 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.

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.1 Partly paid shares cont.

d) Summary of partly paid share series

The following share-based payment arrangements were in existence during the year ended 30 June 2016:

Partly paid shares series	Number as at 30 June 2016	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
(1) Partly paid shares – Tranche IV	–	25 Aug 2010	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	\$0.10	–
(2) Partly paid shares – Tranche VI	–	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	–
(3) Partly paid shares – Tranche VII	–	28 Mar 2011	28 Mar 2016	28 Mar 2016	\$0.15	–
(4) Partly paid shares – Tranche VIII	–	9 Jul 2013	9 Jul 2018	9 Jul 2018	\$0.55	–
(5) Partly paid shares – Tranche IX	2,000,000	15 Jul 2013	15 Jul 2018	15 Jul 2018	\$0.55	\$565,600
(6) Partly paid shares – Tranche X	5,000,000	29 Oct 2013	29 Oct 2018	1 Dec 2050	\$0.64	\$1,235,000
(7) Partly paid shares – Tranche XI	4,300,000	9 Apr 2014	9 Apr 2019	9 Apr 2019	\$0.72	\$1,104,455

The following movements in partly paid shares were recorded during the year:

Partly paid shares series	Number of shares						Closing: 30 June 2016	Exercisable: 30 June 2016
	Opening: 30 June 2015	Granted	Forfeited	Exercised	Expired			
(1) Partly paid shares – Tranche IV	6,000,000	–	–	6,000,000	–	–	–	
(2) Partly paid shares – Tranche VI	3,000,000	–	–	3,000,000	–	–	–	
(3) Partly paid shares – Tranche VII	3,240,000	–	–	3,240,000	–	–	–	
(4) Partly paid shares – Tranche VIII	2,500,000	–	–	2,500,000	–	–	–	
(5) Partly paid shares – Tranche IX	2,000,000	–	–	–	–	2,000,000	1,000,000	
(6) Partly paid shares – Tranche X	5,000,000	–	–	–	–	5,000,000	1,250,000	
(7) Partly paid shares – Tranche XI	5,000,000	–	–	700,000	–	4,300,000	550,000	
	26,740,000	–	–	15,440,000	–	11,300,000	2,800,000	

Partly paid shares series	Weighted average exercise price						Closing: 30 June 2016	Exercisable: 30 June 2016
	Opening: 30 June 2015	Granted	Forfeited	Exercised	Expired			
Partly Paid Shares – Tranches IV–XI	\$0.404	–	–	\$0.221	–	\$0.655	\$0.624	

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.1 Partly paid shares cont.

e) Issues during the period

During the year, nil partly paid shares were issued to key management personnel (the purchasers) under partly paid share plans (2015: nil). As at 30 June 2016, purchasers had paid \$80,908 for tranches IV to XI (2015: \$115,058). This payment has been recognised as a financial liability until such time as vesting conditions are met.

f) Shares exercised/forfeited during the period

During the year, 15,440,000 partly paid shares were exercised and fully paid to the issue price (2015: 260,000):

- 6,000,000 partly paid shares were fully paid to \$0.10 per share,
- 6,240,000 partly paid shares were fully paid to \$0.15 per share,
- 2,500,000 partly paid shares were fully paid to \$0.55 per share,
- 700,000 partly paid shares were fully paid to \$0.72 per share

No partly paid shares lapsed during the year ended 30 June 2016 (2015: Nil).

g) Weighted average remaining contractual life

The weighted average remaining contractual life of the partly paid shares at 30 June 2016 is 16.66 years (2015: 8.05 years).

