The a2 Milk Company Limited
2018 Annual Report

A transformative year

Contents

The a2 Milk Company, helping people enjoy a better life.

FY18 highlights

No.1 infant nutrition brand in Australia at 32% share and 5.1% share in China

No.1 brand for Australian millennials

9.8% value share of Australian fresh milk across all key supermarkets

10k store distribution in China

6k store distribution coast to coast in USA

2.5m unique visitors to our websites

8.5% of revenue invested in marketing, R&D and IP

$923m
Revenue ↑ 68%

$283m
EBITDA ↑ 101%

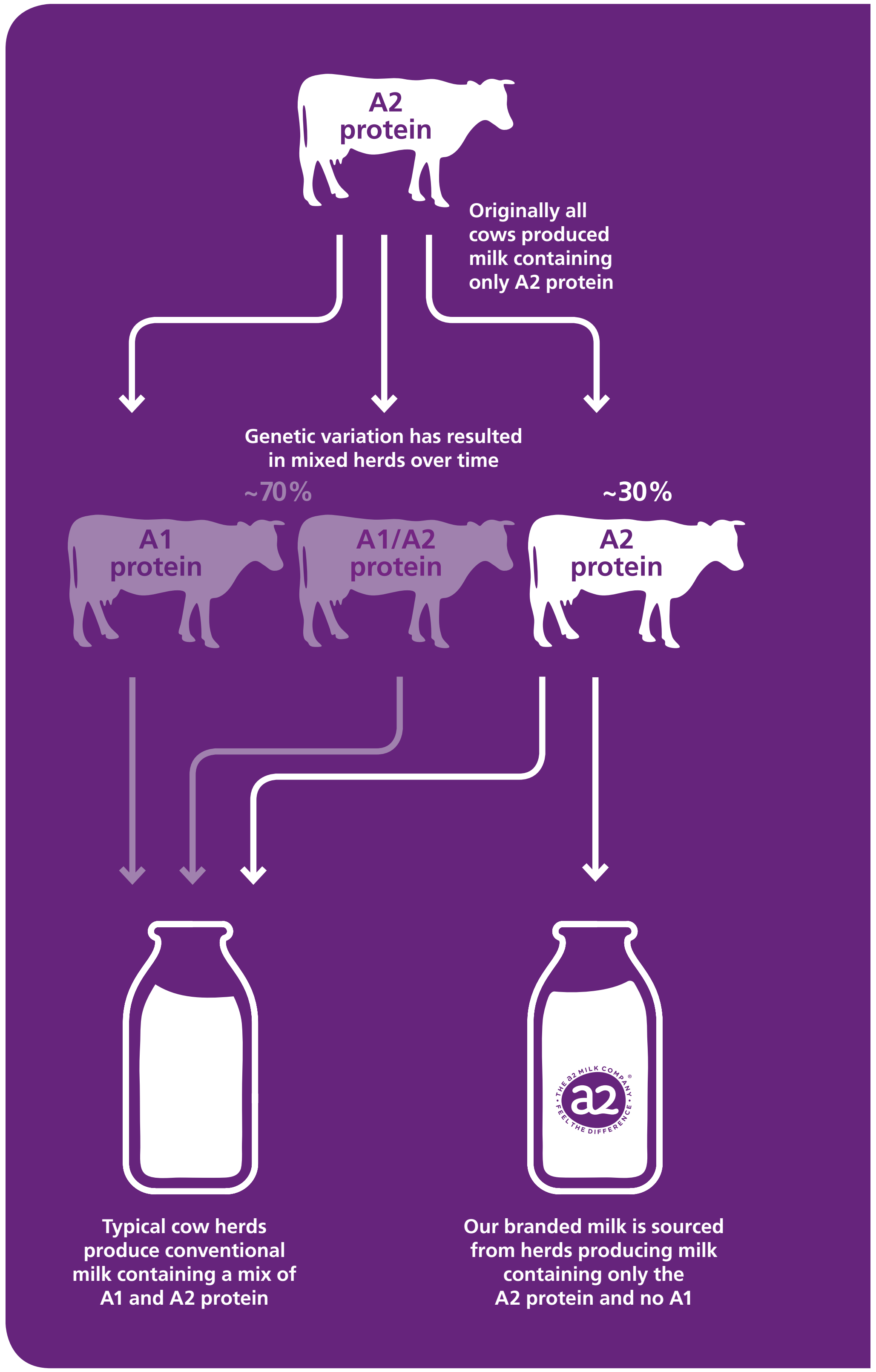
27c
Basic earnings per share ↑ 113%

About us

We are passionate about helping people enjoy a better life by providing premium branded dairy-based nutritional products that only contain the all natural A2 protein type.

The A2 protein difference[1]

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



1 Throughout this document A1 and A2 protein refers to A1 and A2 beta casein protein type

Our purpose

Helping people enjoy a better life

Our vision

To be the innovative and smart choice for dairy nutrition

Our ambition

To be the most admired and commercially attractive dairy-based nutritional company globally

Our strategic priorities

Branded dairy nutritional product portfolio

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

Investing in attractive markets

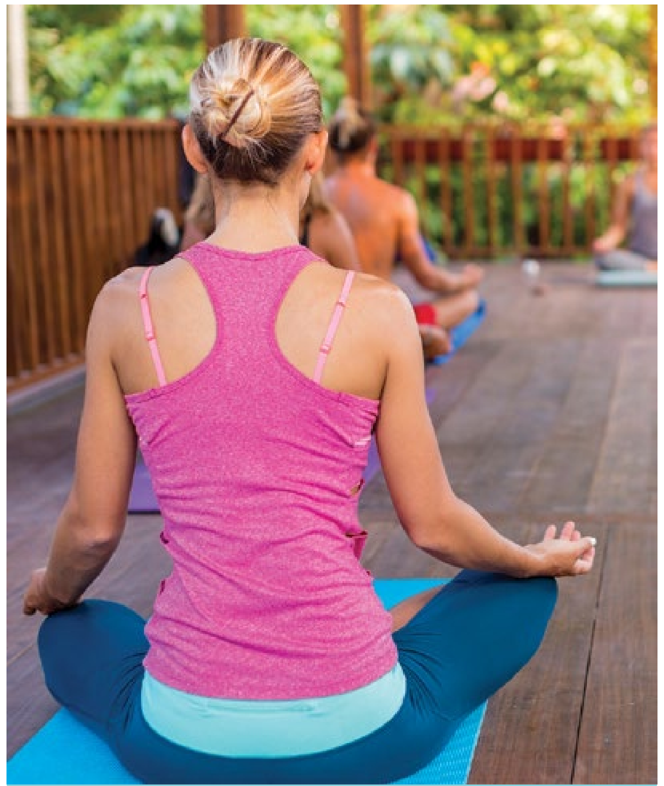
- Asia Pacific focus (ANZ, China, Other Asia)
- USA
- UK
- New market opportunities

Deepening our proprietary know-how and A2 protein expertise

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

Macro-consumer trends

Our Company is well positioned to take advantage of these significant consumer trends

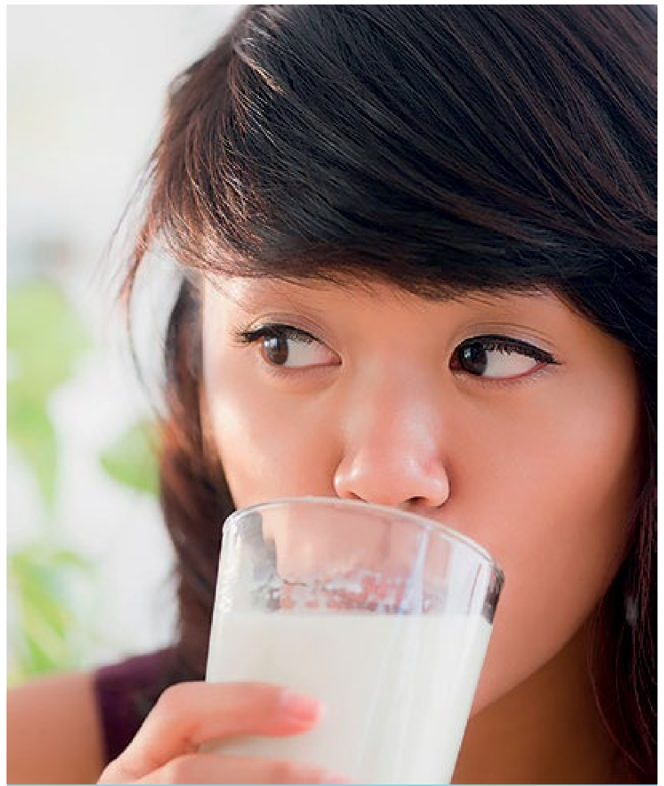


Growing consumer demand for health and wellness products

- *"Demand for food that is fresh, tasty and healthy is now the single biggest consumer trend in food."* CSIRO[1]
- Growing awareness of the link between food and overall health
- Growing understanding of the benefits of digestive health[2]
- Increased demand for protein[3]
- Continued growth in powdered nutrition product segments[3]

Food safety, naturalness and provenance

- Growing interest in understanding country of origin, source of products, high quality ingredients, and seeking greater transparency and more traceable supply chain
- Consumers demanding all-natural ingredients and products where possible
- Strong quality, safety and trust of products from Australia and New Zealand
- More than one in three Chinese consumers buying imported products online have bought Australian or New Zealand brands[4]



Growing middle class in Asia

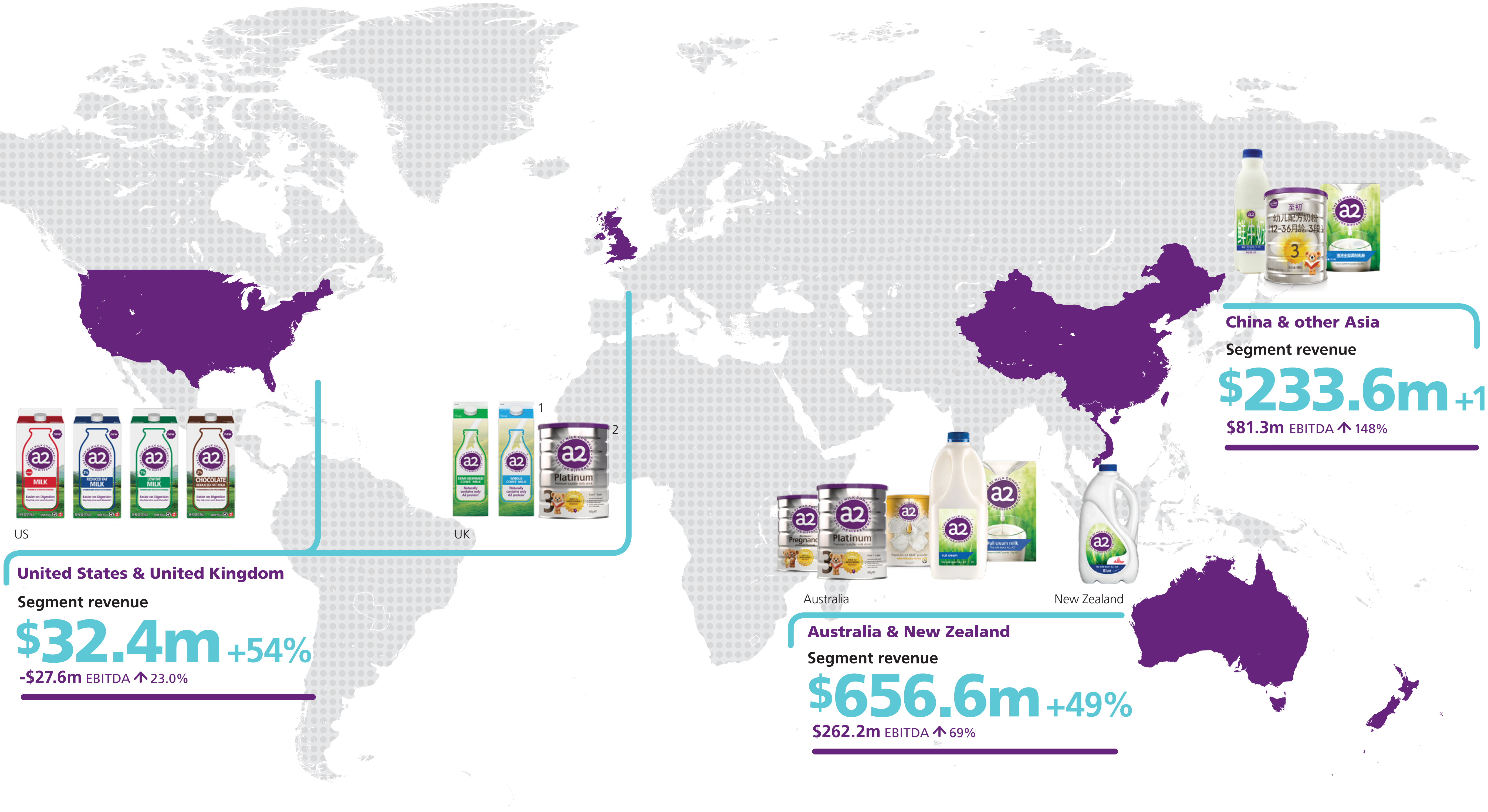
- Greater market access and an emerging middle class with rising consumer wealth
- A billion more Asians will join the middle class over the next 10 years[5]
- By 2030 the region will consume more than half of the world's food[5]
- 600 million additional people will live in the region's cities[5]
- Asia stands to deliver nearly two thirds of global growth to 2030[5]
- Shift from a product commodity focus to a desire for higher quality, value-added, safe and nutritious foods
- Almost half of Chinese consumers say they are willing to trade up to purchase premium products[6]

1. CSIRO, *The Future of Food*, August 2017
2. Euromonitor International, *A Bloated Market: Trends and Developments in Digestive Remedies*, February 2014
3. Euromonitor International, *Passport Database*, 2018
4. Mintel, *A world of opportunities for Australia and New Zealand among Chinese consumers*, March 2017
5. *Australian Government Foreign Policy White Paper*, 2017
6. Nielsen, *Breaking Borders*, October 2017

How we are unique

As the only company globally that has exclusively and successfully created an A1 protein free business, we will actively leverage and defend our first mover advantage and our unique business model

Our markets



United States & United Kingdom

Segment revenue

$32.4m +54%

-$27.6m EBITDA ↑ 23.0%

Australia & New Zealand

Segment revenue

$656.6m +49%

$262.2m EBITDA ↑ 69%

China & other Asia

Segment revenue

$233.6m +163%

$81.3m EBITDA ↑ 148%

All figures are in NZ$ (New Zealand dollars)
1 New UK carton in market from September FY19
2 UK export sales only

Our Chair

Dear Shareholder, I am delighted to present to you another year of outstanding achievement by your Company, in what was undoubtedly a transformative period.

In delivering its FY18 result, the Company has achieved compound annual growth across a three-year period of 81% in revenue and 349% in EBITDA – an impressive result that reflects the strength of our brand, a highly focussed and disciplined growth strategy, and the talent and commitment of our people. The Company's strong financial performance has enabled us to progress our objective of building a global dairy nutrition company, centred on a unique and compelling brand proposition. We intend to continue strengthening our position as the pioneers and leaders of the A1 protein free category.

Not only are we larger and more financially robust, we are now also in a significantly enhanced strategic position. I would like to highlight three transformative changes to your Company:

- We have proved that our proposition has real international potential across multiple geographies and products. We are building a genuine international brand and its growing strength is impressive.
- Physical distribution has reached scale in both China and the US, supporting the planned increased investment in brand building in these critical markets.
- The depth of our partnership model has been underscored with the combination of our enhanced agreement with and shareholding in Synlait, the announcement of our multi-faceted agreement with Fonterra and, importantly, the renewal of our import services agreement with China State Farm.

These three dynamics not only create a stronger base for our business but, also more and bigger opportunities for growth in the future which will sustain and deliver the Company's long-term strategic objectives.

The year also marks the retirement of Geoffrey Babidge as Managing Director and CEO. Geoff presided over the Company's achievement of another stellar financial result for the year ended 30 June 2018. Geoff's leadership was a critical part of the Company's success over his 11-year association with the business. Geoff is extremely proud of the culture he leaves behind – entrepreneurial, highly commercial, prepared to think outside the square, consumer focussed, and driven by a strong set of values. It is a strong legacy and one that positions the Company well for the future.

I wish to acknowledge his contribution and thank him on behalf of all shareholders for his leadership, vision and commitment.

I also wish to welcome Geoff's successor, Jayne Hrdlicka, who is now fully established in her role. Jayne is an outstanding senior executive with strengths highly relevant to this dynamic and transformative period for the Company. These include her extensive experience in strategy formulation and execution, consumer-centricity and innovation and, importantly, an understanding of operating in a disruptive environment. Jayne is no stranger to high growth businesses. She has hit the ground running and is well positioned to continue the momentum of our business into fiscal 2019.

The Company's robust financial position and unique proposition mean it is well placed for continued growth. The Board is acutely aware of its responsibility as stewards of the Company's capital and continues to consider its appropriate use, including a review of opportunities to invest in blending and canning capability as part of our longer-term planning.

Our *Year in Review* provides a comprehensive overview of the operational and financial performance for the year. A further update on our performance will be provided at the Annual Meeting, in November 2018.

On behalf of the Board, I would like to thank our management and staff across all regions for their continued hard work and dedication to the Company during the year and the outstanding results they have achieved.

David Hearn
Chair
21 August 2018

Our CEO

From our early days in scientific discovery to the commitment of all employees today, there is a real pioneering ethos at the heart of the Company, genuinely looking to make the world a better place by making people feel better. A spirit of integrity is part of the Company's history and guides the decisions we make today.

It is an honour to be The a2 Milk Company CEO.

While I have only recently become your CEO, I feel very privileged to have had several months before officially starting to get my head around the business and prepare for all that is ahead. To help you get to know me I thought I would share with you a bit about myself and my early observations of the business.

Like many of you, I have a family that significantly influences who I am. We have been an '*a2 Milk*™ only' household for years. We became passionate about the brand because we felt that *a2 Milk*™ was healthier and higher quality and therefore better milk for our kids. I am proud to now have the opportunity to help the company continue to deliver on its significant potential.