15.2 Estimation of fair value of partly paid shares at measurement date

a) Valuation methodology

The partly paid shares are valued using a Black Scholes option pricing and Binomial option pricing model. Employees holding these tranches can purchase the remaining balance of the shares at any point up until the expiry date and this is consistent with 'American' Options. The Black Scholes pricing model allows for this.

b) Input assumptions

The fair values above have been derived using the following input assumptions:

Partly paid shares series	Valuation date	Share price	Exercise price	Volatility	Time to expiry (years)	Expected dividends	Risk-free rate
(1) Partly paid shares – Tranche IV	25 Aug 2010	\$0.087	\$0.10	50%	5.00	0%	4.37%
(2) Partly paid shares – Tranche VI	28 Mar 2011	\$0.11	\$0.15	50%	5.00	0%	4.28%
(3) Partly paid shares – Tranche VII	28 Mar 2011	\$0.11	\$0.15	50%	5.00	0%	4.28%
(4) Partly paid shares – Tranche VIII	9 Jul 2013	\$0.63	\$0.55	30%	5.00	0%	3.56%
(5) Partly paid shares – Tranche IX	15 Jul 2013	\$0.68	\$0.55	30%	5.00	0%	3.48%
(6) Partly paid shares – Tranche X	29 Oct 2013	\$0.68	\$0.64	30%	37.12	0%	4.10%
(7) Partly paid shares – Tranche XI	17 Dec 2013	\$0.75	\$0.72	30%	5.00	0%	4.30%

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.2 Estimation of fair value of partly paid shares at measurement date cont.

c) Early exercise

For Tranche X, an early exercise has been assumed after five years. The timing of early exercise has been estimated after taking into consideration factors including: the employee's age and employment contract term; and that the partly paid shares must be exercised within 12 months of the employee leaving the Company. For Tranche XI, it is assumed that exercise will occur mid-way during the period between the date of vesting and the expiry date.

No allowance has been made for the possibility of early exercise for other Tranches. For these Tranches the partly paid shares are held by a small number of executives and the Company has no reason to believe that the partly paid shares will be exercised early.

d) Volatility

Volatility has been assessed by considering the historical volatility of the Company and comparable companies, as well as other factors that influence expected future volatility. Prior to the Company moving to the NZX Main Board in December 2012, the Company's historical share price movements were characterised by infrequent share trading and wide trading spreads giving rise to volatile price movements. Such share price returns can be as much (if not more) reflective of trading conditions as much as of underlying value. The Company's historical volatility is therefore considered to be too high to be predictive of future volatility. For partly paid shares granted prior to December 2012 a volatility of 50% has been adopted for each of the Company's partly paid share valuations.

For partly paid shares granted after December 2012 a volatility of 30% has been adopted for each of the Company's partly paid share valuations.

e) Other factors

No other factors have been incorporated into the partly paid share valuations.

f) Amounts recognised in financial statements

The impact of the share based payments on the financial statements of the Company is summarised as follows:

Period ended	30 June 2016	30 June 2015
	Amount recognised as employee expense in profit or loss \$'000	Amount recognised as employee expense in profit or loss \$'000
(1) Partly paid shares – Tranche II	–	–
(2) Partly paid shares – Tranche III	–	–
(3) Partly paid shares – Tranche IV	7	47
(4) Partly paid shares – Tranche V	–	–
(5) Partly paid shares – Tranche VI	24	30
(6) Partly paid shares – Tranche VII	28	35
(7) Partly paid shares – Tranche VIII	–	(153)
(8) Partly paid shares – Tranche IX	113	113
(9) Partly paid shares – Tranche X	264	514
(10) Partly paid shares – Tranche XI	290	444
Total	<u>726</u>	<u>1,030</u>

Tranche VIII is partly paid shares held by a former employee. An acceleration of vesting was recognised in the 2014 year for Tranche VIII when the employee left the Company. In the 2015 financial year, the negative expense of (\$153,000) represents a correction to amounts expensed in the 2014 financial year, related to the acceleration.

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.
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15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Long term incentive plan

The Company has adopted a Long Term Incentive Plan (LTIP) to assist in the reward, retention and motivation of certain employees and directors of the Company and its subsidiaries (“Participants”).

The Company may grant options and/or performance rights (“Awards”) to eligible participants under its LTIP. Each Award granted represents a right to receive one fully paid share in the Company once the Award vests and is exercised by the relevant Participant.

In accordance with the rules of the LTIP, the Board will determine in its sole and absolute discretion the terms and conditions of Awards which are granted under the LTIP including, but not limited to, the following:

- which individuals will be invited to participate in the Long Term Incentive Plan (“invitation”)
- the number of Awards to be granted to each Participant
- the fee payable (if any) by Participants on the grant of Awards to Participants
- the terms on which the Awards will vest and become exercisable, including any vesting conditions or performance hurdles which must be met
- the exercise price of each option granted to Participants
- the period during which a vested option can be exercised
- any forfeiture conditions or disposal restrictions applying to the Awards and any Fully Paid Shares that Participants receive upon exercise of their Awards

The Board may delegate management and administration of the LTIP together with any of its powers or discretions under the LTIP to a committee of the Board or to any one or more persons selected by it as the Board thinks fit, including but not limited to the Company Secretary.

a) Maximum Awards allocation

Unless prior shareholder approval is obtained, the number of Awards which may be granted under this Plan, which upon exercise will vest Plan Shares, (a fully paid ordinary share in the capital of the Company) must not exceed in aggregate 5% of the total Issued Capital of the Company.

b) Awards rights and terms

Subject to the Board determining otherwise prior to an Invitation, each vested option and each vested performance right entitles the Participant holding the option or the performance right to subscribe for, or to be transferred, a fully paid ordinary share in the capital of the Company, in the case of an option, on payment of the Exercise Price (if any).

A Participant who holds an Award is not entitled to:

- i) vote at or attend a meeting of the Shareholders unless, and until the Awards are exercised, the Participant holds fully paid ordinary shares of the Company
- ii) receive any dividends declared by the Company in respect of such Awards

Plan Shares allotted, issued or transferred by the Company to a Participant under the Plan will rank equally with all existing Shares on and from the date of allotment, issue or transfer.

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.3 Long term incentive plan cont.

c) Conditions for vesting and exercise

The Board will determine prior to an Invitation being made and specify in the Invitation any performance hurdles and/or vesting conditions attaching to the Awards. Options and/or performance rights will only vest and be exercisable if the applicable performance hurdles and/or vesting conditions have been satisfied, or are deemed to have been satisfied under the Plan rules.

d) Restrictions on transfer

Awards granted under the Plan may not be assigned, transferred, or otherwise disposed of by a Participant without the prior consent from the Board.

e) Summary of Awards

The following Awards were in existence as at 30 June 2016:

LTIP Awards	Number	Grant date	Vesting date ²³	Expiry date	Exercise price	Fair value at grant date
(1) Share Options – Tranche 1	5,000,000	30 Mar 2015	30 Mar 2016 – 30 Mar 2020	30 Jun 2020	\$0.63	\$503,000
(2) Share Options – Tranche 2	15,000,000	12 Aug 2015	12 Aug 2016 – 12 Aug 2020	12 May 2021	\$0.63	\$4,440,000
(3) Performance Rights – Tranche 1	1,600,000	12 Aug 2015	12 Aug 2016 – 12 Aug 2020	12 May 2021	N/A	\$931,200

The following movements in share options & performance rights were recorded during the year:

Partly paid shares series	Number of shares						Closing: 30 June 2016	Exercisable: 30 June 2016
	Opening: 30 June 2015	Granted	Forfeited	Exercised	Expired			
(1) Share Options – Tranche 1	5,000,000	–	–	–	–	5,000,000	1,000,000	
(2) Share Options – Tranche 2	–	15,000,000	–	–	–	15,000,000	–	
(3) Performance Rights – Tranche 1	–	1,600,000	–	–	–	1,600,000	–	
	5,000,000	16,600,000	–	–	–	21,600,000	1,000,000	

Partly paid shares series	Weighted average exercise price						Closing: 30 June 2016	Exercisable: 30 June 2016
	Opening: 30 June 2015	Granted	Forfeited	Exercised	Expired			
(1) Share Options – Tranche 1	\$0.630	–	–	–	–	\$0.630	\$0.630	
(2) Share Options – Tranche 2	–	\$0.630	–	–	–	\$0.630	–	
(3) Performance Rights – Tranche 1	–	\$0.630	–	–	–	\$0.630	–	

f) Awards issued during the period

During the year 15,000,000 options and 1,600,000 performance rights were issued to Plan Participants (2015: 5,000,000 options).