As I have learned more about our Company, its people and the opportunities ahead, I am reminded of the reasons I chose to join the Company.

This is a company built on great values. From our early days in scientific discovery to the commitment of all employees today, there is a real pioneering ethos at the heart of the Company, genuinely looking to make the world a better place by making people feel better. A spirit of integrity is part of the Company's history and guides the decisions we make today.

The foundations are strong. From the scientific underpinnings of our Company, the sophistication of our trade relationships, our market driven approach in China and the commercial strength of the business – we are in good shape and getting stronger every day.

The potential is significant. The a2 Milk Company team has achieved a lot in recent years. This success is a culmination of strong early foundations in science and IP, exceptional business development in Australia, and the growing strength of *The a2 Milk Company*™ branded products in China. The potential to continue to build on the momentum is significant. Both China and the US are big consumer markets where the underlying focus on health and wellness and the increasing consciousness about food security and provenance play to our hand. No doubt we have a lot of hard work ahead, but the Company and our people are very capable of continuing to remain agile, react quickly and punch above our weight.

The fit is excellent. I have spent my career working with consumer driven businesses, helping them define and deliver on their potential. Having worked across most industries and companies at every conceivable age, stage and circumstance, I am comfortable picking up leadership of The a2 Milk Company at this moment in time. We are a high growth, high potential, fundamentally entrepreneurial Company that needs to reinforce our foundations as we maintain the drive for continued growth. The team and I are off to a good start in doing exactly that.

I look forward to sharing more with you as I get my feet more firmly planted. We have only begun to scratch the surface of our potential as a Company and as a team. Thank you for your ongoing support of the Company, I look forward to meeting many of you in the coming months.

Warm regards,
Jayne

Year in review

Outstanding financial performance and strong progress on delivery of strategy

Total revenue of
$922.7m
an increase of 68% over the prior corresponding period (pcp)

EBITDA* of
$283.0m
up 101% on pcp

EBITDA to sales margin of
30.7%
up from 25.7% on pcp

Net profit after tax of
$195.7m
up 116% on pcp

Basic earnings per share (EPS) of
27.0 cents
up from 12.7 cents on pcp

Operating cash flow of
$231.1m
up 131% on pcp

5.1%**
share of infant nutrition in China and 32% in Australia

Substantial distribution growth with circa
16,000
stores across China and USA

8.5%
of revenue invested in marketing, IP and R&D

* Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on page 115.
** Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending 30/06/18 by value (Kantar track a substantial proportion of the total market)

FY18 has been a transformative year for the Company. *The a2 Milk Company™* brand and our approach is working across multiple products in multiple markets. We continued to learn how to communicate our brand proposition effectively and increased our investment to apply it to new regions and product innovation. Our scale in market in both China and the US is now substantial and creating real momentum of its own. We have also significantly strengthened our strategic partnerships with an enhanced supply agreement with Synlait, and a new comprehensive partnership with Fonterra, which is expected to support further access to new markets and product capabilities.

Summary of financial performance

The Company delivered another very strong financial performance, with substantial improvements in revenue, earnings and cash generation. Increased investment in brand and market development resulted in rapid growth of infant formula and the expansion of the liquid milk business in each of the Company's established markets.

Continued impressive sales growth and trajectory

Sales of *a2 Platinum*® infant formula again grew substantially in Australia and China, with continued growth in market share. *a2 Platinum*® sales revenue was $724.2 million, an increase of 84% on the previous year. Investment continued in building brand awareness and consumer engagement, expanding distribution in priority channels and adapting to new regulatory requirements in China.

In Australia, *a2 Milk*™ branded fresh milk value share grew strongly from 9.3% to 9.8% by year end[1]. The United States business continued to grow sales velocities in key accounts, alongside a distribution footprint which increased to 6,000 stores, following expansion into the Northeast and in the natural channel. In the United Kingdom, improvement in rates of sale and expanding distribution brought gains in revenue.

The Company advanced its growth strategy through multiple initiatives – launching three new products (*a2 Platinum*® Stage 4 milk powder, *a2 Platinum*® pregnancy formula and *a2 Milk*™ powder blended with Mānuka honey); entering new markets in South East Asia; and establishing a strategic relationship with Fonterra Co-operative Group Limited and an exclusive distribution agreement with Yuhan Corporation for the South Korea market.

Margin improvement and investment to deliver growth

Gross margin percentage benefited from the increased proportion of infant formula sales, currency movements and favourable net selling prices.

Investment in brand building and marketing grew by $31.6 million to $73.6 million, with increases across all markets. Due to the timing of key marketing programs in China and USA, this investment was more heavily weighted to the second half.

SG&A spend increased broadly in line with underlying revenue, reflecting a commitment to support continued growth. Corporate costs rose by $8.3 million, reflecting investment in people and associated costs to support global growth opportunities.

Strong balance sheet position

The cash position continued to improve along with revenue, earnings and working capital efficiencies. Net operating cash flow was $231.1 million, compared with $99.9 million in the previous year. Cash on hand at the end of the year was $340.5 million, compared with $121.0 million for the pcp.

Working capital benefited from improved terms with a number of customers. This was partially offset by a planned increase in infant formula inventory of $35.7 million as the Company built progressively to more sustainable levels during the year.

Enhanced strategic supply partnerships

The Company's supply base was enhanced by the extension of the comprehensive manufacturing and supply agreement for infant formula with Synlait Milk Limited (Synlait) and the establishment of a new comprehensive strategic relationship with Fonterra.

1 Aztec Australian Grocery Weighted Scan, 12 months ending 30/06/18 versus pcp

Strategic progress

With the Australian and China businesses delivering strong earnings, an expanded US distribution footprint and the growing strength of our brand, the Company continues to be well positioned to execute its strategy for further growth.

The growth strategy has three priorities:

- Building a branded portfolio of dairy-based nutritional products based on the A1 protein free proposition
- Investing in attractive markets where we believe we can build competitive brand strength
- Deepening our proprietary know-how and A2 protein expertise

The first signs of competition from a major international company in the A1 protein free category appeared in March 2018. There has been no apparent impact on our sales momentum as a consequence of this launch. The Company remains confident that competition will ultimately expand the category over time. The combination of our strong and contemporary brand, deep know-how and intellectual property, agile and entrepreneurial approach; and absolute focus as a Company on A1 protein free products, means our business is uniquely positioned to benefit from category expansion. The Company will actively leverage and defend the integrity of its market position.

Brand, intellectual property and research & development

The Company has continued its investment in improving brand equity via enhanced marketing campaigns in its key markets of Australia, China and the US, R&D and further development of intellectual property. The Company's investment in marketing and R&D increased by $32.3 million and a further $2.2 million was capitalised for patents and trade marks.

Increasing investment in trade marks included a rollout of a new unifying brand trade mark that has been applied across all products and markets. Our brand assets will continue to evolve as the trade mark portfolio broadens over time.

During FY18 a clinical trial conducted in China involving 600 adults with self reported lactose intolerance found consumption of milk containing the A2 protein reduced acute gastrointestinal symptoms. The study was consistent with a previous pilot study published in 2016.

A pilot study carried out under the New Zealand Government High Value Nutrition programme is now complete and being submitted for publication. Further, a clinical study in China amongst pre-school children examining digestive benefits of A1 protein free milk has been completed and submitted for publication.

The Company continues to support additional science and research & development programmes to enhance its overall brand proposition.

Strategic partnerships

With a view to enhancing our supply chain and broader international market development the Company announced the formation of a comprehensive strategic relationship with Fonterra. The initial scope of the relationship incorporates:

- an exclusive nutritional powder agreement under which Fonterra will manufacture A1 protein free products in Australia for certain priority markets in South East Asia and the Middle East
- an exclusive licence to Fonterra for the production, distribution, sale and marketing of *a2 Milk*™ branded liquid milk in New Zealand (commenced from July 2018)
- the opportunity to leverage Fonterra's sales and distribution capabilities in the priority markets
- joint evaluation of opportunities to sell certain Company branded dairy products, such as butter and cheese, in Australia, New Zealand and China
- Additional A1 protein free milk pools to be developed by Fonterra and the Company.

a2 Milk™ powder blended with Mānuka honey is packed by Fonterra and is the first product launched with Fonterra's assistance following the announcement of our strategic relationship.

Further steps were taken to build on the Company's global supply strategy with the comprehensive supply agreement for infant formula with Synlait Milk extended in early July 2018. This provides a two-year extension to the minimum term, an increase in the volume over which Synlait already had exclusive supply rights, increased committed production capacity and pricing terms that reflect both companies' commitment to an ongoing market-competitive pricing regime.

Consistent with the Company's desire to deepen relationships with its key partners, the Company announced on 3 August 2018 an additional investment of $162.3 million in Synlait Milk shares, bringing the total shareholding in Synlait to approximately 17.4%. This investment is intended to provide further stability over Synlait's capital position and ownership and reflects the Company's commitment to supporting key strategic partners. The Company has no plans to further increase its shareholding in Synlait.

The Company continues to take steps to minimise the risk of product substitution and counterfeit, particularly for infant formula in China. This includes improved security technology and advances in quality and authenticity proof points. During the financial year, the Company introduced a unique QR-verification system allowing verification of the authenticity of our products. The system has now been implemented across the total *a2 Platinum*® product range. Product quality and security will remain an ongoing area of focus and investment by the Company.

As recently reported, arrangements with China State Farm, the Company's exclusive import agent for China label infant nutrition products into Mainland China, were extended for a further three years, to December 2021.

The Company remains committed to its approach of deploying capital efficiently and strategically to support mutually beneficial relationships with processing and distribution partners, in line with its multi-site, multi-product and geographic diversification strategy. As part of this, the Company continues to assess its medium-term manufacturing strategy for nutritional products, including the possible ownership of blending and canning assets, potentially in conjunction with its nutritional powder supply partners.

New products and markets

Three new products were launched during the year:

- *a2 Platinum*® Stage 4 junior milk drink, to support the nutritional needs of children three years and over – launched in August 2017 in Australia and China. The product has performed above plan
- *a2 Platinum*® Premium pregnancy formula, to support mothers' nutritional needs pre-pregnancy, during pregnancy and while breastfeeding – launched in May 2018 in Australia
- Premium *a2 Milk*™ powder blended with Mānuka honey brings together two naturally beneficial products to create a great tasting nutritious milk drink that can be enjoyed cold or warm – launched in June 2018 in Australia, New Zealand and through cross border e-commerce channels in China

Following the year end, *a2 Milk*™ branded fresh milk was launched in New Zealand under Fonterra's *Anchor*™ brand – the first meaningful in-market joint activity between Fonterra and the Company.

The Company increased its resource capability in key innovation, operations and quality roles, which will underpin future expansion of nutritional products across new and existing regions.

Arrangements were also put in place for four new markets:

- Hong Kong – Launch of *a2 Platinum*® Stages 1, 2 and 3 in September 2017
- Singapore – *a2 Milk*™ branded fresh milk was launched in August 2017
- Vietnam – A small test market for *a2 Milk*™ branded whole milk powder
- South Korea – An exclusive sales and distribution agreement was completed with Yuhan Corporation in April 2018

The focus on growth initiatives in targeted emerging markets will continue, building on the Company's established strategic partnerships.

A clinical trial in China involving 600 adults with self-reported lactose intolerance found consumption of milk containing only the A2 protein reduced acute gastrointestinal symptoms

Regional performance

Australia and New Zealand

The ANZ business continued to grow strongly, with total revenue up 49% on pcp to $656.6 million and EBITDA up 69% on pcp to $262.2 million.

Sales of *a2 Platinum*® infant formula increased as market share grew from 26% to 32% by value[2]. *a2 Platinum*® remains the fastest growing infant formula brand by value in Australia. The Company commenced a transition to updated packaging, incorporating a new global brand logo, for its *a2 Platinum*® infant formula in May 2018. This transition is progressing in line with expectations and is expected to be completed by September 2018.

The flexibility and strength in the Company's supply chain was evident in its ability to deliver on the continuing strong growth in demand. The Company also introduced an online platform to improve access to *a2 Platinum*® products for Australian parents.

Fresh milk revenue rose by 4% and market share by value increased to 9.8%[3]. *a2 Milk*™ remains the only milk brand distributed through all six key grocery retailers in the Australian market.

The milk supply arrangements between the Company, Moxey Farms and Leppington Pastoral Company were further extended for an additional term of one year through to 30 June 2021.

Sales of *a2 Milk*™ branded milk powder products were significantly higher than in the previous year. Whole milk powder and skim milk powder sales growth was complemented by the launch of Premium *a2 Milk*™ powder with Mānuka honey and *a2 Platinum*® Premium pregnancy formula during the year.

The Company continued to invest strongly in its brands, with the highest national advertising spend in the infant formula and fresh milk categories in the Australian market and strong editorial media coverage. Both spontaneous and prompted consumer brand awareness grew sharply in both categories and *a2 Milk*™ was named the top brand of choice for Australian 'millennials'[4].

China and Other Asia

The China and Other Asia business continued to record exceptional growth, with revenue up 163% on pcp to $233.6 million and EBITDA up 148% on pcp to $81.3 million.

Total market share for *a2 Platinum*® infant formula in the targeted regions continued to grow rapidly. Consumption market share by value grew from 2.8% MAT (Moving Annual Total basis) at June 2017 to 5.1% MAT, as measured by Kantar Worldpanel[5]. Given the nature of panel data the Company believes the MAT measure provides a more appropriate view of market share trends in China.

Increased marketing and sales investment, including the first television advertising for *a2 Platinum*® Stage 3 infant formula and an active social media programme, remained the key drivers of rising brand awareness. Further impetus was provided by a series of live-streaming events and by publication of the findings from a major clinical trial conducted in China.

The business has a flexible multi-channel strategy for infant formula in both China label and cross border e-commerce English label, to best position the brand for growth.

a2 Platinum® again participated successfully in key online sales events. In the major '11/11 Singles Day' event it was the top-selling infant formula on Kaola.com, second on JD.com and third on T-mall.

In the offline (bricks and mortar) segment, distribution grew to approximately 10,000 Mother & Baby Stores, compared with approximately 3,800 at June 2017. The stores are supported by an in-store communication programme providing consumers with product and category advice.

To support the very strong growth of the China business, the team in China continued to grow across each of the selling, marketing, supply chain and administration functions. Expanding our China team capability will be an ongoing focus into FY19.

Infant Formula Regulation

Synlait achieved registration of our China label infant formula products (Stages 1, 2 and 3) with the China Food and Drug Administration (CFDA) in September 2017. Registration was required for the manufacture and import of such products into China through traditional channels beyond 1 January 2018. The registration process included formulation R&D and ingredient and finished product assessment. This necessitated packaging changes to comply with strict labelling and branding requirements.

The newly-registered China label packaging was launched to the market during June 2018 and the transition to the new pack and China brand is proceeding well.

The Company continues to monitor changes in China's regulatory regime and will continue to work proactively with our partners to respond as appropriate.

2 Aztec Australian Grocery and Pharmacy Scan 12 months ending 30/06/18 versus pcp
3 Aztec Australian Grocery Weighted Scan, 12 months ending 30/06/18
4 The Urban List, Food & Drink Survey, 1 May 2017 published in June 2017
5 Kantar Infant Formula market tracking of Tier 1 and Key A cities for 12 months ending 30/06/18 vs 12 months ending 30/06/17 by value (Kantar track a substantial proportion of the total market)

United States

The US business achieved further momentum, with increased brand awareness and sales velocities, along with continued expansion in its distribution footprint.

Distribution increased to approximately 6,000 stores in California, the Southeast, the Northeast, the Mid-Atlantic and through natural retail chains, including Sprouts Farmers Market and Whole Foods Market. The expansion into the Northeast, announced in January 2018, achieved distribution in major retailers in the region.

Sales velocities are increasing across the business in key accounts, with particular strength in the natural channel and the Northeast.

a2 Milk™ is available in four variants (including chocolate) within the specialty milk segment, the fastest growing segment of the total milk category.

Marketing investment continued with the *Love Milk Again*™ advertising campaign, which was broadened on a national basis to support the expansion into the Northeast. These campaigns augment the ongoing active editorial media programme and strong digital media and shopper marketing programmes.

The Company retains a positive view of the potential for growth in the US market and the unique advantage of being the pioneer of the A1 protein free category in this market. With the current opportunity to more quickly build distribution and brand awareness on a national basis comes the need to increase marketing investment above previous guidance. Accordingly, the planned EBITDA investment for FY19 is approximately US$22 million and the Company now expects to achieve positive monthly EBITDA within three years. This investment is predominantly marketing expenditure associated with brand building and sales activation but also includes investment in capability in market.

United Kingdom

Volume sales of *a2 Milk*™ branded fresh milk increased by more than 50% against the previous year through gains in distribution and in-store sales velocity.

However, the UK continues to be a challenging market to achieve scale. As in the previous year, results include a contribution from the sale of *a2 Platinum*® infant formula in the wholesale market.

The Company will transition between suppliers of its fresh milk product early in FY19. This is not anticipated to create any disruption to sales or stock availability.

Outlook for FY19

The Company anticipates further growth in revenue particularly in respect of nutritional products in ANZ and China, and liquid milk in the United States. The focus on growth initiatives in targeted emerging markets and new product development will continue.

Marketing expenditure as a percentage of sales is expected to be higher than FY18 given continued investment in the Australian market, re-phasing of 2H18 activities in China, and appropriate investment to support US market expansion.

Overhead costs are also expected to be higher than FY18, primarily due to increasing headcount for China and the Corporate office to support continued growth and organisational development.

Notwithstanding the higher expenditure as indicated, the Company expects the EBITDA to sales ratio for FY19 to be broadly consistent with that achieved for FY18.

The Board continues to consider the appropriate use of the Company's available capital to support further value creation for the Company's growth strategy and supply chain development. This includes a review of opportunities to invest in blending and canning capability where appropriate as part of our longer-term nutritional products sourcing arrangements.

Social and environmental responsibility

At The a2 Milk Company we believe we have a responsibility to do business in a way that best represents the interests of all our stakeholders and to protect the environment and the communities in which we operate. This is consistent with who we are as an organisation, part of what has made us so successful thus far and underscores the integrity and value of our brand. As a young company we are putting more structure around what we do.