²³The options and performance rights will vest in five equal tranches over five years commencing on the first anniversary of the date of the grant

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

15. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

15.4 Estimation of fair value of options at measurement date

a) Valuation methodology

Awards have been valued using a combination of Black Scholes pricing and Monte Carlo simulation models. Employees holding options can purchase the remaining balance of the shares at any point up until the expiry date (use the right to exercise the Option) and this is consistent with 'American' Options.

b) Input assumptions

The fair values above have been derived using the following input assumptions:

LTIP Awards	Valuation date	Share price	Exercise price	Volatility	Time to expiry (years)	Expected dividends	Risk-free rate
(1) Share Options – Tranche 1	30 Mar 2015	\$0.50	\$0.63	30%	5.26	0%	3.20%
(2) Share Options – Tranche 2	12 Aug 2015	\$0.80	\$0.63	30%	5.75	0%	2.66%
(3) Performance Rights – Tranche 1	12 Aug 2015	\$0.80	N/A	30%	5.75	0%	2.66%

c) Exercise

It is assumed that the options will be exercised mid-way during the period between the date of vesting and the expiry date.

d) Volatility

Volatility has been assessed by considering the historical volatility of the Company, as well as other factors that influence expected future volatility. The average volatility of the Company's equity over the year leading up to 30 March 2015 (grant date) was approximately 30%. Therefore, an average volatility of 30% has been used as a valuation input.

e) Amounts recognised in financial statements

The impact of the share based payments on the financial statements of the Company is summarised as follows:

Period ended	30 June 2016	30 June 2015
	Amount recognised as employee expense in profit or loss \$'000	Amount recognised as employee expense in profit or loss \$'000
(1) Share Options – Tranche 1	191	53
(2) Share Options – Tranche 2	1,782	-
(3) Performance Rights – Tranche 1	410	-
Total	<u>2,383</u>	<u>53</u>

Detailed Information on Statement of Profit or Loss
and Other Comprehensive Income Items cont.

Detailed Information on Statement of Financial Position Items

	2016 \$'000	2015 \$'000
16. AUDITOR'S REMUNERATION		
The auditor of the Company is Ernst & Young Australia.		
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the Group	416	291
Market research and tax advisory services	74	15
	<u>490</u>	<u>306</u>

	2016 \$'000	2015 \$'000
17. TRADE & OTHER RECEIVABLES		
Trade receivables	44,720	36,189
Allowance for doubtful debts	(112)	(48)
Other receivables	799	3,803
Balance at end of the year	<u>45,407</u>	<u>39,944</u>

The average credit period on sales is 42 days (2015: 72 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of \$836,000 (2015: \$1,025,000) which are past due at the reporting date but not considered doubtful. These relate to a number of accounts of which there is no recent history of default. The Group has not provided for these debtors as there has not been a significant change in credit quality and the amounts are still considered recoverable. The ageing of the debtors that are past due but not impaired are predominantly 30 days or more beyond the due date of commercial trading terms.

	2016 \$'000	2015 \$'000
17.1 Movement in allowance for doubtful debts		
Balance at beginning of year	48	46
Amount charged to the statement of comprehensive income	69	-
Net foreign currency exchange differences	(5)	2
Balance at end of year	<u>112</u>	<u>48</u>

In determining the recoverability of a trade receivable, the Group considers any change in perceived credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairment losses.