Several core themes run at the heart of both our success and our ongoing investment in social responsibility – product quality and safety; ethical and responsible supply chain and farm management; responsible communications; strategic partnerships; and people and capability.

We are confident that a holistic business strategy, taking into account commercial, environmental, technological, regulatory and social factors, plays an important part in underpinning long-term, sustainable business value. This is a crucial factor in how we run our business and engage with our key partners and we will increasingly be more overt and public in our approach.

We aim to progressively build our approach to social responsibility in keeping with our unique model – and we can and will do more.

Product quality and food safety

With a broad consumer base and a large proportion of our products consumed by infants, young children and pregnant women, our commitment to safety and quality of the highest standard is at the heart of who we are as a company.

We take great care in leveraging our significant proprietary know-how and quality processes to deliver A1 protein free products that are of the highest quality and are safe and compliant with market regulations and requirements.

This commitment is supported by:

- A comprehensive and unique focus on A1/A2 beta casein segregation and testing from farm to finished product
- A priority focus on food safety and quality management programmes audited by accredited third party verification agencies for both proprietary and third party manufacturing sites
- Long-term partnerships with high quality third-party manufacturers who share our focus and ambition on social responsibility
- Relevant industry certifications: ISO 9001 (infant nutrition), SQF[1] (certification of Company's Sydney processing facility)
- Ongoing monitoring and compliance with relevant regulatory requirements in the markets in which we operate
- Investment in people and training to ensure capability to meet product quality & food safety standards

Additionally, we continue to enhance efforts to ensure consumers are purchasing *True a2*™ products:

Significant and ongoing investment in brand and other consumer communication

Rigorous internal testing regimes and quality compliance programmes

QR code based tracking system printed on all infant and pregnancy nutritional products

Independent product verification by food traceability experts Oritain to ensure in-market product authenticity

1 Safe Quality Food Programme (Global Food Safety Initiative)

Ethical and responsible supply chain and milk sourcing

We work in partnership with our farmers to collectively do the right thing by the environment and their animals.

While the Company does not own or operate any farming assets, where possible we work closely with our farmers, supporting them with the economic, environmental and social aspects of farming.

Recognising the importance of waste minimisation, we have established comprehensive recycling and waste management procedures at our milk processing facility in Australia.

Animal, farmer and environmental welfare

Our A1 protein free milk is sourced from diversified milk pools across New Zealand, Australia, the USA and UK. The following principles guide our milk sourcing strategy:

- **Proximity to processing facilities**: The majority of our milk is sourced from farms in close proximity to our processing facilities, allowing us to deliver fresher product with a reduced footprint
- **Land management and sustainability**: Our farmers work through a number of platforms to protect and sustain the land for future farming. In Australia, for example, we have commenced a programme to assist our farmers' efforts. During FY18 we began contributing to Landcare Australia funding grants for projects that will help them enhance the sustainability of their operations. Landcare is the largest environmental management movement in Australia, supporting community owned and driven initiatives that promote sustainable approaches to land management. The funding will help those farmers undertake projects focussed on a variety of initiatives, such as increased use of solar power, implementation of technology to reduce energy consumption, revegetation to reduce soil erosion and improve water quality, and recycling of waste water
- **Animal management**: We are committed to providing optimal living standards for animals involved in and impacted by *a2 Milk*™ supply, underpinned by a respect for animal welfare, and a belief in the positive impact that animal welfare standards can have on milk production and milk quality. Our Animal Welfare programme, already implemented in Australia and the United States, is endorsed and validated by Validus, a third party animal welfare specialist, and safeguards the Five Freedoms[2] for animal welfare adopted by the World Organisation for Animal Health
- **Quality control practices**: Our partners exhibit the same core beliefs as The a2 Milk Company and are the custodians of its A1 protein free point of difference, striving for industry best practice and continuously improving and challenging the status quo. Each partner has in place processes to ensure they meet our milk quality specifications
- **Paying a premium**: The Company pays a premium price to its farmers for A1 protein free milk over the market price for raw milk in the markets in which we operate[3]. This premium rewards farmers for the additional efforts undertaken to supply milk The a2 Milk Company way, and makes the ethical production of our A1 protein free milk an attractive economic proposition for our farmers

2 The Five Freedoms outline five aspects of animal welfare under human control and have been adopted by the World Organisation for Animal Health
3 Does not include milk sourced by licensees

Gray family farm, New South Wales, Australia

Responsible consumer marketing and healthcare education

The Company supports breastfeeding as the primary form of infant nutrition. We have developed a premium high quality range of infant nutrition products to provide parents an alternative when breastfeeding is not an option. In line with market regulations and the World Health Organisation's International Code of Marketing and Breast Milk Substitutes (WHO Code[3]), we refrain from promoting any products targeting 0-12 months of age across all our markets.

We also support the important nutritional needs of women during their pregnancy and whilst breastfeeding by providing *a2 Milk*™ fresh milk and milk powders and more recently *a2 Platinum*® pregnancy and breastfeeding formula.

Marketing of Infant Formulas (MAIF Agreement)

We are a signatory to the Marketing in Australia of Infant Formula: Manufacturer and Importers Agreement (MAIF agreement). It gives effect in Australia to the principles of the WHO Code. The MAIF agreement seeks to contribute to the provision of safe and adequate nutrition for infants by protecting and promoting the benefits of breastfeeding, whilst ensuring the appropriate marketing and distribution of breast milk substitutes such as infant formula.

Infant Nutrition Council

The Company is a member of the Australia and New Zealand Infant Nutrition Council, which represents the major manufacturers and marketers of infant formula in Australia and New Zealand as well as local companies producing product for export. The Council seeks to improve infant nutrition by supporting public health goals for the protection and promotion of breastfeeding and good nutrition for infants. All members abide by a Code of Conduct including the MAIF Agreement and The Infant Nutrition Council Code of Marketing of Infant Formula in New Zealand (INC Code of Practice).

Healthcare professional education

We provide health care professionals with materials and tailored programmes across all our key markets to enhance their knowledge and understanding of the differences in A1 and A2 beta casein science and overall health and nutrition education.

3 World Health Organization (1981) International Code of Marketing of Breast-milk Substitutes, Geneva (WHO Code)

Sustainable Partnerships

We work in close partnership with all key suppliers to ensure we share the same quality, environmental and community values.

Working with strategic partners throughout our supply chain is a core part of our business model. We are working to ensure our partners all feel like they are part of The a2 Milk Company family. Both Synlait and Fonterra are great examples of this and with each we are on a journey working to do more together in delivering for our key stakeholders in a socially responsible way.

Fonterra Co-operative Group Limited

During the year, we announced the formation of a comprehensive strategic relationship with Fonterra, which includes the manufacture and supply of nutritional products, a licensing agreement for *a2 Milk*™ branded fresh milk in New Zealand, the development of A1 protein free milk pools in New Zealand and Australia, and a number of other product and market opportunities.

Fonterra believes that 'strong healthy local environments and communities are the foundation for sustainable, profitable dairy farming'[4]. In its 2017 Sustainability Report, Fonterra has committed to medium-term targets and long-term contributions aligned to the United Nations Sustainable Development Goals. This report is aligned to the Global Reporting Initiative (GRI) Standards – an internationally recognised framework for sustainability reporting.

Access Fonterra's 2017 Sustainability Report: https://www.fonterra.com/sustainabilityreport

Synlait Milk Limited

As the Company's infant and pregnancy nutrition manufacturer for the New Zealand, Australian and Chinese markets, and with approximately 70 contracted farms, Synlait supports a significant proportion of the Company's operations.

Synlait's business model supports the achievement of economic, environmental and social outcomes. It has committed to reducing its environmental impact significantly over the next 10 years by targeting key areas of its value chain. Commitments include:

- Targeted reductions in greenhouse gas emissions, and water consumption on and off farm, as well as reduced nitrogen loss on farms, by 2028
- Boosting support for Synlait's best practice dairy farming programme, Lead With Pride™, via increased premium payments for participating farms; and
- Becoming a certified B Corporation and adopting several of the United Nation's Sustainable Development Goals
- Never building another coal boiler and addressing existing coal infrastructure over time as well as commissioning Australasia's first large-scale electrode boiler in early 2019

Access Synlait's sustainability commitments: www.synlait.com

4 Fonterra Sustainability Report 2017, Page 1 (https://view.publitas.com/fonterra/sustainability-report-2017/page/2-3)

Our people

Creating a diverse, skilled and innovative workplace

It is no coincidence that underpinning the Company's financial results is an extremely vibrant, agile, skilled and engaged workforce. Our team is diverse across gender, culture, knowledge and experience, reflecting the markets in which we operate. The Company's workforce is continuing to evolve and we are increasing our capability and diversity along the way.

The Company believes diversity of thought is a big part of our history and we will work to ensure that we never lose sight of the importance of challenging convention.

Diversity

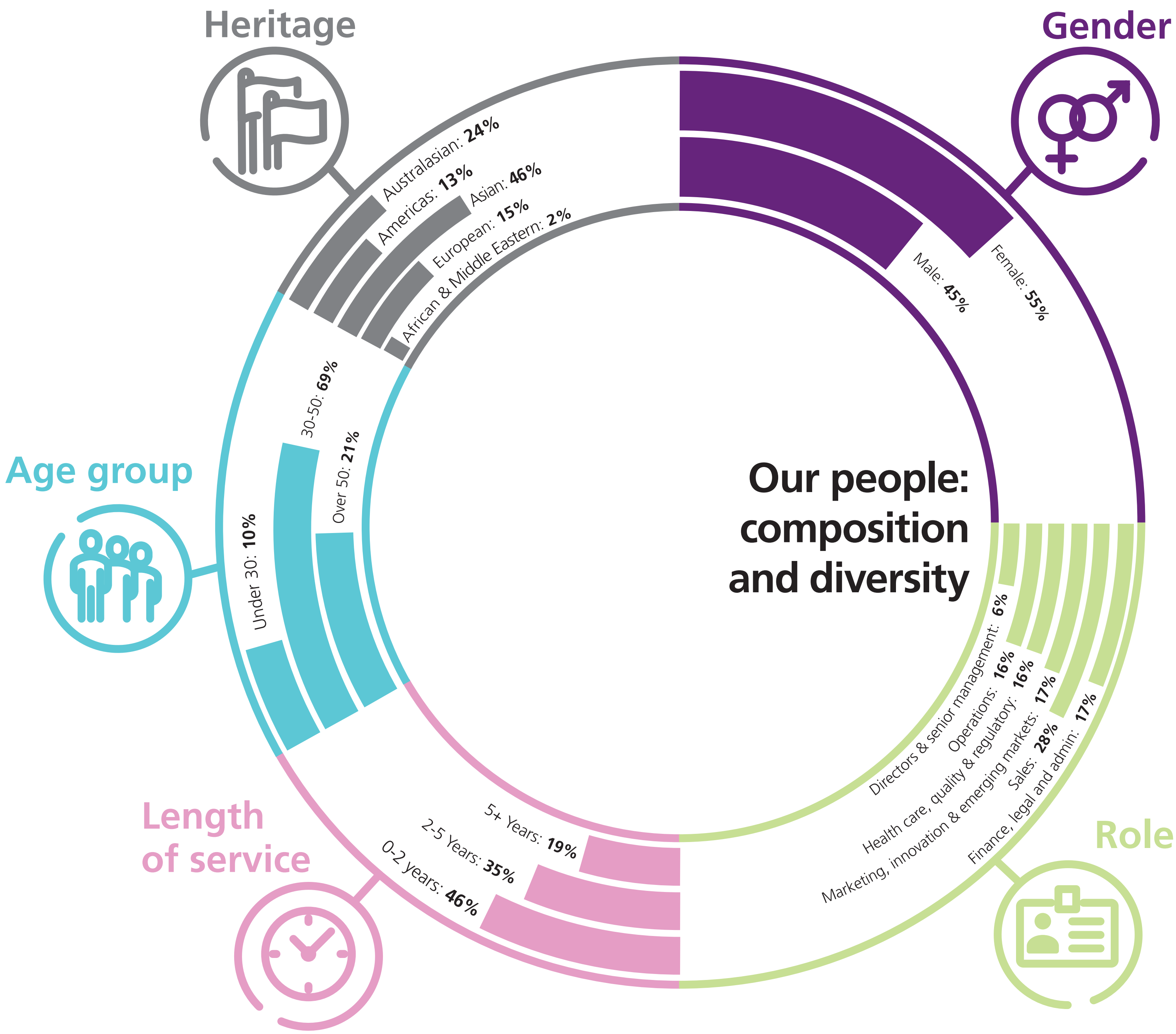
The Company's business policies, practices and behaviours promote diversity and equal opportunity and create an environment where individual differences are valued and all employees have the opportunity to realise their potential and contribute to the Company's success.

The Company has adopted a Diversity Policy, which is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

The policy requires the Board to establish measurable objectives to assist the Company in achieving diversity, and provides for delegation to the Nomination Committee to review the Company's progress in meeting these objectives.

Board and executive leadership team's responsibility

Our Company's leadership is responsible for designing and overseeing the implementation of our Diversity Policy. The leadership of the Company is responsible for promoting diversity within the Company's culture and monitoring the effectiveness of our diversity policy.



As at 30 June 2018

	Female	Female (%)	Male	Male (%)
Directors[1]	1	17	5	83
Senior Executives [2]	1	10	9	90
Managers	18	49	19	51
Staff	79	62	48	38
Total	**99**	**55**	**81**	**45**

As at 30 June 2017

	Female	Female (%)	Male	Male (%)
Directors[1]	1	17	5	83
Senior Executives [2]	1	10	9	90
Managers	15	50	15	50
Staff	68	63	40	37
Total	**85**	**55**	**69**	**45**

Setting objectives:

The Company's leadership objective is to continue to broaden the diversity of the Board and senior executive team.

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

- actively seeking a diverse and gender balanced candidate pool for all Board and executive placements
- implementing sound recruitment and development practices to minimise unconscious bias; and
- with an objective of a minimum of 40% women and 40% men holding roles in all leadership levels, including directors, senior executives and managers, by 2023.

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

55% of workforce are women

>40% of workforce are from Asian background

8/10 of executive team have been in place for over 4 years

25% of employees have joined in the past 12 months

1 in 2 new roles added in past year focussed on operations & quality, innovation and emerging markets

1 Includes executive directors: David Hearn (Chair) and Geoffrey Babidge (then CEO) and excludes Jayne Hrdlicka (current CEO) as she commenced her role in July 2018
2 Senior Executives are defined as the CEO and those directly reporting to the CEO
* All these figures include permanent full-time, permanent part-time and fixed term employees, but exclude independent contractors.

Corporate governance

Contents

Our directors

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

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

David has 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 Company directorship, David is also a director of Lovat Partners Limited, Robin Partington & Partners Limited and Committed Capital Limited.

David resides in the United Kingdom.

Julia Hoare
Deputy Chair &
Independent, non-executive Director
Bachelor of Commerce, FCA,
Chartered Member of the Institute of Directors (New Zealand)
Director since November 2013

Julia has been a director of the Company since 19 November 2013, and Deputy Chair since 30 March 2015. She is also Chair of the Audit and Risk Management Committee and a member of the Nomination Committee.

Prior to joining the Board, Julia had extensive chartered accounting experience in Australia, the UK and New Zealand and was a partner with PwC New Zealand for 20 years. She is also a member of the New Zealand External Reporting Advisory Panel (XRAP), a body designed to support the standard setting process of the New Zealand External Reporting Board (XRB), and the New Zealand Institute of Directors National Council.

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

Julia resides in New Zealand.

Jayne Hrdlicka
Managing Director & Chief Executive Officer (CEO)
Bachelor of Arts (Hons) Economics and Mathematics; Master of Business Administration (Dartmouth)
Director since July 2018

Jayne commenced as Managing Director and CEO of the Company on 16 July 2018.

Jayne is a senior executive with extensive experience in strategy formulation and execution, insight into customer-centricity and innovation and, importantly, an understanding of operating in a disruptive environment.

Prior to joining the Company, Jayne was most recently employed for five years in the role of CEO of the Jetstar Group, a wholly owned subsidiary of Qantas Limited, having previously led the business transformation of Qantas Airlines from 2010 to 2012. Jayne also served as a Non-Executive Director of Woolworths Limited from 2010 to 2016. In her earlier career, Jayne was a partner at Bain & Company, where she was focussed on consumer orientated businesses. Jayne is also the current non-executive President of Tennis Australia.

Jayne resides in Australia.

Peter Hinton
Independent, non-executive Director
Bachelor of Commerce;
Bachelor of Laws (Hons);
Master of Laws (Harvard)
Director since February 2016

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

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

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

Peter resides in New Zealand.

Warwick Every-Burns
Independent, non-executive Director
Advanced Management Program (Harvard)
Director since August 2016

Warwick has been a director of the Company since 23 August 2016. He is also Chair of the Remuneration Committee and a member of the Audit and Risk Management Committee.

Warwick has been a career Consumer Packaged Goods (CPG) executive of global scale. His executive roles have included a successful career with The Clorox Company of the USA as Senior Vice President, International, based in the USA and prior to that as VP Asia Pacific. His earlier roles included Managing Director of NationalPak Limited (the Glad Products Company ultimately acquired by Clorox) and a long career with Unilever PLC where he was based in Australia. 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 the Company in China, North America and Europe. His strong skills and interest in business development in new and emerging markets, brand management and human resource management are of significant value to the Company.

Warwick resides in Australia.

Jesse Wu
Independent, non-executive Director
Master of Business Administration (Duke)
Director since May 2017

Jesse has been a director of the Company since 16 May 2017. He is also a member of the Audit and Risk Management Committee and the Remuneration Committee.

Jesse began his career with Procter & Gamble and PepsiCo, before joining Johnson & Johnson's consumer business. He was appointed International Vice President, Asia/Pacific in 2003 and Company Group Chair, Global Markets in 2008. Prior to his last executive position, he was Worldwide Chair of the Johnson & Johnson Consumer Group (which had annual revenues of US$14bn).