	2016 \$'000	2015 \$'000
18. INVENTORIES		
Raw materials (at cost)	12,517	916
Finished goods (at lower of cost and net realisable value)	31,846	2,465
Goods in transit	8,193	1,465
Total inventories at the lower of cost and net realisable value	<u>52,556</u>	<u>4,846</u>

During 2016, \$2,612,000 (2015: \$nil) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Detailed Information on Statement of Financial Position Items cont.

	Office & computer	Furniture & fittings	Lease improvements	Plant & equipment	Capital WIP	Total property, plant & equipment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
19. PROPERTY, PLANT & EQUIPMENT						
2016						
Cost 1 July 2015.....	648	162	70	11,504	303	12,687
Additions.....	65	50	64	-	993	1,172
Transfers.....	(206)	193	21	572	(1,038)	(458)
Disposals.....	-	-	-	-	-	-
Net foreign currency exchange differences.....	(23)	(22)	(8)	(835)	(20)	(908)
Cost 30 June 2016.....	484	383	147	11,241	238	12,493
Accumulated depreciation & impairment charges 1 July 2015.....	(326)	(39)	(38)	(2,983)	-	(3,386)
Depreciation expense.....	(108)	(177)	(81)	(954)	-	(1,320)
Transfers.....	59	(26)	(5)	9	-	37
Accumulated depreciation reversed on disposal.....	-	-	-	-	-	-
Net foreign currency exchange differences.....	4	11	4	254	-	273
Accumulated depreciation and impairment charges 30 June 2016.....	(371)	(231)	(120)	(3,674)	-	(4,396)
Book Value 30 June 2016.....	113	152	27	7,567	238	8,097
	Office & computer	Furniture & fittings	Lease improvements	Plant & equipment	Capital WIP	Total property, plant & equipment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2015						
Cost 1 July 2014.....	383	92	18	10,550	394	11,437
Additions.....	231	5	50	510	199	995
Transfers.....	62	58	-	78	(305)	(107)
Disposals.....	(73)	-	-	(167)	-	(240)
Net foreign currency exchange differences.....	45	7	2	533	15	602
Cost 30 June 2015.....	648	162	70	11,504	303	12,687
Accumulated depreciation & impairment charges 1 July 2014.....	(192)	(27)	(11)	(2,044)	-	(2,274)
Depreciation expense.....	(159)	(10)	(25)	(980)	-	(1,174)
Transfers.....	-	-	-	-	-	-
Accumulated depreciation reversed on disposal.....	42	-	-	167	-	209
Net foreign currency exchange differences.....	(17)	(2)	(2)	(126)	-	(147)
Accumulated depreciation and impairment charges 30 June 2015.....	(326)	(39)	(38)	(2,983)	-	(3,386)
Book Value 30 June 2015.....	322	123	32	8,521	303	9,031

Detailed Information on Statement of Financial Position Items cont.

20. OTHER INTANGIBLE ASSETS	Patents	Trademarks	Software	Project development	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2016					
Cost					
Balance at the beginning of the year.....	390	913	949	5,728	7,980
Additions.....	333	239	144	166	882
Transfers.....	250	(250)	431	27	458
Net foreign currency exchange differences.....	(1)	–	(96)	(151)	(248)
Balance at the end of the year.....	972	902	1,428	5,770	9,072
Amortisation					
At beginning of year.....	(111)	–	(430)	(1,209)	(1,750)
Current year charge.....	(28)	–	(384)	(1,010)	(1,422)
Transfers.....	–	–	(37)	–	(37)
Net foreign currency exchange differences.....	(1)	–	51	20	70
At end of year.....	(140)	–	(800)	(2,199)	(3,139)
Carrying amount					
At beginning of year.....	279	913	519	4,519	6,230
At end of year.....	832	902	628	3,571	5,933
2015					
Cost					
Balance at the beginning of the year.....	346	526	763	3,511	5,146
Additions.....	44	387	39	2,162	2,632
Transfers.....	–	–	107	–	107
Net foreign currency exchange differences.....	–	–	40	55	95
Balance at the end of the year.....	390	913	949	5,728	7,980
Amortisation					
At beginning of year.....	(80)	–	(164)	(708)	(952)
Current year charge.....	(31)	–	(251)	(493)	(775)
Net foreign currency exchange differences.....	–	–	(15)	(8)	(23)
At end of year.....	(111)	–	(430)	(1,209)	(1,750)
Carrying amount					
At beginning of year.....	266	526	599	2,803	4,194
At end of year.....	279	913	519	4,519	6,230