Jesse serves on the Board of Visitors at Duke University's Fuqua School of Business. He is a two-time recipient of the Magnolia Award from the Shanghai Municipal Government, given in recognition of his contributions to Shanghai's economic development. In addition, Jesse serves on the board of Aptar Group Inc, a leader in global dispensing systems.

Over his career Jesse has managed significant scale and complexity in the areas of manufacturing, distribution, sales and marketing, in both developed and emerging markets.

Jesse resides in China.

Geoffrey Babidge
Former Managing Director & Chief Executive Officer (CEO)
Bachelor of Economics
Director from July 2010 to July 2018

Geoffrey has been a Director of the Company since 22 July 2010. He retired as Managing Director and CEO effective from 16 July 2018.

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 practising chartered accountant and partner at Price Waterhouse.

Geoffrey resides in Australia.

Our executive leadership team*

Jayne Hrdlicka
Bachelor of Arts (Hons) Economics and Mathematics; Master of Business Administration (Dartmouth)
Managing Director & Chief Executive Officer (CEO)

Peter Nathan
Bachelor of Business (Marketing)
Chief Executive, Asia Pacific

Blake Waltrip
BA Economics, Master of Business Administration (UCLA)
Chief Executive, USA

Michael Bracka
Bachelor of Arts (Psychology)
Head of Business Development – Emerging Markets

Simon Hennessy
Bachelor of Science (Chemistry), Graduate Diploma, Corporate Finance
General Manager, International Development

Craig Louttit
Bachelor of Commerce, CA
Chief Financial Officer

Susan Massasso
Bachelor of Commerce (Accounting/Marketing)
Chief Marketing Officer

Shareef Khan
Post Graduate Certificate in Management, Bachelor of Science, Certified Supply Chain Professional (APICS)
Chief Operating Officer

Jaron McVicar
Bachelor of Laws
General Counsel & Company Secretary

Detailed profiles for the executive leadership team are available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

* As at date of this report

Corporate governance statement

We are committed to maintaining the highest standards of corporate governance.

Our corporate governance framework has been established to ensure that directors, officers and employees fulfil their functions responsibly whilst protecting and enhancing the interests of shareholders.

Our corporate governance framework has been developed with regard to:

- the NZX Corporate Governance Code; and
- the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (ASX Principles).

For the financial year ended 30 June 2018 our corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles, except where noted below.

ASX principles

ASX recommendation 2.5 states that the chair of the Board should be an independent director and, in particular, should not be the same person as the CEO.

The roles of Chair and Chief Executive Officer are not exercised by the same individual. During the financial year, the role of Chief Executive Officer was held by the Managing Director, Geoffrey Babidge.

However, the Board does not consider the Company's Chair, David Hearn, to be an independent director in this financial year for the purposes of the ASX Principles. This is because the CEO had the capacity to call on David from time to time to support Europe and the UK in a limited executive role.

David brings to the Board invaluable perspective on the development of consumer products markets globally. The Board is confident that he exercises an independent view and judgement in his role as Chair and that the CEO has full executive control and accountability in the organisation.

The Board considers there to be an appropriate level of independent view and judgment exercised by directors, including by Julia Hoare as Deputy Chair, who is the lead non-executive director.

This Corporate Governance statement sets out our commitment to best practice corporate governance in compliance with the ASX Principles and the NZX Corporate Governance Code.

The Corporate Governance statement is current as at 30 June 2018 (except where otherwise specified) and has been approved by the Board.

The Board is responsible for guiding the Company's strategic direction, monitoring risk, and overseeing the activities of management

We are committed to maintaining the highest standards of corporate governance

Our Board

Role of Board and delegation of authority

The Board is responsible for the overall governance and operations of the Company, guiding the Company's strategic direction, monitoring risk, and overseeing the activities of management. All issues of substance affecting the Company are considered by the Board, with advice from external advisers as required.

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

The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, Remuneration Committee, and Nomination Committee). The role of each of these Committees is outlined in the Board Committees section, below.

Board procedures ensure that all directors have the information needed to contribute to informed discussion on all agenda items and effectively carry out their duties. Senior managers make direct presentations to the Board on a regular basis to give the directors broader contact with the leadership team.

Role of Chair

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

Role of Chief Executive Officer

To enable the effective day-to-day management and leadership of the Company, the Board delegates the management responsibilities of the Company to the Chief Executive Officer. The Chief Executive Officer in turn sub-delegates parts of that authority to senior executives in the 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 Company Secretary

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

Board size, skills and structure

During the reporting period, the Board comprised six directors (four independent non-executive directors and two executive directors). The Company's constitution provides for a minimum of four directors and a maximum of eight, of which at least two must be New Zealand residents to comply with the NZX Listing Rules.

Our Board

The Board has developed a board skills matrix which sets out the diversity of skills and experience that it has. The matrix, set out in its collective form reflecting current Board composition, is as follows:

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

In addition to the matters noted above, when reviewing potential board candidates, the Nomination Committee considers other matters including the degree of independence, a candidate's contribution to diversity, and their ability to devote sufficient time to the directorship.

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

Director independence

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

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

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

In determining the independence of its directors, the Board considers guidance for independence, set out in the ASX Principles, the NZX Listing Rules and the NZX Corporate Governance Code. Based on those rules and recommendations, a director is considered to be independent by the Board if he or she is a non-executive director and free of any interest, position, association or relationship that 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.

100%

of our directors have executive experience with businesses that operate outside Australia and New Zealand

Based on these measures, the Board considers that the non-executive directors: Julia Hoare; Peter Hinton; Warwick Every-Burns; and Jesse Wu are independent directors.

Peter Hinton was previously a partner at Simpson Grierson, a New Zealand law firm which provides legal services to the Company. From 1 January 2017, on retirement as a partner of the firm, he was appointed as Special Counsel to the firm, and ceased to be involved in any legal advice provided by Simpson Grierson to the Company. The Board considers him to be independent and is satisfied that Peter's continuing role with Simpson Grierson does not interfere with his independence.

The Board considers that, by virtue of their executive roles in the Company, David Hearn and Jayne Hrdlicka are not independent directors. Similarly, prior to his retirement on 16 July 2018, former CEO Geoffrey Babidge was not an independent director.

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Board committees

The Board has three standing committees (the Committees) to facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the Committees as at, and throughout the financial year ended 30 June 2018, was as follows:

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

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

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

The Board Charter provides for the Board to review and evaluate the performance objectives, responsibilities, and processes and procedures of each Committee on an annual basis in accordance with such performance measures as may be adopted from time to time. The Charter of each Committee also requires the Committee to review and assess its performance, objectives, responsibilities, and processes and procedures each year to ensure that they are not unduly complex, are designed to assist the Board in effectively fulfilling its role and are delivering to a high standard.

Our Board

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

Attendance at Board and Committee meetings

Director attendance at Board and Committee meetings during the year ended 30 June 2018 is set out below.

	Meetings of the Board		Audit and Risk Management Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Hearn (Chair)	13	12	–	–	–	–	1	1
Julia Hoare (Deputy Chair)	13	13	4	4	–	–	1	1
Geoffrey Babidge [1] (MD & CEO)	13	13	–	–	–	–	–	–
Peter Hinton	13	11	–	–	4	4	1	1
Warwick Every-Burns	13	13	4	4	4	4	–	–
Jesse Wu	13	11	4	4	4	4	–	–

1 Retired as MD & CEO on 16 July 2018

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

Audit and Risk Management Committee

The Audit and Risk Management Committee's responsibilities are set out in its Charter, 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 affecting the Company's financial performance and financial reporting, including information technology security and control;
- advise the Board on accounting policies, practices and disclosures;
- review, with management, the adequacy of the Company's systems for identifying, managing, and monitoring the Company's key risks in accordance with the Company's Risk Management 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 Chief Executive Officer and the Chief Financial Officer may attend meetings at the invitation of the Committee; and the external auditors may attend by invitation of the Chair of the Committee. The Committee meets a minimum of four times each year.

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

Remuneration Committee

The Remuneration Committee meets as required to advise the Board on the matters outlined in its 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. A member of the Committee must not be present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration. Management may attend meetings only at the invitation of the Committee.

Following each meeting, the Chair of the Remuneration Committee provides a report to the Board. The Chair is also required to provide an annual report summarising the Remuneration Committee's activities during the year and any related significant results and findings.

The Company's remuneration policies for directors and senior executives and managers are set out in the Remuneration section, below.

Nomination Committee

The Nomination Committee meets as required to advise the Board on the matters outlined in its 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, considering the range of skills and experience (including matters such as independence and diversity) that a potential new director may offer the Board and the ability to fully commit the time needed to be effective as a director of the Company.

Following each Committee meeting, the Chair of the Nomination Committee provides a report to the Board. The Chair is also required to provide an annual report summarising the Nomination Committee's activities during the year and any related significant results and findings.

Nominations, appointments and ongoing education

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

The objectives of the Nomination Committee include to:

- assist the Board in planning the Board's composition and that of the Committees;
- advise and assist the Chair and the Board (as applicable) to review the performance of the Board, the Committees, the Chair and individual directors;
- evaluate the competencies required of prospective directors, identify those prospective directors and establish their degree of independence; and
- develop succession plans for the Board.

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

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

Our Board

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

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

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

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

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

Performance review of the Board, Board committees and individual directors

The Board recognises that the performance of the Board and its Committees is pivotal to the Company's success and to the protection of the interests of shareholders. The Board regularly reviews and evaluates the performance objectives, responsibilities, and processes and procedures of the Board and each Committee.

Internal financial control

The Board, advised by the Audit and Risk Management Committee, is responsible for the Company's overall system of internal financial control.

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

Under its Charter, the Audit and Risk Management Committee is responsible for regularly reporting to the Board, including the results of the Committee's review of the Company's risk management and internal control systems. The Board is also required, under the Risk Management Policy, to undertake an annual review of the effectiveness of the Company's risk management and internal control system.

The performance of the Board and its Committees is pivotal to the Company's success and to the protection of the interests of shareholders

External auditor

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

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

The external auditor is invited to attend the annual meeting of the Company to answer questions from shareholders in relation to the audit.

Internal audit function

Deloitte Touche Tohmatsu ("Deloitte") act as the Company's internal auditors, reporting to the Audit and Risk Management Committee. The internal audit program is focussed on evaluating the effectiveness of risk management, control and governance processes.

CEO and CFO annual declaration

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

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

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

Corporate governance policies

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

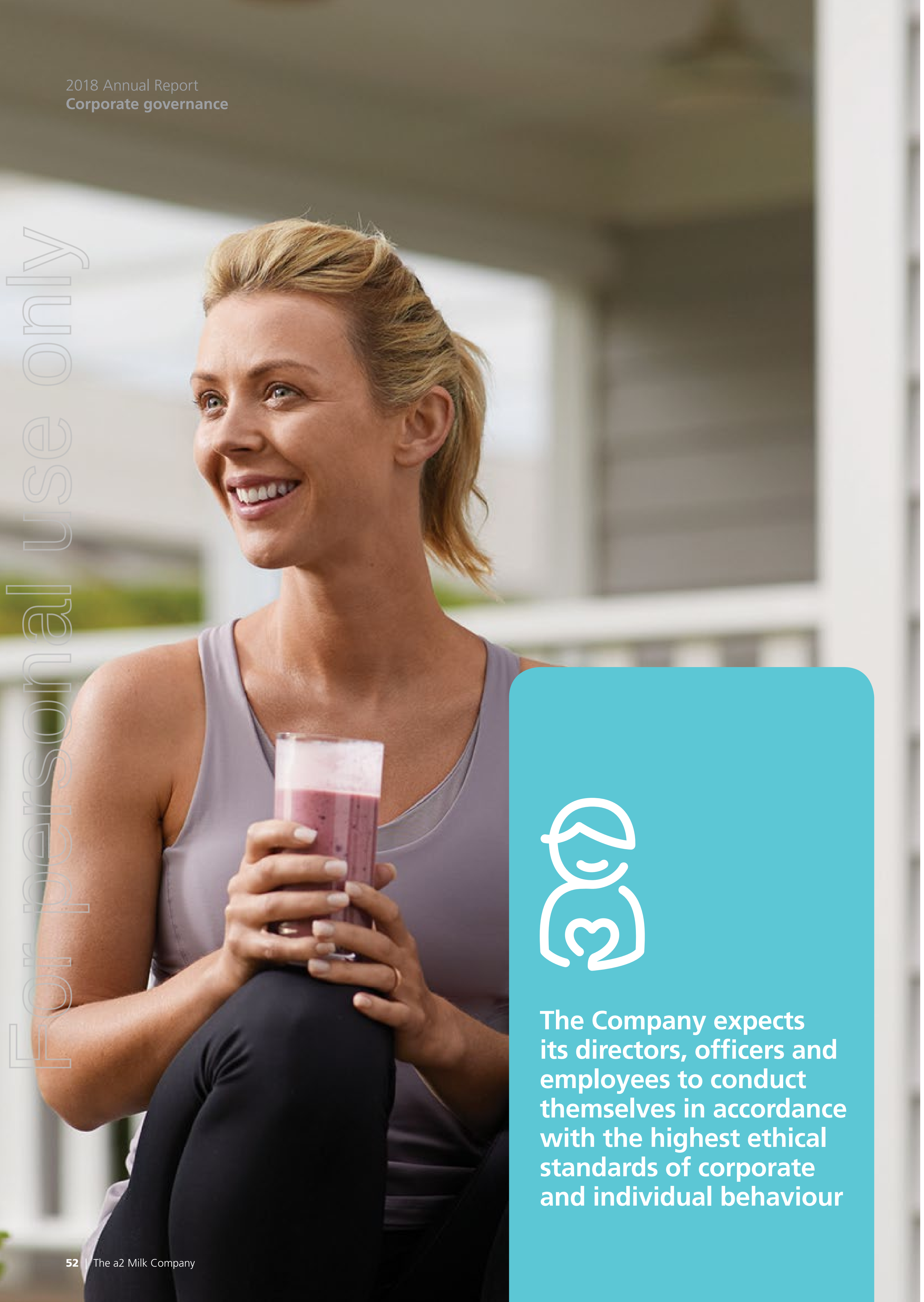
The Board regularly reviews the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amends those policies and procedures or adopts new policies or procedures, to uphold the integrity of the Company's corporate governance framework.

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's Code of Ethics is designed to set out the practices which are necessary to maintain confidence in the Company's integrity. Directors, officers and employees are required to comply with both the spirit and letter of all laws which apply to the Company and the principles of the code.

The Company requires all directors, officers and employees who become aware of an actual or suspected violation of the code to report to a nominated reporting person. This process allows for confidential reporting of any potential violation without disadvantage to the employee.

Group-wide ethics training sessions for all staff took place during the year.



The Company expects its directors, officers and employees to conduct themselves in accordance with the highest ethical standards of corporate and individual behaviour

Continuous disclosure policy

The Company prides itself on its continuous disclosure practices and 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. Subject to recognised exceptions, this ensures the timely disclosure to the ASX and the NZX of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Shareholder communication policy

The Company has adopted a Shareholder Communications Policy which outlines the Company's approach and commitment to effective communication with shareholders. The Company uses numerous modes of communication, including electronic communication, to ensure that its communications with shareholders are 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, other NZX and ASX announcements, media releases and general Company information.

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

Diversity policy

The Company's diversity policy is discussed on page 36 of this Annual Report.

Securities trading policy

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

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

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

Under the terms of the policy, directors, officers, senior executives and their associates are prohibited from entering into hedging transactions which operate to limit the economic risk of their securities in the Company (including under any equity-based remuneration scheme) and must notify the Company before engaging in any margin or securities lending arrangements or granting a security interest or other encumbrance over Company securities.

Indemnities and insurance

The Company has provided Deeds of Indemnity to all directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiaries. Directors' and officers' liability insurance is in place for directors and officers acting on behalf of the Company.

Protocols in the event of a takeover offer

The Board has established protocols that set out the procedures to be followed in the event of a takeover offer to assist directors and management with the response to unexpected takeover activity, including governance, conflict and communications protocols for takeover response.

Risk management

The Company recognises that risk management is an inherent part of actively growing and developing the business.

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

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

Risk governance

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

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

Risk management

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

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

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

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

Effective risk management anticipates risk, develops strategies to manage risk and enables the Company to capitalise on opportunities that bring value to shareholders

Key risks & mitigations

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

	Risks	Mitigation
Product quality	The Company's products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption. This could result in injury or harm to consumers, regulatory penalties, termination of distribution agreements, liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and overall damage to the Company's brand and reputation	• Food safety & quality management systems and programmes, internally and with suppliers to the Company • Partnering with high quality third-party manufacturers with a proven record for product safety and quality • Comprehensive testing of the integrity of protein content and product quality prior to the release of every batch of finished product (positive release protocol) • Testing of distributed products in selected markets • Employment of product innovation and technology improving product security • Product recall and crisis management systems and processes with supplier integration • Consumer support systems
Supply chain	The Company's ability to maintain supply to its customers, and maintain its position in existing markets or enter new markets may be impacted if: • The operations of one or more suppliers change in a material and adverse way • One or more suppliers reduce their support for the Company	• Focus on developing strong, long-term commercial relationships with multiple supply chain partners • Due diligence on supply chain partners before entering commercial agreements • Long-term partnership with dairy nutritionals manufacturer, Synlait Milk Limited, governed by a formal manufacturing agreement, and complemented by the Company's equity interest in Synlait Milk • Establishment of strategic relationship with Fonterra Co-operative Group Limited, providing multi-site and geographic diversification for the Company's growing nutritionals business • Contracts provide access to milk pools that exceed the Company's current usage requirements • Multiple milk processors contracted in Australia and USA, mitigating reliance on single processor in these regions

Risk management

	Risks	Mitigation
Regulations	Government actions which influence or restrict international trade in products including tariffs, quotas, price controls, taxes and non-tariff barriers such as product registrations, competition and consumer laws. Failure to comply with regulatory requirements may result in legal action, financial penalties, trade embargoes or loss of market access	• Close ongoing monitoring by the Company and third party experts to ensure compliance with regulatory requirements in all markets in which it operates • Continuing to build a multi-product, multi-channel route to market strategy for the sale of infant formula into China • Close partnership with Company's infant formula manufacturer, Synlait Milk, which has received both CNCA[1] and CFDA[2] registrations for the importation of the Company's infant formula into China 1 CNCA registration is a market access requirement for facilities producing food for import into China. Synlait Milk has achieved this registration for its manufacturing facility in Dunsandel, New Zealand. 2 All manufacturers of infant formula are required to register brands and recipes with the China Food and Drug Administration (CFDA) in order to import products into China, through traditional import channels, from 1 January 2018. Synlait Milk achieved this registration for the Company's China label infant formula in September 2017.
Intellectual property	• Expiry or cancellation of some of the Company's intellectual property (IP) rights, which may limit the Company's ability to claim and enforce such IP • Infringement of the Company's IP rights resulting from third-party conduct or claim against such IP, which may lead to protracted litigation, and/or negative publicity for the Company	• Continued investment by the Company in developing and further broadening its trademark and patent portfolio including building exclusivity in trademarks in existing and future markets and expansion of the Company's suite of patent families • Significant and ongoing investment in brand building activities globally • Documenting and embedding proprietary know-how across quality systems and processes • Monitoring of third party applications and activity • Monitoring misuse of the Company's IP and taking necessary action to protect it
Agricultural practices	• Environmental concerns linked with the Company's supply of dairy-based products, including in relation to agricultural practice (including water access and usage) and animal welfare • In turn, the impact of such concerns could negatively affect the Company's brand reputation, result in greater regulation, consent or licensing requirements or restrictions on the Company's operations	• Sourcing of milk from diversified milk pools across and within New Zealand, Australia, USA and UK • The majority of our milk is sourced from farms in close proximity to our processing facilities, reducing the need to transport milk over long distances from other areas • Independently audited Animal Welfare Program in the US and Australia, contributing positively to animal living standards, milk production and milk quality • Building long-term supply arrangements with partners promoting positive environmental and social sustainability activities and initiatives

	Risks	Mitigation
Key personnel	• Loss of key management personnel, which could have a material effect on the Group's operating and financial performance	• Effective employee retention strategy combining both short and long-term financial incentives with career development opportunities to motivate and engage key personnel • Increasing the depth and capability of the senior management pool to support future growth • Succession planning to ensure continuity of knowledge, skills and experience
Workplace health & safety	• Actual or potential harm to all workers and other persons at the workplace • Non-compliance with applicable laws and regulations which could result in actual or potential harm to all workers and other persons at the workplace (as well as potential financial penalties, drop in staff morale and productivity, increased insurance costs and damage to the Company's reputation, including as an employer)	• Framework in place to assist the Board and senior management with the identification, control, reporting, investigation and monitoring of health and safety risks to the Group • Use of qualified external consultants to ensure compliance with relevant laws in each jurisdiction and to identify improvement opportunities • Board prioritisation of health and safety performance, facilitated through monthly formal review and Board updates, to ensure a strong focus on health and safety in the workplace is maintained • Health and safety training and supervision for employees
IT cyber security	Inadequate IT security leading to a compromise of the Company's IT system and potential data theft, data loss or corruption. Such a compromise could result in economic or reputational loss to the Company.	• Restricted and segregated access to sensitive Company and stakeholder data • Implementation of regional specific cyber security audits • Cyber security insurance

Health and safety

We are committed to the health, safety and wellbeing of our people. This commitment starts at the top of our Company. Our directors visit the Company's sites to gain a first-hand understanding of the systems in place. The Company's health and safety report is reviewed at each Board meeting. We have a focus on reporting not only injuries but also safety observations, which are an important part of an improving health and safety management system. During the year, there were no medical treatment injuries or lost time injuries.

Remuneration

Remuneration policy

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

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

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

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

Fixed remuneration

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

Variable remuneration

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

Short-Term Incentive plan (STI)

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

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

STI values and performance targets are approved by the Remuneration Committee at the start of each financial year. For the year ended 30 June 2018 participants may achieve a maximum STI of between 10% and 60% of fixed pay, with the STI payable up to the maximum subject to achievement of financial targets and specific agreed personal objectives, aligning with the strategic objectives of the Company.

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

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

Long-Term Incentive plan (LTI)

The LTI has been established to:

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

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

Each Award granted represents a right to receive one fully paid share in the Company once the Award vests and is exercised. The number of Awards and the vesting conditions for Awards issued under the LTI Plan are determined by and at the sole discretion of the Board. No dividends are paid on performance rights.

The FY2018 grants of performance rights vest subject to an Earnings Per Share (EPS) performance hurdle calculated over two or three year performance periods, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over the performance period, with no retesting. 50% of the award will vest if diluted EPS CAGR of 15% is achieved, up to a maximum of 100% of the award if diluted EPS CAGR of 20% or more, or 25% or more, is achieved.

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

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

Managing executive performance

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

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

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

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

For the financial year ended 30 June 2018, each member of the executive team who was an employee for the duration of the reporting period had at least one periodic performance discussion documented.

Directors' remuneration

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

The annual aggregate non-executive directors' remuneration pool, capped at $950,000, was approved by shareholders at the Company's 2016 Annual Meeting of Shareholders.

Directors' fees structure	$ annual
Base board fees:	
Chair of the Board (refer below)	120,000
Deputy Chair	165,000
Non-executive director	120,000
Audit and Risk Management Committee:	
Chair	33,000
Committee member	16,500
Remuneration Committee:	
Chair	33,000
Committee member	16,500
Nomination Committee:	
Chair	22,000
Committee member	11,000

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

Prior to the Company's admission to the Official List of the ASX on 31 March 2015, 5,000,000 options over unissued ordinary shares were issued to Lovat Partners Limited under the Company's LTI Plan. Each option has an exercise price of NZ$0.63. At 30 June 2018, 2,000,000 of these options are yet to vest and 1,300,000 have vested but are not yet exercised.

The consultancy fees received for the year ended 30 June 2018, and the annual accounting charge to profit or loss for the options issued under the LTI Plan, are included in the schedule of Directors' remuneration as other benefits. The current level of Chair's fees recognises the contribution to total remuneration of these other benefits.

Remuneration

Remuneration paid to directors of the Group for the year ended 30 June 2018 was as follows:

	Board fees	Committee fees			Total fees	Other benefits received	Total remuneration
	$	Audit & Risk Management $	Remuneration $	Nomination $	$	$	$
Company							
David Hearn (Chair)[1]	120,000	–	–	–	120,000	161,931	281,931
Julia Hoare (Deputy Chair)	165,000	33,000	–	11,000	209,000	–	209,000
Peter Hinton	120,000	–	16,500	22,000	158,500	–	158,500
Warwick Every-Burns[2]	195,000	16,500	33,000	–	244,500	–	244,500
Jesse Wu[2]	157,500	16,500	16,500	–	190,500	–	190,500
Total	**757,500**	**66,000**	**66,000**	**33,000**	**922,500**	**161,931**	**1,084,431**
Subsidiary companies							
William Keane[3]	45,619	–	–	–	45,619	–	45,619
Total	**803,119**	**66,000**	**66,000**	**33,000**	**968,119**	**161,931**	**1,130,050**

1 Other benefits received include the annual non-cash accounting charge for options issued under the LTI plan of $76,931; and consultancy fees of $85,000 payable to Lovat Partners Limited, an entity controlled by David Hearn providing services solely to the Company, for consultancy services rendered during the year and charged at commercial rates, separate from the director's fees reported above. The value of options exercised by David Hearn during the year was $5,281,720.
2 Warwick Every-Burns and Jesse Wu received $75,000 and $37,500 respectively in the period for additional Board duties.
3 William Keane is included as a director of The a2 Milk Company Limited (UK). No other director of a subsidiary company was remunerated in their capacity as a director.

Director shareholdings in the Company

In order to align the interests of directors more closely with those of all shareholders, the Company requires each director to purchase (in his or her own name, family trust or company) shares in the Company equivalent in value (at the time of purchase) to at least one year's pre-tax remuneration, to be held for the duration of his or her tenure on the Board. Each director has three years from the date of his or her appointment, to achieve this position. As at 30 June 2018, all directors had shareholdings in the Company meeting or exceeding this requirement.

Remuneration

Remuneration of former CEO – Geoffrey Babidge

Geoffrey's employment as CEO under an executive service agreement with the Company commenced in 2010 and ceased upon his retirement on 16 July 2018.

During the year ended 30 June 2018 Geoffrey Babidge received an annual base salary of A$1,000,000 inclusive of superannuation, and had the opportunity to receive up to 60% of his annual fixed remuneration in the form of an STI, subject to the achievement of performance objectives determined by the Board. The STI is allocated 35 percentage points to financial performance, and 25 percentage points to strategic and operational targets.

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

	2018 A$
Fixed Remuneration	1,000,000
STI paid	315,000
Total remuneration received	1,315,000

The STI paid in the year of A$315,000 refers to the STI earned for the 2017 financial year.

The potential STI for the 2018 financial year is up to 60% of his FY18 annual fixed remuneration (or A$600,000).

At 30 June 2017 Geoffrey held 5 million partly paid shares previously issued to him in 2013 under the LTI scheme described in Note F2 to the financial statements, with an amount payable per share of $0.64. He has not participated in any other LTI plan since this award. During FY18, Geoffrey paid the 5 million partly paid shares up in full, and held 2.5 million of those fully paid shares on retirement.

The employment of Geoffrey Babidge as CEO ceased on his retirement on 16 July 2018.

Since the commencement of FY19 he was paid his fixed remuneration for the period 1 July to 16 July 2018 of A$41,667. Upon retirement he was paid an amount in accordance with the terms of his employment agreement (including statutory leave entitlements and 6 months' notice period termination payment) of A$860,906 and the STI for the financial year ended 30 June 2018 amounting to A$555,000.

Geoffrey will remain available until December 2018 to assist in the CEO transition.

Remuneration of CEO – Jayne Hrdlicka

Jayne commenced her appointment as Managing Director and CEO of the Company on 16 July 2018. Details of the remuneration arrangements under her employment agreement are set out below.

Term

There is no fixed term, employment is ongoing until terminated by either Jayne or the Company in accordance with the agreement, which includes a six months' notice period for resignation or termination of employment by the Company.

Total fixed remuneration

A$1,500,000 per annum, including superannuation, subject to annual review.

STI

An annual STI payment of up to a maximum of 120% of Total Fixed Remuneration may be achieved, based on the attainment of performance objectives measured against key performance indicators determined by the Board on an annual basis.

LTI

On an annual basis, Jayne will be invited to take up performance rights under the Company's current LTI Plan Rules, which apply to all senior management.

On commencement, Jayne was granted 245,787 performance rights, equivalent to 175% of her Total Fixed Remuneration.

In each following year of her employment, Jayne will be offered performance rights equivalent to 150% of Total Fixed Remuneration (subject to adjustment from time to time at the discretion of the Board in order to have reasonable regard to equivalent entitlements provided by peer companies).

The vesting of the first grant of 245,787 performance rights will be subject to the Company achieving a compound annual growth (CAGR) in its diluted earnings per share, measured over three consecutive financial years to 30 June 2021, on a straight-line basis. 50% of the performance rights will vest if diluted EPS CAGR of 15% is achieved, to a maximum of 100% if diluted EPS CAGR of 25% or more is achieved.

Subject to the discretion of the Board or unless employment is terminated by the Company other than for fault, cessation of employment will result in the forfeiture of all unvested performance rights. The Board may also forfeit performance rights for fraud, dishonesty or wilful breach of duties.

At the discretion of the Board, performance rights may be subject to accelerated vesting if the Company is subject to a change of control.

Adjustments to the number of performance rights, or the number of the Company ordinary shares to which they relate, may be made following any bonus issue of the Company ordinary shares or reorganisation of its capital.

Transition benefits

On a one-off basis, Jayne received the following transition benefits as compensation for forfeitures of her former employer's STI and LTI entitlements as a result of her resigning to take up employment with the Company:

- An A$586,666 cash payment (calculated at approximately 67% of her forfeited STI cash benefit).
- 599,254 time-based rights to acquire ordinary shares in the Company (calculated at approximately 80% of Jayne's forfeited STI and LTI scrip benefit, based on the 90 day VWAP of shares in the Company and her previous employer as at the date that her appointment was announced to the market, being 13 December 2017) to vest in four tranches during the period from 28 August 2018 to 24 August 2019.

Time-based rights are not subject to performance hurdles but are otherwise to be issued on terms similar to Jayne's performance rights, including continuing employment.

Annual leave

Statutory entitlements together with one week per annum of additional paid leave.

Other terms

The employment agreement also includes standard terms covering expenses, conflicts of interest, confidentiality, intellectual property and moral rights, and restraints upon termination.

Financial statements

Contents

Directors' approval of the financial statements for the year ended 30 June 2018

The directors of The a2 Milk Company Limited are pleased to present the consolidated financial statements for The a2 Milk Company Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2018.

The directors are responsible for preparing and presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly the financial position of the Group as at 30 June 2018 and the results of its operations and cash flows for the period which ended on that date.

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

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

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

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

Signed on behalf of the Board by:

David Hearn Chair and Executive Director	**Julia Hoare** Deputy Chair and Chair of the Audit & Risk Management Committee

21 August 2018

Independent auditor's report for the year ended 30 June 2018

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

Opinion

We have audited the financial statements of The a2 Milk Company Limited ("the company") and its subsidiaries (together "the Group") on pages 70 to 105, which comprise the consolidated statement of financial position of the group as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 70 to 105 present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2018 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

Ernst & Young has provided market research services in relation to brand health tracking and has also provided sustainability reporting advisory services to the group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent auditor's report for the year ended 30 June 2018

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Effect of customer discounts and rebates on revenue

Why significant	How our audit addressed the key audit matter
▶ As disclosed in Note B1 to the financial statements, revenue relating to the sale of products is recognised when the risks and rewards of ownership of the goods have been transferred to the customer and is recognised net of trade discounts and volume rebates provided to customers. ▶ Given the variety and complexity of contractual arrangements the Group has with its customers and due to significant growth in revenue in the current year this was considered to be a key audit matter.	Our audit procedures included the following: ▶ Considered the appropriateness of the Group's revenue recognition accounting policies as they relate to customer discounts and rebates. ▶ Evaluated the Group's processes and controls over the recording of customer discounts and rebates. ▶ Reviewed a sample of customer contracts to determine whether rebates were calculated in accordance with terms and also inquired of management as to the existence of any non-standard agreements or side arrangements with customers. ▶ Selected a sample of customer discounts, and rebates recorded and assessed whether the timing and value of amounts recognised were in accordance with the accounting standards. ▶ Compared sample of customer claims and payments made subsequent to year end to year end accruals. ▶ Considered the year end ageing profile of customer discounts and rebate accruals and enquired as to the likelihood of aged balances being settled.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report which we obtained prior to the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Lisa Nijssen-Smith.

Ernst & Young
Sydney
21 August 2018

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Consolidated statement of comprehensive income for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Sales	B1	922,354	549,247
Cost of sales		(458,005)	(285,729)
Gross margin		464,349	263,518
Other revenue	B1	323	279
Distribution expenses		(26,825)	(20,185)
Administrative expenses	B2	(47,262)	(32,446)
Marketing expenses		(73,647)	(42,010)
Other expenses	B2	(35,937)	(30,557)
Operating profit		281,001	138,599
Interest income		2,369	887
Finance costs	B2	(138)	(135)
Net finance income		2,231	752
Profit before tax		283,232	139,351
Income tax expense	B4	(87,548)	(48,705)
Profit after tax for the year		195,684	90,646
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		(74)	(1,896)
Items not to be reclassified to profit or loss:			
Listed investment fair value gain		108,741	13,372
Total comprehensive income		**304,351**	**102,122**
Earnings per share			
Basic (cents per share)	B3	27.00	12.66
Diluted (cents per share)	B3	26.30	12.29

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity for the year ended 30 June 2018

Year ended 30 June 2018	**Foreign currency translation reserve $'000**	**Fair value revaluation reserve $'000**	**Employee equity settled payments reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Share capital $'000**	**Total equity $'000**
Balance 1 July 2017	(10,948)	13,372	9,739	12,163	95,017	134,302	241,482
Profit for the period (net of tax)	–	–	–	–	195,684	–	195,684
Foreign currency translation differences – foreign operations	(101)	–	–	(101)	–	–	(101)
Listed investment – fair value movement	–	108,741	–	108,741	–	–	108,741
Income tax	27	–	–	27	–	–	27
Total comprehensive income for the period	(74)	108,741	–	108,667	195,684	–	304,351
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	–	7,316	7,316
Share issue costs	–	–	–	–	–	(52)	(52)
Share–based payments	–	–	2,612	2,612	–	–	2,612
Total transactions with owners	–	–	2,612	2,612	–	7,264	9,876
Balance 30 June 2018	(11,022)	122,113	12,351	123,442	290,701	141,566	555,709

Year ended 30 June 2017	**Foreign currency translation reserve $'000**	**Fair value revaluation reserve $'000**	**Employee equity settled payments reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Share capital $'000**	**Total equity $'000**
Balance 1 July 2016	(9,052)	–	7,211	(1,841)	4,371	130,548	133,078
Profit for the period (net of tax)	–	–	–	–	90,646	–	90,646
Foreign currency translation differences – foreign operations	(2,683)	–	–	(2,683)	–	–	(2,683)
Listed investment – fair value movement	–	13,372	–	13,372	–	–	13,372
Income tax	787	–	–	787	–	–	787
Total comprehensive income for the period	(1,896)	13,372	–	11,476	90,646	–	102,122
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	–	3,788	3,788
Share issue costs	–	–	–	–	–	(34)	(34)
Share–based payments	–	–	2,528	2,528	–	–	2,528
Total transactions with owners	–	–	2,528	2,528	–	3,754	6,282
Balance 30 June 2017	(10,948)	13,372	9,739	12,163	95,017	134,302	241,482

The accompanying notes form part of these financial statements.