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

During the year the total value of research and development costs expensed was \$1,781,000 (2015: \$546,000)

Transfers largely represent Capital WIP completed during the year and re-classed to the appropriate asset category.

Detailed Information on Statement of Financial Position Items cont.

	2016 \$'000	2015 \$'000
21. GOODWILL		
Cost		
Balance at beginning of the year	10,993	10,587
Effects of foreign currency exchange differences.....	(612)	406
Balance at end of the year.....	<u>10,381</u>	<u>10,993</u>
Carrying amount		
At beginning of the year	<u>10,993</u>	<u>10,587</u>
At end of the year	<u>10,381</u>	<u>10,993</u>

Annual test for impairment

All goodwill relates to the principal activity of the Company being the commercialisation of a2 Milk™ brand milk and related products.

Goodwill has been allocated for impairment testing purposes at the level of its respective cash generating unit, which is also an operating segment (refer to Note 8).

	Australia & New Zealand \$'000	UK \$'000	USA \$'000	Total \$'000
Goodwill allocated to CGU's	7,972	2,061	348	10,381

The recoverable amount of the goodwill has been determined on a value in use basis using a discounted cash flow approach, and projections based on financial budgets approved by the Board and forward plans approved by key management personnel covering a 5 year period.

Key assumptions

- Discount rate (pre-tax) range: 9.0% to 11.0%
- Terminal growth rate: 2.0% p.a.

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 FY17, 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 business 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 assets being assessed. Segment 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 2016, the cost of debt is based on the capital structure that could be expected from a similar market participant.

Detailed Information on Statement of Financial Position Items cont.

21. GOODWILL CONT.**Sensitivity to change in assumptions cont.**

Revenue growth – Revenue projections have been constructed with reference to the FY17 budget and 5-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% per annum has been used for future cash flow growth beyond the 5 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.

The directors believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash generating unit to exceed its recoverable amount. On the basis of this assessment, no impairment write downs are considered necessary.

	2016	2015
	\$'000	\$'000

22. ACCOUNTS PAYABLE**22.1 Accounts payable – current**

Trade creditors	33,521	15,178
Accruals	27,421	10,447
Employee entitlements	1,767	1,301
Withholding tax payable	3,459	1,431
	<u>66,168</u>	<u>28,357</u>

The average credit period on purchases is 57 days (2015: 53 days). No interest was charged on trade creditors outstanding.

22.2 Accounts payable – non current

	2016	2015
	\$'000	\$'000
Employee entitlements	228	189
	<u>228</u>	<u>189</u>

Detailed Information on Statement of Financial Position Items cont.

	2016 \$'000	2015 \$'000
23. SHARE CAPITAL		
a) Share capital		
Balance at beginning of the year	86,303	86,264
Ordinary shares: Partly paid shares fully paid	3,415	39
Ordinary shares: Underwritten Placement	40,000	-
Ordinary shares: Share Purchase Plan	3,000	-
	<u>132,718</u>	<u>86,303</u>
Less: Share issue costs	(2,170)	-
Balance at end of the year	<u>130,548</u>	<u>86,303</u>
	2016 No.	2015 No.
b) Number of ordinary shares on issue		
i) Fully paid ordinary shares		
Balance at beginning of the year	633,326,979	633,066,979
Shares issued	78,673,086	260,000
Balance at end of the year	<u>712,000,065</u>	<u>633,326,979</u>
ii) Partly paid ordinary shares		
Balance at beginning of the year	26,740,000	27,000,000
Shares fully paid	(15,440,000)	(260,000)
Balance at end of the year	<u>11,300,000</u>	<u>26,740,000</u>
Total ordinary shares on issue	<u>723,300,065</u>	<u>660,066,979</u>

During the year ended 30 June 2016, 15,440,000 partly paid ordinary shares became fully paid (2015: 260,000).