Consolidated statement of financial position as at 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash & short-term deposits	D3	340,455	121,020
Trade & other receivables	C1	65,491	72,874
Prepayments		36,015	35,957
Inventories	C2	64,101	28,437
Total current assets		506,062	258,288
Non-current assets			
Property, plant & equipment	C4	9,701	8,358
Intangible assets	C5	15,092	13,281
Other financial assets	C6	186,862	62,049
Deferred tax assets	B4	4,861	1,954
Total non-current assets		216,516	85,642
Total assets		722,578	343,930
Liabilities			
Current liabilities			
Trade & other payables	C3	116,192	71,350
Income tax payable		50,557	30,998
Total current liabilities		166,749	102,348
Non-current liabilities			
Trade & other payables	C3	120	100
Total non-current liabilities		120	100
Total liabilities		166,869	102,448
Net assets		555,709	241,482
Equity attributable to owners of the Company			
Share capital	D5	141,566	134,302
Retained earnings		290,701	95,017
Reserves	D6	123,442	12,163
Total equity		555,709	241,482

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		927,703	524,323
Payments to suppliers & employees		(629,652)	(394,111)
Interest received		2,369	887
Taxes paid		(69,312)	(31,156)
Net cash inflow from operating activities	D4	231,108	99,943
Cash flows from investing activities			
Payments for property, plant & equipment	C4	(2,526)	(1,650)
Payments for intangible assets	C5	(2,320)	(821)
Payment for listed investment	C6	(16,073)	(48,677)
Net cash outflow from investing activities		(20,919)	(51,148)
Cash flows from financing activities			
Proceeds from issue of equity shares	D5	7,264	3,754
Net cash inflow from financing activities		7,264	3,754
Net increase in cash & short-term deposits		217,453	52,549
Cash & short-term deposits at the beginning of the year		121,020	69,361
Effect of exchange rate changes on cash		1,982	(890)
Cash & short-term deposits at the end of the year		340,455	121,020

The accompanying notes form part of these financial statements.

Notes to the financial statements

Notes to the financial statements – Basis of preparation for the year ended 30 June 2018

A. Basis of preparation

The a2 Milk Company Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand. The consolidated financial statements of the Company for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the Group).

The Company is registered in New Zealand under the Companies Act 1993, and is a FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is also registered as a foreign company in Australia under the *Corporations Act 2001* (Cth, Australia). The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX), the Australian Securities Exchange (ASX) and Chi-X Australia (Chi-X). The Group's reporting currency is the New Zealand dollar.

The principal activity of the Company is the commercialisation of A1 protein free branded milk and related products in targeted global markets.

The consolidated financial statements were authorised for issue by the directors on [21] August 2018.

The consolidated financial report:

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

Significant accounting policies have been:

- included in the relevant note to which each policy relates, other than the accounting policy for foreign currency, set out below; and
- except for the early adoption of NZ IFRS 9 (2014) *Financial Instruments*, noted below, consistently applied to all periods presented in these consolidated financial statements.

Accounting policy: Foreign currency

Transactions

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

Foreign operations translation to reporting currency

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

Judgements, estimates and assumptions

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

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

Notes to the financial statements – Basis of preparation for the year ended 30 June 2018

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2018.

Adoption of NZ IFRS 9 (2014) *Financial Instruments*

The Group has early adopted NZ IFRS 9 *Financial Instruments* with a date of initial application of 1 July 2017. The requirements of NZ IFRS 9 represent a significant change from NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

The key changes to the Group's accounting policies resulting from its adoption of NZ IFRS 9 are summarised below.

Classification of financial assets

NZ IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Compared to NZ IAS 39, the standard imposes stricter requirements for determining those financial assets that can be recognised at amortised cost or fair value.

Under NZ IFRS 9, the Group's financial assets consist of: cash and short-term deposits and trade receivables, measured at amortised cost; and a listed equity investment measured at FVOCI.

Classification of financial liabilities

Under NZ IFRS 9, the Group's financial liabilities are trade and other payables, measured at amortised cost.

Classification impact

The adoption of NZ IFRS 9 has not had a significant effect on classification or the Group's accounting policies for financial assets and liabilities.

Impairment of financial assets

NZ IFRS 9 replaces the 'incurred loss' model in NZ IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost, but not to FVOCI equity investments. Under NZ IFRS 9, credit losses are recognised earlier than under NZ IAS 39.

Given the nature of the Group's trade receivables, the expected credit loss model did not materially change the impairment allowance for doubtful debts.

Transition

Changes in accounting policies resulting from the adoption of NZ IFRS 9 (2014) are applied retrospectively. There is no restatement of prior periods as there is no significant change in the recognition and measurement of cash and short-term deposits and trade and other receivables and payables under the new standard.

The Group has made an irrevocable election to classify the listed investment made in March 2017 at FVOCI, which does not result in any restatement of prior periods.

Other than cash and short-term deposits and trade and other receivables and payables, and the listed equity investment as noted above, the Group had no other financial assets and liabilities as at 1 July 2017, or in prior periods, requiring transition treatment consideration.

New standards and interpretations not yet adopted

Certain new accounting standards have been published that are relevant to the Group's operations but are not yet mandatory for the 30 June 2018 accounting period. The Group's current assessment of the impact of these is set out below.

Accounting standard	Requirement	Impacts in future periods
NZ IFRS 15: *Revenue from Contracts with Customers*	NZ IFRS 15 will become mandatory for the Group's annual reporting period ending 30 June 2019, with transition as at 1 July 2018. It replaces the existing revenue standard and interpretations and is based on the identification of performance obligations under a contract to determine revenue treatment.	The impact assessment of this standard is substantially completed. Based on the work performed to date, no material retrospective or prospective impact is expected on the financial statements of the Group for the year ended 30 June 2018; when the Group reports for the first time under this standard in FY2019. In future periods additional disclosures will be required, including: the disaggregation of total revenue; information about performance obligations; movements in contract receivables and payables; and key judgments and estimates employed.
NZ IFRS 16: *Leases*	NZ IFRS 16 will become mandatory for the Group's annual reporting period ending 30 June 2020, replacing the existing leases standard. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on balance sheet, with limited exceptions for short-term leases and low value assets.	As a right-to-use asset and a lease liability will be recognised for operating leases, the change will result in a more front-loaded expense pattern for operating leases as compared to current straight-lining, with lease expense allocated to interest and depreciation. The right-to-use asset and lease liability will be determined based on the present value of future lease payments. The impact assessment for this standard is to be carried out during FY2019.
NZ IFRIC Interpretation 23: *Uncertainty over Income Tax Treatment*	The interpretation will apply to the Group's annual reporting period ending 30 June 2020, addressing the accounting for income taxes when tax treatments involve uncertainty that affects the application of NZ IAS 12, and specifically: • The assumptions made about the examination of tax treatments by taxation authorities; • How taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates are determined; and • How changes in facts and circumstances are considered. Decisions must be made on whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is to be followed.	The Group will apply the interpretation from 1 July 2019. The Group operates in a complex multinational tax environment. In the event of an uncertainty over income tax treatment arising, applying the interpretation may affect its consolidated financial statements and required disclosures.
Amendment to references to the Conceptual Framework in NZ IFRS Standards	This standard makes amendments to various NZ IFRS standards to reflect the issue of the revised Conceptual Framework for Financial Reporting in May 2018. The standard updates references to, or quotations from, previous versions of the Framework contained in many Standards, and applies to annual reporting periods beginning on or after 1 January 2020.	The potential effect of the standard, and the Conceptual Framework for Financial Reporting to which it refers, on the Group's financial statements has not yet been determined.

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

Notes to the financial statements – Group performance for the year ended 30 June 2018

B. Group performance

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

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

B1. Operating segments

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is assessed on segment EBITDA and is measured in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

B1. Operating segments (continued)

2018	Australia and New Zealand $'000	China and other Asia $'000	UK and USA $'000	Total $'000
Consolidated sales	656,309	233,646	32,399	922,354
Other revenue	321	2	–	323
Reportable segment revenue	656,630	233,648	32,399	922,677
Reportable segment results (Segment EBITDA)	262,189	81,275	(27,638)	315,826
Corporate EBITDA				(32,789)
Group EBITDA				283,037
Reconciliation to consolidated statement of comprehensive income:				
Interest income				2,369
Depreciation and amortisation				(2,174)
Income tax expense				(87,548)
Consolidated profit after tax				195,684

2017	Australia and New Zealand $'000	China and other Asia $'000	UK and USA $'000	Total $'000
Consolidated sales	439,342	88,885	21,020	549,247
Other revenue	279	–	–	279
Reportable segment revenue	439,621	88,885	21,020	549,526
Reportable segment results (Segment EBITDA)	155,348	32,747	(22,500)	165,595
Corporate EBITDA				(24,442)
Group EBITDA				141,153
Reconciliation to consolidated statement of comprehensive income:				
Interest income				887
Depreciation and amortisation				(2,689)
Income tax expense				(48,705)
Consolidated profit after tax				90,646

Revenue by product type	2018 $'000	2017 $'000
Infant formula	724,248	394,026
Liquid milk	142,360	125,872
Other	56,069	29,628
	922,677	549,526

Three customers within the Australia and New Zealand segment each contributed revenue in excess of 10% of Group revenue of $131,374,000 (2017: $77,509,000), $110,651,000 (2017: $40,564,000) and $92,720,000 (2017: $72,248,000) respectively.

Notes to the financial statements – Group performance for the year ended 30 June 2018

B1. Operating segments (continued)

Recognition and measurement

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

Sale of goods

Revenue from the sale of goods results from the sale of A1 protein free branded infant formula, milk and related products, and is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods. Revenue is recognised net of trade discounts, volume rebates and similar allowances.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other segment information

2018	Australia and New Zealand $'000	China and other Asia $'000	UK and USA $'000	Corporate $'000	Total $'000
Additions to non-current assets	1,789	268	11	2,778	4,846
Depreciation and amortisation	1,233	548	120	273	2,174
Segment assets	208,491	129,997	27,238	356,852	722,578
Segment liabilities	23,529	76,824	9,893	56,623	166,869
2017					
Additions to non-current assets	845	134	193	1,299	2,471
Depreciation and amortisation	1,104	576	811	198	2,689
Segment assets	101,472	108,816	10,877	122,765	343,930
Segment liabilities	24,759	37,461	4,904	35,324	102,448

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

The China and other Asia segment includes assets and liabilities related to the infant formula supply chain from New Zealand to all markets.

B2. Expenses

	2018 $'000	2017 $'000
Administrative expenses		
Equity settled share-based payments	2,612	2,528
Salary and wage costs	32,140	20,477
Travel costs	5,893	3,969
Other administrative expenses	6,617	5,472
	47,262	32,446

B2. Expenses (continued)

	2018 $'000	2017 $'000
Other expenses		
Audit fees	609	434
Bad and doubtful debts	29	–
Consultancy, accounting and secretarial fees	8,957	7,022
Directors' fees and expenses	968	787
Legal expenses	5,301	4,300
Loss on disposal, plant and equipment	–	103
Patents, trademarks, and research and development	4,367	4,389
Occupancy expenses	2,071	1,489
Depreciation and amortisation	2,174	2,689
Promotion and merchandising	987	1,072
Impairment of intangible assets	–	2,435
Other operating expenses	10,474	5,837
	35,937	30,557
Finance costs		
Other finance costs	138	135
	138	135

B3. Earnings per share (EPS)

	2018	2017
Profit attributable to members of the Company used in calculating basic and diluted EPS ($'000)	195,684	90,646
Weighted average number of ordinary shares ('000) for basic EPS	724,685	716,047
Effect of dilution due to partly paid ordinary shares, share options and performance rights ('000)	19,278	21,468
Weighted average number of ordinary shares ('000) for diluted EPS	743,963	737,515
Basic EPS (cents)	27.00	12.66
Diluted EPS (cents)	26.30	12.29

Recognition and measurement

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

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

Notes to the financial statements – Group performance for the year ended 30 June 2018

B4. Income taxes

	2018 $'000	2017 $'000
Income tax recognised in profit or loss		
Current tax	92,167	46,788
Prior period adjustment to tax expense – current tax	(1,739)	875
Prior period adjustment to tax expense – deferred tax	99	(424)
Deferred tax origination and reversal of temporary differences	(2,979)	1,466
Total tax expense	87,548	48,705
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Profit from operations	283,232	139,351
Income tax expense calculated at 28% (2017: 28%)	79,305	39,018
Difference in income tax rates: UK (19.75%), Australian (30%), USA (34.42%), and China (25%)	3,195	1,168
Non-deductible expenses	2,168	3,473
Prior period adjustment to tax expense	(1,640)	451
Deferred tax impact to tax expense for permanent establishments	(66)	(91)
Unutilised foreign tax credits forfeited	2,009	259
Deferred tax asset not recognised	2,577	4,427
Total tax expense	87,548	48,705
Income tax recognised directly in equity		
Current tax	–	(1,071)
Deferred tax	(27)	284
Tax benefit in Other Comprehensive Income (OCI)	(27)	(787)

B4. Income taxes (continued)

Deferred tax balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available, against which the tax asset can be utilised.

2018	Opening balance $'000	Charge in period $'000	Closing balance $'000
Gross deferred tax assets			
Patents	114	(15)	99
Accrued expenses	1,913	2,024	3,937
Tax losses	327	144	471
Other	21	964	985
	2,375	3,117	5,492
Gross deferred tax liabilities			
Property, plant & equipment	(662)	132	(530)
Foreign exchange (gains)/losses	241	(342)	(101)
	(421)	(210)	(631)
Net deferred tax	1,954	2,907	4,861
Charge to profit & loss		2,880	
Charge to OCI		27	
		2,907	

2017	Opening balance $'000	Charge in period $'000	Closing balance $'000
Gross deferred tax assets			
Patents	49	65	114
Accrued expenses	2,628	(715)	1,913
Tax losses	694	(367)	327
Other	418	(397)	21
	3,789	(1,414)	2,375
Gross deferred tax liabilities			
Property, plant & equipment	(607)	(55)	(662)
Foreign exchange losses	98	143	241
	(509)	88	(421)
Net deferred tax	3,280	(1,326)	1,954
Charge to profit & loss		(1,042)	
Charge to OCI		(284)	
		(1,326)	

Notes to the financial statements – Group performance for the year ended 30 June 2018

B4. Income taxes (continued)

Deferred tax balances (continued)

	2018 $'000	2017 $'000
Net deferred tax balances recognised in the financial statements		
Net deferred tax assets	4,861	1,954
Net deferred tax liabilities	–	–
Net deferred tax	4,861	1,954

Tax losses

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

	2018 $'000	2017 $'000
United Kingdom	41,676	21,360
United States of America	24,411	17,504
Australia	527	955
Total	66,614	39,819

Imputation and franking credits

The Company is a New Zealand company which has elected to maintain an Australian franking credit account. The imputation credit and franking credit balances represent the sum of the imputation credit and franking credit account balances of all Group companies stated on an accrual basis. The ability to use the imputation and franking credits is dependent upon the ability of Group companies to declare dividends. The franking credit account balance is stated in NZ$, with the balance available for distribution dependent on future exchange rate movements.

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

	2018 $'000	2017 $'000
Imputation credits	25,692	12,323
Franking credits	131,458	58,927

B4. Income taxes (continued)

Recognition and measurement

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

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

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

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

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

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

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

Key estimates and judgements

Recovery of deferred tax assets

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

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

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

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2018

C. Operating assets and liabilities

This section provides details of the Group's operating assets, and liabilities incurred as a result of trading activities, used to generate the Group's performance.

C1. Trade & other receivables

	2018 $'000	2017 $'000
Trade receivables	59,836	68,818
Allowance for impairment	(37)	(96)
Other receivables	5,692	4,152
	65,491	72,874

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note D2: Financial risk management.

Recognition and measurement

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less any lifetime expected credit losses.

C2. Inventories

	2018 $'000	2017 $'000
Raw materials	5,051	1,142
Finished goods	50,641	10,028
Goods in transit	8,409	17,267
Total inventories at the lower of cost and net realisable value	64,101	28,437

During the year, $1,296,000 (2017: $50,000) was recognised as an expense in cost of sales for inventories written down to net realisable value.

Recognition and measurement

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

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

Key estimates and judgements

Recovery of inventory

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

C3. Trade & other payables

Trade & other payables – current

	2018 $'000	2017 $'000
Trade payables	66,076	34,084
Accruals	43,862	32,933
Employee entitlements	6,254	4,333
	116,192	71,350

Trade & other payables – non-current

	2018 $'000	2017 $'000
Employee entitlements	120	100

Recognition and measurement

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate method. They represent liabilities recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services. The amounts are unsecured.

Employee entitlements

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

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

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

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2018

C4. Property, plant & equipment

2018	Office & computer $'000	Furniture & fittings $'000	Leasehold improvements $'000	Plant & equipment $'000	Total property, plant & equipment $'000
Carrying amount 1 July 2017	249	266	672	7,171	8,358
Additions	230	42	374	1,880	2,526
Depreciation	(164)	(64)	(274)	(976)	(1,478)
Net foreign currency exchange differences	7	10	31	247	295
Carrying amount 30 June 2018	322	254	803	8,322	9,701
Cost	975	394	1,316	14,058	16,743
Accumulated depreciation	(653)	(140)	(513)	(5,736)	(7,042)
Carrying amount 30 June 2018	322	254	803	8,322	9,701

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

Recognition and measurement

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

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

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

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

C5. Intangible assets

2018	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Goodwill $'000	Total $'000
Carrying amount 1 July 2017	852	780	560	1,048	10,041	13,281
Additions	128	2,031	20	141	–	2,320
Amortisation	(31)	–	(277)	(388)	–	(696)
Net foreign currency exchange differences	–	–	17	2	168	187
Carrying amount 30 June 2018	949	2,811	320	803	10,209	15,092
Cost	1,139	2,811	1,819	4,453	10,209	20,431
Accumulated amortisation and impairment	(190)	–	(1,499)	(3,650)	–	(5,339)
Carrying amount 30 June 2018	949	2,811	320	803	10,209	15,092

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

Trademarks are allocated to the following cash generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand $185,000 (2017: $198,000); China and other Asia $2,446,000 (2017: $489,000); UK and USA $180,000 (2017: $93,000).

During the year the total value of research and development costs expensed was $3,629,000 (2017: $2,948,000).