During the year ended 30 June 2016, 63,233,086 paid ordinary shares were issued by the Company (2015: nil).

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.

On 31 March 2015, the Company was admitted to the Official List of the Australian Securities Exchange (ASX), and its ordinary shares became available for trade on that day. No new capital was issued as part of this compliance listing.

Issue of Shares

During the period, issued share capital was increased by \$44,245,000. This comprised the issue of 58,823,529 fully paid ordinary shares by way of share placement; 4,409,557 fully paid ordinary shares by way of a Share Purchase Plan; and 15,440,000 partly paid shares that were fully paid during the period.

Detailed Information on Statement of Financial Position Items cont.

Related Parties

	2016 \$'000	2015 \$'000
24. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE		
Balance at beginning of the year	4,102	3,019
Movements during the period	3,109	1,083
Balance at end of the year	<u>7,211</u>	<u>4,102</u>

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 (Refer Note 15).

	2016 \$'000	2015 \$'000
25. FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of the year	(5,711)	(6,665)
Arising on translation of foreign operations	(3,341)	954
Balance at end of the year	<u>(9,052)</u>	<u>(5,711)</u>

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

	2016 \$'000	2015 \$'000
26. RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the year	(26,065)	(23,974)
Net profit/(loss) for the period	30,436	(2,091)
Balance at end of the year	<u>4,371</u>	<u>(26,065)</u>

27. RELATED PARTY TRANSACTIONS**27.1 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.

27.2 Key management personnel

The compensation of the Managing Director, directors and other senior management, being the key management personnel of the entity, is set out below:

	2016 \$'000	2015 \$'000
Wages and salaries and other short-term employee benefits	5,749	4,160
Other long-term benefits	44	43
Share-based payments	3,109	1,083
	<u>8,902</u>	<u>5,286</u>

The amounts shown in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Related Parties cont.

.....

27. RELATED PARTY TRANSACTIONS CONT.

27.2 Key management personnel cont.

Key management personnel include the following employees of the Group:

Executive Director:	Managing Director and CEO
Other key management personnel:	Chief Financial Officer
	Chief Marketing Officer
	Chief Scientific Officer
	General Manager, International Development
	General Manager, Operations
	Chief Executive, Australia & New Zealand
	Chief Executive, UK & China
	Chief Executive, USA

Key management personnel are defined as those persons having significant authority and responsibility for the planning, directing and controlling of the Group, and include all executives and senior managers reporting directly to the Managing Director.

27.3 Transactions with related parties

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.

The transactions set out in this section deal with “related parties” in terms of relevant financial reporting standards, and not to “Related Parties” as defined in rule 9.2.3 of the NZX Listing Rules (or chapter 19 of the ASX Listing Rules).

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

Related parties	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
The a2 Milk Company (USA) – consultancy fees paid to Melvyn Miles, a director of the Company. The fees were charged at commercial rates	–	–	60	19	–	–
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.	–	–	89	79	–	–
The a2 Milk Company (Australia) Pty Ltd entered into an agreement with Pactum Australia Pty Limited (a wholly owned subsidiary of Freedom Foods Group Limited) and Pactum Dairy Group (PDG), a joint venture between Freedom Foods Group Limited and Australian Consolidated Milk (ACM), for the processing and packaging of a2MC branded long life milk at Pactum Australia’s facility at Taren Point in New South Wales and at Pactum Dairy Group’s facility at Shepperton in Victoria. The amounts were charged at commercial rates.	–	–	–	310 ²⁴	–	–
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.	1,757	–	–	–	–	–

²⁴Freedom Foods Group Limited ceased being a related party of the Group, in terms of relevant financial reporting standards, on 18 November 2014 in conjunction with the retirement of Mr Perry Gunner as director.

Related Parties cont.

28. INVESTMENT IN SUBSIDIARIES**28.1 Subsidiaries owned**

Details of the Company's subsidiaries at 30 June 2016 are as follows:

Name of subsidiary	Place of ownership & operation	Proportion of ownership interest		Principal activity
		2016	2015	
A2 Exports Limited.....	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	100%	Holding company for the investment in The a2 Milk Company Limited (UK)
A2 Infant Nutrition Limited.....	New Zealand	100%	100%	Distribution and marketing of a2 Platinum® infant nutrition and whole milk powder in New Zealand and China
A2 Australian Investments Pty Limited	Australia	100%	100%	Holding company for other Australian subsidiaries
A2 Botany Pty Ltd	Australia	100%	100%	Collecting interest from related companies
The a2 Milk Company (Australia) Pty Ltd	Australia	100%	100%	Distribution and marketing of a2MC branded milk, cream and whole milk powder in Australia
A2 Exports Australia Pty Limited.....	Australia	100%	100%	Export of a2MC branded milk to China and marketing in China
A2 Infant Nutrition Australia Pty Ltd.....	Australia	100%	100%	Distribution and marketing of a2 Platinum® infant formula in Australia
The a2 Milk Company Limited (UK)	UK	100%	100%	Distribution and marketing of a2MC branded milk and infant formula in the UK
The a2 Milk Company LLC.....	USA	100%	100%	Non active
The a2 Milk Company (USA).....	USA	100%	100%	Distribution and marketing of a2MC branded milk in the US
The a2 Milk Company (New Zealand) Limited	New Zealand	100%	100%	Non active
The a2 Milk Company Limited (Canada).....	Canada	100%	100%	Non active

All subsidiaries have a balance date of 30 June except for The a2 Milk Company LLC which has a balance date of 31 December. The a2 Milk Company Limited is incorporated in New Zealand and is the parent entity of the Group.

Commitments, Contingencies and Events

29. COMMITMENTS FOR EXPENDITURE
29.1 Capital expenditure commitments

As at 30 June 2016, there were no capital expenditure commitments (2015: \$nil).

30. OPERATING & FINANCE LEASE COMMITMENTS
30.1 Non-cancellable operating lease payments

	2016 \$'000	2015 \$'000
	<u>.....</u>	<u>.....</u>
Not longer than 1 year	1,214	1,095
Longer than 1 year and not longer than 5 years.....	2,316	2,397
Longer than 5 years	309	893
	<u>3,839</u>	<u>4,385</u>

30.2 Finance lease commitments

	2016 \$'000	2015 \$'000
	<u>.....</u>	<u>.....</u>
Not longer than 1 year	11	26
Longer than 1 year and not longer than 5 years.....	-	13
Longer than 5 years	-	-
	<u>11</u>	<u>39</u>

31. CONTINGENT LIABILITIES

As at 30 June 2016, there were no material contingent liabilities (2015: \$nil).

32. SUBSEQUENT EVENTS

There has been no subsequent events requiring disclosure.

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 office	c/o Simpson Grierson Level 27 88 Shortland Street Auckland 1010 New Zealand Level 11 80 Mount Street North Sydney NSW 2060 Australia Telephone: +61 2 9697 7000
		Corporate investor website	www.thea2milkcompany.com

The logo for The a2 Milk Company is centered in the image. It consists of a solid purple circle containing the text "The a2 Milk Company" in white. The word "The" is in a smaller, sans-serif font, while "a2 Milk" is in a larger, bold, sans-serif font, and "Company" is in a smaller, sans-serif font below it. A registered trademark symbol (®) is located to the upper right of the word "Milk".

The
a2 Milk[®]
Company