Recognition and measurement

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

Patents

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

Trademarks

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

Software

Software is amortised on a straight line basis over 2 to 3 years.

Notes to the financial statements – Operating assets and liabilities for the year ended 30 June 2018

C5. Intangible assets (continued)

Recognition and measurement (continued)

Project development costs

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

Project development costs are amortised over a maximum useful life of 5 years.

Goodwill

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

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

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

Goodwill allocation

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

CGUs	2018 $'000	2017 $'000
Australia & New Zealand	8,245	7,980
UK	1,964	2,061
	10,209	10,041

The movement in goodwill is solely attributable to foreign exchange movements.

Recognition and measurement

Impairment testing of non-financial assets

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

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

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

Key estimates and judgements

Goodwill and intangibles

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

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

C5. Intangible assets (continued)

Annual impairment testing as at 30 June 2018

The recoverable amount of goodwill and trademarks has been determined on a value in use basis using a discounted cash flow approach, and projections based on financial budgets approved by the Board, and 4-year forward plans approved by management.

Key assumptions

- Discount rates (pre-tax): 8% to 9% (2017: 10.0%)
- Terminal growth rate: 2.0%. (2017: 2.0%)

Sensitivity to change in assumptions

The calculation of value in use is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Revenue growth during the forecast period
- Growth rates used to extrapolate cash flows beyond the forecast period (terminal growth rate)

Gross margins – Gross margins are based on budgeted margins for FY2019, and estimates for future years, adjusted where appropriate to account for expected future trading conditions. Consideration has been given to the growth profile of each CGU when forecasting future margin returns.

Discount rates – Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. Noting that the Group had no debt at 30 June 2018, the cost of debt is based on the capital structure that could be expected from a similar market participant.

Revenue growth – Revenue projections have been constructed with reference to the FY2019 budget and 4-year forward looking plans, and adjusted for recent performance trends across the regions (where necessary).

Terminal growth rate – A terminal growth rate of 2.0% has been used for future cash flow growth beyond the 4-year forecast period.

The terminal value (being the total value of expected cash flows beyond the forecast period) is discounted to present values using the discount rate specific to each CGU.

As at 30 June 2018, the recoverable amount of the Group's CGUs exceeds their carrying amounts. The directors believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of a CGU to be less than its carrying value. Based on this assessment, no impairment write downs are considered necessary.

C6. Other financial assets

	2018 $'000	2017 $'000
Listed investment at fair value	186,862	62,049

The listed investment is in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on the New Zealand Stock Exchange and Australian Securities Exchange) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the year (2017: $nil)

During the period, a further 0.949% of the share capital of Synlait was purchased for $16,073,000, giving a total holding of 9.114% as at 30 June 2018.

Subsequent event

Subsequent to the end of the financial year, on 3 August 2018 the Company announced that it had made a further investment in Synlait, acquiring 14,840,527 shares for $162,332,000, increasing its total holding in Synlait to 17.394%.

Recognition and measurement

This listed investment is a long-term investment classified as a financial asset measured at fair value through other comprehensive income. The Group does not control or have significant influence over the investee.

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

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2018

D. Capital and financial risk management

This section outlines how the Group manages its capital structure and its exposure to financial risk, and provides details of its balance sheet liquidity and access to financing facilities.

D1. Capital management

The Group's objective when managing its capital is to generate long-term value for shareholders and sufficient reserves to fund the business. The Group is not subject to externally imposed capital requirements, and currently has no debt.

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

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

The Board continues to consider the appropriate use of the Company's available capital to support the Company's growth strategy and supply chain development, including a review of opportunities to invest in blending and canning capability where appropriate as part of our longer-term nutritional products sourcing arrangements.

D2. Financial risk management

Financial risk management objectives

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

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

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

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

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

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

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

	2018 $'000	2017 $'000
Maximum exposures to credit risk at balance date:		
Cash and short-term deposits (counterparty risk)	340,455	121,020
Trade and other receivables (customer credit risk)	65,491	72,874
	405,946	193,894

Counterparty risk

At balance date, the Group's bank accounts were held with banks with acceptable credit ratings determined by recognised credit agencies, including National Australia Bank Limited, Bank of New Zealand Limited, HSBC Bank, Great Western Bank and Lloyds Bank. The Group does not have any other concentrations of counterparty credit risk.

Customer credit risk

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. The majority of sales are to major retailers with established credit worthiness and minimum levels of default. Other sales are made cash on delivery.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, previous trading experience and other factors.

In monitoring customer credit risk, customers are assessed individually by their debtor ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure to bad debts. Historically, bad debt write-offs have been negligible.

There are significant concentrations of credit risk within the Group. In 2018 36% of sales were to three customers, all of whom are major retailers (2017: 36% sales to three customers). There is no history of default for these customers.

The provision for impairment is recognised based on an assessment of lifetime expected credit loss.

D2. Financial risk management (continued)

Ageing of trade receivables at the reporting date:

	Gross 2018 $'000	Impairment 2018 $'000	Gross 2017 $'000	Impairment 2017 $'000
Not past due	54,006	–	65,393	–
Past due up to 90 days	5,639	–	2,818	–
Past due 91 to 180 days	191	(37)	493	(54)
Past due 181 days to one year	–	–	114	(42)
More than one year	–	–	–	–
	59,836	(37)	68,818	(96)

The average credit period on sales is 25 days (2017: 38 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2018 $'000	2017 $'000
Balance at beginning of year	96	112
Amount charged to the statement of comprehensive income	29	–
Provisions reversed	(91)	(16)
Net foreign currency exchange differences	3	–
	37	96

Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings in financial instruments. The Group's activities expose it primarily to the financial risks of change in foreign currency exchange rates to the NZ dollar. The Group's holding of a listed investment also exposes it to equity price risk.

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

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2018

D2. Financial risk management (continued)

Foreign currency risk management

The Group's exposure to foreign currency risk arises principally from its operations in Australia, the US, the United Kingdom, and China; and the resultant movements in the currencies of those countries against the NZ dollar. The Group does not hedge this risk, but may transfer cash balances from time-to-time between currencies to reduce exposure or to match underlying liabilities.

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

The analysis is performed consistently from year to year.

	Net exposure on reporting date	Impact on pre-tax profit or (loss)	
2018	**$'000**	**$'000**	**$'000**
Movement on exchange rate	–	+10%	–10%
AUS Dollar	165	18	(15)
US Dollar	(10,790)	(1,199)	981
GB Pounds	63	7	(6)
Chinese Yuan Renminbi	(4,676)	(520)	425

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

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

Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	**2017**	**2018**	**2017**
AUS Dollar	0.9192	0.9454	0.9219	0.9524
US Dollar	0.7107	0.7130	0.6779	0.7326
GB Pounds	0.5267	0.5619	0.5180	0.5631
Chinese Yuan Renminbi	4.6241	4.8391	4.4818	4.9588

D2. Financial risk management (continued)

Equity price risk

The Group is exposed to equity price risk on its listed investment classified and measured at fair value through other comprehensive income (FVOCI). This risk is not hedged.

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

As at 30 June 2018, the exposure to the listed investment at FVOCI was $186,862,000 (2017: $62,049,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of $18,686,000 (2017: $6,205,000) in the fair value revaluation reserve through other comprehensive income, with no effect on profit or loss.

Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. This risk is managed by establishing a target minimum liquidity level, ensuring that ongoing commitments are managed with respect to forecast available cash inflows.

The Group holds significant cash reserves which enable it to meet its obligations as they fall due, and to support operations in the event of unanticipated external events.

The Group has no borrowings, but has a standby AUD $10 million debtor finance facility available, undrawn as at 30 June 2018 (2017: AUD $10 million, undrawn).

Contractual maturities of financial liabilities

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

	2018 $'000	2017 $'000
Financial liabilities		
Trade payables	66,076	34,084
Accruals	43,862	32,933
	109,938	67,017

These financial liabilities are all payable within three months (2017: three months), with no interest payable.

Fair values

Fair value hierarchy

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

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

The listed investment, classified as a financial asset measured at fair value through other comprehensive income, is the only financial instrument carried by the Group at fair value, with a Level 1 valuation method applied. Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the statement of financial position at fair value.

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

- listed investment – closing share price as at 30 June 2018 on the New Zealand Stock Exchange; and
- cash and short-term deposits, trade and other receivables and payables – carrying amount equals fair value

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2018

D3. Cash & short-term deposits

	2018 $'000	2017 $'000
Cash at banks and on hand	154,750	91,020
Short-term deposits	185,705	30,000
	340,455	121,020

Bank balances and cash comprise cash held by the Group. Interest is earned at floating rates based on daily bank deposit rates. The carrying value of cash assets approximates their fair value.

Cash at banks and on hand includes AUD 91,338,000 (2017: AUD 25,697,000), GBP 4,922,000 (2017: GBP 1,332,000), USD 17,093,000 (2017: USD 11,455,000), and RMB 30,788,000 (2017: RMB 1,967,000).

Currency controls restrict the extent to which cash held in China can be converted and remitted for use elsewhere in the Group.

Recognition and measurement

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

D4. Cash flow information

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

	2018 $'000	2017 $'000
Net profit for the year	195,684	90,646
Adjustments for non-cash items:		
Depreciation & amortisation	2,174	2,689
Loss on disposal	–	103
Impairment of goodwill, trademarks and project development costs	–	2,435
Share-based payments	2,612	2,528
Net foreign exchange gain	(2,537)	(991)
Deferred tax	(2,907)	1,326
Changes in working capital:		
Trade and other receivables	7,383	(27,467)
Prepayments	(58)	(20,858)
Inventories	(35,664)	24,119
Trade and other payables	44,862	5,055
Income tax payable	19,559	20,358
Net cash inflow from operating activities	231,108	99,943

D5. Share capital

	2018		2017	
Movements in contributed equity:	Number of shares	Share capital $'000	Number of shares	Share capital $'000
Fully paid ordinary shares:				
Balance at beginning of year	718,238,067	134,302	712,000,065	130,548
Movements in the period:				
Exercise of options	4,231,000	2,666	3,368,002	2,122
Vesting of rights	320,000	–	320,000	–
Partly paid shares fully paid	7,250,000	4,650	2,550,000	1,666
Share issue costs	–	(52)	–	(34)
	11,801,000	7,264	6,238,002	3,754
Balance at end of year	730,039,067	141,566	718,238,067	134,302
Partly paid ordinary shares:				
Balance at beginning of year	8,750,000	–	11,300,000	–
Partly paid shares fully paid	(7,250,000)	–	(2,550,000)	–
Balance at end of year	1,500,000	–	8,750,000	–
Total ordinary shares on issue	731,539,067	141,566	726,988,067	134,302

Holders of fully paid ordinary shares are entitled to receive dividends as may be declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

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

D6. Reserves

Details of the following reserve accounts are set out in the consolidated statement of changes in equity.

Employee equity settled payments reserve

The employee equity settled payments reserve is used to record the value of share based payments provided to employees and contractors, including key management personnel.

Fair value revaluation reserve

The fair value revaluation reserve is used to record movements in the fair value of listed investments classified as financial assets measured at fair value through other comprehensive income.

Foreign currency translation reserve

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

Notes to the financial statements – Capital and financial risk management for the year ended 30 June 2018

D7. Capital expenditure commitments

As at 30 June 2018, there were no capital expenditure commitments (2017: $nil).

D8. Operating lease commitments

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

Future minimum rentals payable under non-cancellable operating leases

	2018 $'000	2017 $'000
Not longer than 1 year	2,126	1,702
Longer than 1 year and not longer than 5 years	3,726	4,720
Longer than 5 years	–	–
	5,852	6,422

Recognition and measurement

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

Group as a lessee

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

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

D9. Contingent liabilities

As at 30 June 2018, there were no material contingent liabilities (2017: $nil).

Notes to the financial statements – Group structure for the year ended 30 June 2018

E. Group structure

This section provides details of the Group structure and the entities included in the consolidated financial statements.

E1. Consolidated entities

Details of the Company's subsidiaries at 30 June 2018 are as follows:

	Parties to Deed of Cross Guarantee (note E2)*	Principal place of business	Proportion of ownership interest 2018	Proportion of ownership interest 2017
Parent entity:				
The a2 Milk Company Limited	✓	New Zealand	–	–
Subsidiaries:				
The a2 Milk Company (Export) Limited	–	New Zealand	100%	100%
A2 Holdings UK Limited	–	New Zealand	100%	100%
A2 Infant Nutrition Limited	✓#	New Zealand	100%	100%
The a2 Milk Company (New Zealand) Limited	–	New Zealand	100%	100%
a2 Australian Investments Pty. Limited.	✓	Australia	100%	100%
a2 Botany Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company (Australia) Pty Ltd	✓	Australia	100%	100%
a2 Exports Australia Pty Limited	✓	Australia	100%	100%
a2 Infant Nutrition Australia Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company Limited	–	UK	100%	100%
The a2 Milk Company LLC	–	USA	100%	100%
The a2 Milk Company	–	USA	100%	100%
The a2 Milk Company Limited	–	Canada	100%	100%
A2 Infant Nutrition (Shanghai) Co., Ltd	–	China	100%	100%
The a2 Milk Company (Singapore) Pte. Ltd	–	Singapore	100%	–

* Each party to the Deed of Cross Guarantee is a member of the 'closed group' under the ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785.
# A2 Infant Nutrition Limited has received an ASIC revocation notice under section 601 CK(7) of the Corporations Act 2001, providing relief from the requirement to prepare and lodge an audited financial report in Australia.

The a2 Milk Company (Singapore) Pte. Ltd was incorporated on 5 October 2017. There were no other entities over which the Company gained or lost control during the year.

All subsidiaries have a balance date of 30 June, except for The a2 Milk Company LLC, A2 Infant Nutrition (Shanghai) Co., Ltd, and The a2 Milk Company (Singapore) Pte. Ltd which have a balance date of 31 December.

Recognition and measurement

Subsidiaries

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

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

Transactions eliminated on consolidation

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

Notes to the financial statements – Group structure for the year ended 30 June 2018

E2. Deed of cross guarantee

Pursuant to ASIC Corporations (*Wholly owned Companies*) Instrument 2016/785, the Australian-incorporated wholly owned subsidiaries listed in Note E1 as parties to the Deed of Cross Guarantee are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' reports in Australia.

It is a condition of the ASIC Corporations Instrument that the Company and each of the subsidiaries listed enter into a Deed of Cross Guarantee. The effect of the Deed is that each party guarantees to each creditor of each other party payment in full of any debt in the event of winding up of the other party under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the guarantee will only apply if after six months after a resolution or order for winding up any creditor has not been paid in full.

A consolidated statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are parties to the Deed of Cross Guarantee (each party being a member of the closed group), after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2018 are set out as follows:

Statement of comprehensive income and retained earnings for the year ended 30 June 2018

	2018 $'000	2017 $'000
Revenue	896,611	528,507
Expenses	(617,080)	(384,625)
Finance income (net)	3,180	1,246
Profit before tax	282,711	145,128
Income tax expense	(85,679)	(47,641)
Profit after tax	197,032	97,487
Other comprehensive income	569	4,197
Total comprehensive income for the year	197,601	101,684
Retained earnings at beginning of the year	126,765	29,278
Transfers to and from reserves	(569)	(4,197)
Retained earnings at end of year	323,797	126,765

E2. Deed of cross guarantee (continued)

Statement of financial position as at 30 June 2018

	2018 $'000	2017 $'000
Assets		
Current assets		
Cash & short-term deposits	311,346	112,289
Trade & other receivables	67,222	79,564
Prepayments	35,431	35,284
Inventories	62,520	27,871
Total current assets	476,519	255,008
Non-current assets		
Property, plant & equipment	9,254	8,019
Intangible assets	13,028	11,093
Other financial assets	141,295	85,462
Deferred tax asset	3,762	1,730
Total non-current assets	167,339	106,304
Total assets	643,858	361,312
Liabilities		
Current liabilities		
Trade & other payables	121,474	65,784
Income tax payable	50,530	31,173
Total current liabilities	172,004	96,957
Non-current liabilities		
Trade & other payables	1,247	1,225
Total non-current liabilities	1,247	1,225
Total liabilities	173,251	98,182
Net assets	470,607	263,130
Equity		
Share capital	141,566	134,302
Retained earnings	323,797	126,765
Reserves	5,244	2,063
Total equity	470,607	263,130

Notes to the financial statements – Other disclosures for the year ended 30 June 2018

F. Other disclosures

F1. Related party transactions

Ultimate Parent

The a2 Milk Company Limited is the parent of the Group. The Group consists of The a2 Milk Company Limited and its subsidiaries as listed in Note E1.

Key management personnel

Key management personnel are defined as those persons having significant authority and responsibility for planning, directing and controlling the activities of the Group, and includes the directors, and a number of senior executives.

Key management personnel compensation:

	2018 $'000	2017 $'000
Short-term employee benefits	4,717	5,770
Other long-term benefits	155	105
Share-based payments	1,110	2,033
	5,982	7,908

Key management personnel include the following senior executives:

Chief Financial Officer
Chief Executive, Asia Pacific
Chief Executive, USA

Owing to ongoing growth and the evolution of the management structure of the business, the senior executives noted above are identified as key management personnel for the year ended 30 June 2018.

Transactions with key management personnel and their related parties

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

Related parties	Sales		Other transactions		Outstanding receivables/ (payables)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
A2 Holdings UK Limited – consultancy fees payable to Lovat Partners Limited, an entity controlled by David Hearn, Chair of the Company. The fees were charged at commercial rates.	–	–	85	75	(85)	–
A2 Infant Nutrition Australia Pty Ltd sells infant formula and whole milk powder products to a pharmacy owned and managed by the spouse of a member of the key management personnel of the Company. Sales are made at arm's length, on standard commercial terms.	–	8,540	–	–	–	–

No amounts were receivable from related parties at year end.

Loans to key management personnel and their related parties

No loans were outstanding or made to key management personnel and their related parties at any time during the 2018 and 2017 financial years.

F2. Share-based payments

Long term incentives (LTI)

The LTI plan is designed to retain and motivate senior executives and management to achieve the Group's long term strategic goals by providing rewards that align the interests of the executives and management with shareholders. Performance rights are currently issued under the LTI plan; and options were previously issued in FY2015 and FY2016.

During the year the Board authorised the issue of 710,200 performance rights (2017: 982,000) to senior employees under the LTI plan.

The FY2018 and FY2017 awards vest subject to an earnings per share (EPS) performance hurdle, and continuing employment. The absolute EPS hurdle is a minimum diluted EPS compound annual growth rate (CAGR) increase of 15% over the performance period, with no retesting. 50% of the awards will vest if diluted EPS CAGR of 15% is achieved, and up to a maximum of 100% of the award will vest if diluted EPS CAGR of either 20% or more, or 25% or more is achieved, as follows:

Grants:	Performance period	Performance hurdles	
		50%	100%
FY2017			
982,000 rights	3 years	EPS CAGR 15%	EPS CAGR 25%
FY2018			
406,000 rights	3 years	EPS CAGR 15%	EPS CAGR 20%
304,200 rights	2 years	EPS CAGR 15%	EPS CAGR 25%

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

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

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

LTI outstanding as at 30 June 2018	Number	Grant dates	Vesting date	Expiry date
Performance rights – FY2017 grants	902,000	8-Feb-17 & 10-Mar-17	8-Feb-20 & 10-Mar-20	8-Feb-20 & 10-Mar-20
Performance rights – FY2018 grants	710,200	28-Sep-17 & 6-Mar-18	1-Sep-20 & 6-Mar-21	28-Jun-21 & 6-Dec-21
	1,612,200			
Options – FY2015 grants	3,300,000	30-Mar-15	30-Mar-16 – 30-Mar-20	30-Jun-20
Options – FY2016 grants	9,100,998	12-Aug-15	12-Aug-16 – 12-Aug-20	12-May-21
	12,400,998			

Notes to the financial statements – Other disclosures for the year ended 30 June 2018

F2. Share-based payments (continued)

Long term incentives (LTI) (continued)

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

Performance rights movements:	Number 2018	Number 2017
Outstanding at the beginning of the year	2,262,000	1,600,000
Forfeited during the period	(1,040,000)	–
Granted during the period	710,200	982,000
Vested during the period	(320,000)	(320,000)
Outstanding at the end of the year	1,612,200	2,262,000

The weighted average remaining contractual life of rights is 1.9 years (2017: 2.9 years)

Options movements:	Weighted average exercise price 2018	Number 2018	Weighted average exercise price 2017	Number 2017
Outstanding at the beginning of the year	$0.63	16,631,998	$0.63	20,000,000
Forfeited during the period	–	–	–	–
Granted during the period	–	–	–	–
Exercised during the period	$0.63	(4,231,000)	$0.63	(3,368,002)
Outstanding at the end of the year	$0.63	12,400,998	$0.63	16,631,998
Exercisable at end of year		1,400,998		1,631,998

The weighted average remaining contractual life of options is 2.6 years (2017: 3.7 years)

The weighted average share price on exercise of the options in the period was $7.05

The fair value of services received in return for performance rights or options granted to employees is measured by reference to the fair value of the performance rights or options granted. The estimate of the fair value of the services received is measured by reference to the vesting conditions specific to the grant based on a Monte-Carlo simulation option pricing model.

Fair value of performance rights granted during the year and assumptions	2018		2017
	September 2017	March 2018	
Fair value at measurement date	$5.75	$12.65	$2.40
Share price at grant date	$6.54	$12.75	$2.40
Performance rights life	2.18yrs	2.68yrs	2.62yrs
Expected dividend yield	–	–	–
Risk-free interest rate	2.10%	1.89%	1.93%
Historical volatility	30%	30%	30%

F2. Share-based payments (continued)

Partly paid shares (PPS) – legacy scheme

Partly paid ordinary shares were issued in financial years prior to 30 June 2014. No further grants will be awarded under this scheme. A total of 1,500,000 PPS (2017: 8,750,000) remain unexercised as at 30 June 2018, held by one senior executive (2017: three senior executives).

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

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

Partly paid shares movements:	Number 2018	Number 2017
Outstanding at the beginning of the year	8,750,000	11,300,000
Forfeited during the period	–	–
Exercised during the period	(7,250,000)	(2,550,000)
Outstanding at the end of the year	1,500,000	8,750,000
Exercisable at end of year	–	2,950,000

The weighted average remaining contractual life of PPS is 0.8 years (2017: 1.4 years)

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2018, a $2,612,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2017: $2,528,000).

Recognition and measurement

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

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:	2018 $'000	2017 $'000
An audit or review of the financial report of the Group	609	434
Other services:		
Market research	119	139
Sustainability reporting advisory	65	–
Tax advisory	–	38
	793	611

F4. Subsequent events

Other than the announcement of a further investment in Synlait Milk Limited described in note C6, no other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.

Other information

Contents

Company disclosures

1. Substantial product holders

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

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the fully paid ordinary shares of the Company as at 30 June 2018 (such disclosure being required by the Financial Markets Conduct Act 2013 (NZ)) and as at 1 August 2018 (such disclosure being required by the ASX Listing Rules):

	As at 30 June 2018		As at 1 August 2018	
Name	Number of Ordinary Shares in the Company in which a Relevant Interest is held	% of Ordinary shares held	Number of Ordinary Shares in the Company in which a Relevant Interest is held	% of Ordinary shares held
Commonwealth Bank of Australia	53,591,057	7.34	53,591,057	7.34

The total number of voting shares on issue as at 30 June 2018 and 1 August 2018 was 731,539,067; consisting of 730,039,067 fully paid shares and 1,500,000 partly paid shares.

2. Voting rights

Each fully paid ordinary share of the Company gives the holder the right to cast one vote per Shareholder on a show of hands and one vote per share on a poll on any resolution.

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

3. Directors' relevant interests & share dealings

Directors of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2017 to 30 June 2018:

Registered holder	Beneficial/ Non-beneficial	Acquired / (Sold)	Class of financial product	Date	Consideration paid / (received)
Geoffrey Babidge					
GCAA Investments Pty Ltd	Beneficial	1,000,000	Fully paid ordinary shares	23 Aug 17	NZ$633,600[1]
GCAA Investments Pty Ltd	Beneficial	(1,000,000)	Fully paid ordinary shares	24 Aug 17	(NZ$5,432,539)
GCAA Investments Pty Ltd	Beneficial	2,000,000	Fully paid ordinary shares	22 Feb 18	NZ$1,267,200[1]
GCAA Investments Pty Ltd	Beneficial	(1,500,000)	Fully paid ordinary shares	22, 23 & 26 Feb 18	(NZ$19,729,466)
GCAA Investments Pty Ltd	Beneficial	2,000,000	Fully paid ordinary shares	9 Mar 18	NZ$1,267,200[1]
David Hearn					
Lovat Partners Limited	Beneficial	500,000	Fully paid ordinary shares	23 Aug 17	NZ$315,000[2]
David Lovat Gordon Hearn	Beneficial	(500,000)	Fully paid ordinary shares	24 Aug 17	(NZ$2,744,900)[2]
Lovat Partners Limited	Beneficial	200,000	Fully paid ordinary shares	23 Feb 18	NZ$126,000[2]
David Lovat Gordon Hearn	Beneficial	(200,000)	Fully paid ordinary shares	23 Feb 18	(NZ$2,536,820)[2]
Peter Hinton					
Peter Bruce Hinton	Beneficial	(240,000)	Fully paid ordinary shares	24 Aug 17	(NZ$1,296,000)[3]
Peter Bruce Hinton	Beneficial	(35,000)	Fully paid ordinary shares	24 Aug 17	(NZ$183,050)
Peter Bruce Hinton	Beneficial	(125,000)	Fully paid ordinary shares	23 – 27 Feb 18	(NZ$1,622,004)

1 Payment in full of partly paid shares.
2 Reflects (i) issue of ordinary shares following exercise of options held by Lovat Partners Limited; (ii) subsequent transfer of those ordinary shares from Lovat Partners Limited to David Hearn; and (iii) subsequent sale by David Hearn of those ordinary shares on market.
3 Sale by Peter Hinton of 240,000 ordinary shares off market to his spouse.

Directors of the Company as at 30 June 2018 held the following relevant interests in the financial products of the Company as at that date:

Registered holder	Beneficial/ Non-beneficial	Balance held	Class of financial product
Geoffrey Babidge			
GCAA Investments Pty Ltd	Beneficial	2,500,000	Fully paid ordinary shares
David Hearn			
Lovat Partners Limited	Beneficial	3,300,000	Unlisted options to acquire ordinary shares
David Lovat Gordon Hearn	Beneficial	100,000	Fully paid Ordinary Shares
Julia Hoare			
Julia Cecile Hoare	Beneficial	50,000	Fully paid Ordinary Shares
Peter Hinton			
Peter Bruce Hinton	Beneficial	650,000	Fully paid Ordinary Shares
Warwick Every-Burns			
Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Fully paid Ordinary Shares
Kathryn Every-Burns	Beneficial	25,000	Fully paid Ordinary Shares
Jesse Wu			
Jesse Jen-Wei Wu	Beneficial	27,000	Fully paid Ordinary Shares

Company disclosures

4. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 1 August 2018 are listed below:

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	85,063,867	11.65
HSBC Nominees (New Zealand) Limited	56,590,109	7.75
JP Morgan Chase Bank	50,093,867	6.86
Citibank Nominees (NZ) Ltd	42,497,201	5.82
J P Morgan Nominees Australia Limited	37,804,044	5.18
Citicorp Nominees Pty Limited	34,903,206	4.78
HSBC Nominees (New Zealand) Limited	34,327,070	4.70
National Nominees Limited	20,970,143	2.87
Tea Custodians Limited	19,003,535	2.60
Accident Compensation Corporation	18,523,827	2.54
Citicorp Nominees Pty Limited	16,954,159	2.32
Cogent Nominees Limited	15,553,381	2.13
National Nominees New Zealand Limited	8,888,605	1.22
New Zealand Superannuation Fund Nominees Limited	8,363,639	1.15
Premier Nominees Limited	7,851,198	1.08
BNP Paribas Nominees Pty Ltd	7,113,604	0.97
BNP Paribas Nominees NZ Limited	6,372,718	0.87
Cogent Nominees (NZ) Limited	3,805,950	0.52
HSBC Custody Nominees (Australia) Limited	3,368,841	0.46
New Zealand Depository Nominee Limited	3,288,502	0.45
Total	481,337,466	65.92

5. Spread of security holders as at 1 August 2018 and number of holders

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	Number of shares	%
1-1,000	23,574	10,440,489	1.43
1,001-5,000	15,373	38,601,148	5.29
5,001-10,000	3,588	27,115,274	3.71
10,001-100,000	3,100	78,365,034	10.73
100,001 shares or more	232	575,517,122	78.84
	45,867	730,039,067	100.00

As at 1 August 2018, the number of holders with between 1 and 24 ordinary shares (being less than a minimum holding under the NZX Listing Rules based on the closing market price) was 11 and the number of holders with less than a marketable share parcel of the Company's fully paid ordinary shares of AU$500 (under the ASX Listing Rules), based on the closing market price, was 1,148.

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

Size of Shareholding	Number of holders	Number of shares	%
100,001 partly paid shares or more	1	1,500,000	100.00
	1	1,500,000	100.00

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

Size of holding	Number of holders	Number of options	%
100,001 options or more	7	12,400,998	100.00
	7	12,400,998	100.00

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

Size of holding	Number of holders	Number of rights	%
5,001 to 10,000	2	13,300	0.71
10,001 – 100,000	18	986,700	53.11
100,001 performance rights or more	4	857,987	46.18
	24	1,857,987	100.00

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

Size of holding	Number of holders	Number of rights	%
10,001 – 100,000	1	93,809	13.54
100,001 time-based rights or more	1	599,254	86.46
	2	693,063	100.00

Company disclosures

6. Credit rating status

Not applicable.

7. NZX Waivers

There were no waivers granted and published by NZX during the reporting period ended 30 June 2018.

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

8.1. Interests register

The Company is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for the Company is available for inspection on request by shareholders.

Directors have declared interests during the reporting period ended 30 June 2018 as follows:

- The Company has arranged and paid for policies for directors' liability insurance which ensure that the directors are protected against liabilities and costs for acts or omissions by them in their capacity as directors of the Company and its subsidiaries
- The Company has provided Deeds of Indemnity to all directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiaries
- Directors' relevant interests and share dealings as outlined in section 3, above

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

8.2. Other positions held

During the reporting period ended 30 June 2018, directors advised the Company of changes to interests in the following entities:

Name of Director	Entity	Position
Julia Hoare	Auckland International Airport Limited	Director
Peter Hinton	Karu Investment Holdings Limited	Director
Peter Hinton	666 Investment Holdings Limited	Director
David Hearn	Lifecare Residences NZ Limited	Ceased to be director
Jesse Wu	Aptar Group Inc	Director

8.3. Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2018.

Subsidiary	Jurisdiction	Directors
The a2 Milk Company (Export) Limited	New Zealand	Geoffrey Babidge Craig Louttit
a2 Australian Investments Pty Limited	Australia	Geoffrey Babidge Craig Louttit
a2 Botany Pty Ltd	Australia	Geoffrey Babidge Craig Louttit
The a2 Milk Company (Australia) Pty Ltd	Australia	Geoffrey Babidge Peter Nathan
A2 Infant Nutrition Limited	New Zealand	Geoffrey Babidge Simon Hennessy John Scott Wotherspoon (Resigned: 17 August 2017) Peter Nathan (Appointed: 17 August 2017)
A2 Holdings UK Limited	New Zealand	Geoffrey Babidge Craig Louttit
a2 Infant Nutrition Australia Pty Ltd	Australia	Geoffrey Babidge Peter Nathan
a2 Exports Australia Pty Limited	Australia	Geoffrey Babidge Craig Louttit
The a2 Milk Company (New Zealand) Limited	New Zealand	Geoffrey Babidge Julia Hoare
The a2 Milk Company Limited	British Columbia, Canada	Geoffrey Babidge Craig Louttit
The a2 Milk Company Limited	Scotland, UK	David Hearn William Keane Geoffrey Babidge John Scott Wotherspoon
The a2 Milk Company (Delaware, USA)	Delaware, USA	Geoffrey Babidge David Hearn
The a2 Milk Company LLC (USA)	Delaware, USA	Geoffrey Babidge Craig Louttit
A2 Infant Nutrition (Shanghai) Co., Ltd	China	John Scott Wotherspoon (Resigned: 18 December 2017) Jane Xu (Appointed: 18 December 2017; Resigned 15 June 2018) Michael Bracka (Appointed: 15 June 2018)
The a2 Milk Company (Singapore) Pte. Ltd	Singapore	Geoffrey Babidge (Appointed: 5 October 2017) Craig Louttit (Appointed: 5 October 2017) Shaun Singh (Appointed: 5 October 2017)

No employee of the Company appointed as a director of the Company or its subsidiaries receives remuneration or other benefits in their role as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed under employee remuneration range in section 12, below.

8.4. Use of company information

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

Company disclosures

9. Limitations on the acquisition of securities

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

Limitations on the acquisition of the securities imposed by New Zealand law are as follows:

(i) In general, fully paid ordinary shares in the Company are freely transferable, and the only significant restrictions or limitations in relation to the acquisition of fully paid ordinary shares in the Company are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(ii) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the Company, or the increase of an existing holding of 20% or more of the voting rights in the Company, can only occur in certain permitted ways. These include a full takeover offer, a partial takeover offer, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more shares in the Company, in each case in accordance with the New Zealand Takeovers Code.

(iii) The New Zealand Overseas Investment Act 2005 regulates certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office will likely be required where an 'overseas person' acquires shares or an interest in shares in the Company that amount to more than 25% of the shares issued by the Company or, if the overseas person already holds 25% or more, the acquisition increases that holding.

(iv) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

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

10. On-market buy-back

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

11. Donations

The Company and its subsidiaries have made donations of cash and inventories totalling NZ$ 50,852 during the year ended 30 June 2018 (2017: NZ$ 193,000), primarily related to donations of inventory to not for profit and charitable organisations including to Foodbank Australia, one of Australia's largest hunger relief organisations.

12. Employee remuneration range

The following table shows the number of employees and former employees of the Company and its subsidiaries (not being directors or former directors of the Company) who, in their capacity as employees, received remuneration and other benefits valued at or in excess of $100,000 during the year to 30 June 2018.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration Range $ (Gross)	Number of employees in the year ended 30 June 2018 (Based on actual payments)	Value of exercised options and rights included in remuneration range
$100,000 - $109,999	4	–
$110,000 - $119,999	7	–
$120,000 - $129,999	7	–
$130,000 - $139,999	4	–
$140,000 - $149,999	2	–
$150,000 - $159,999	4	–
$160,000 - $169,999	4	–
$170,000 - $179,999	4	–
$180,000 - $189,999	3	–
$190,000 - $199,999	3	–
$250,000 - $259,999	2	–
$260,000 - $269,999	5	–
$310,000 - $319,999	2	–
$320,000 - $329,999	1	–
$340,000 - $349,999	1	–
$360,000 - $369,999	1	–
$380,000 - $389,999	3	–
$530,000 - $539,999	1	–
$710,000 - $719,999	1	–
$1,590,000 - $1,599,999	1	1,086,000
$2,400,000 - $2,409,999	1	1,936,000
$2,440,000 - $2,449,999	1	1,936,000
$2,980,000 - $2,989,999	1	2,420,000
$4,840,000 - $4,849,999	1	3,872,000
$12,280,000 - $12,289,999	1	11,702,040
Total	**65**	**22,952,040**

The table includes base salaries, short-term incentives, contributions paid to an individual's superannuation fund, or, if an individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme and exercised options. The table does not include amounts paid after 30 June 2018 relating to FY18, and long-term incentives that have been granted and have not yet vested or been exercised (as applicable).

13. Reconciliation of EBITDA to net profit after tax

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business.

	2018 $'000	2017 $'000
EBITDA	283,037	141,153
Depreciation & amortisation	(2,174)	(2,689)
EBIT	**280,863**	**138,464**
Interest income	2,369	887
Income tax expense	(87,548)	(48,705)
Net profit after tax	**195,684**	**90,646**

Corporate directory

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

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