2022 ANNUAL REPORT

We pioneer the future of Dairy for good

THE a2 MILK COMPANY HAS MADE SIGNIFICANT PROGRESS IN IMPLEMENTING ITS REFRESHED GROWTH STRATEGY AND IMPROVING PERFORMANCE DURING FY22

GROUP PERFORMANCE*

$1,446m
Revenue ↑ 19.8%

$196m
EBITDA ↑ 59.0%

$123m
NPAT attributable to owners of the Company ↑ 52.0%

16.49c
Earnings per share ↑ 51.8%

$817m**
Net cash

$204m
Operating cash flow

PRODUCT SEGMENT REVENUE*

$1,022m
Infant nutrition ↑ 11.9%

$265m
Liquid milk ↑ 10.4%

$159m
Other ↑ 202.6%

OPERATING SEGMENT REVENUE

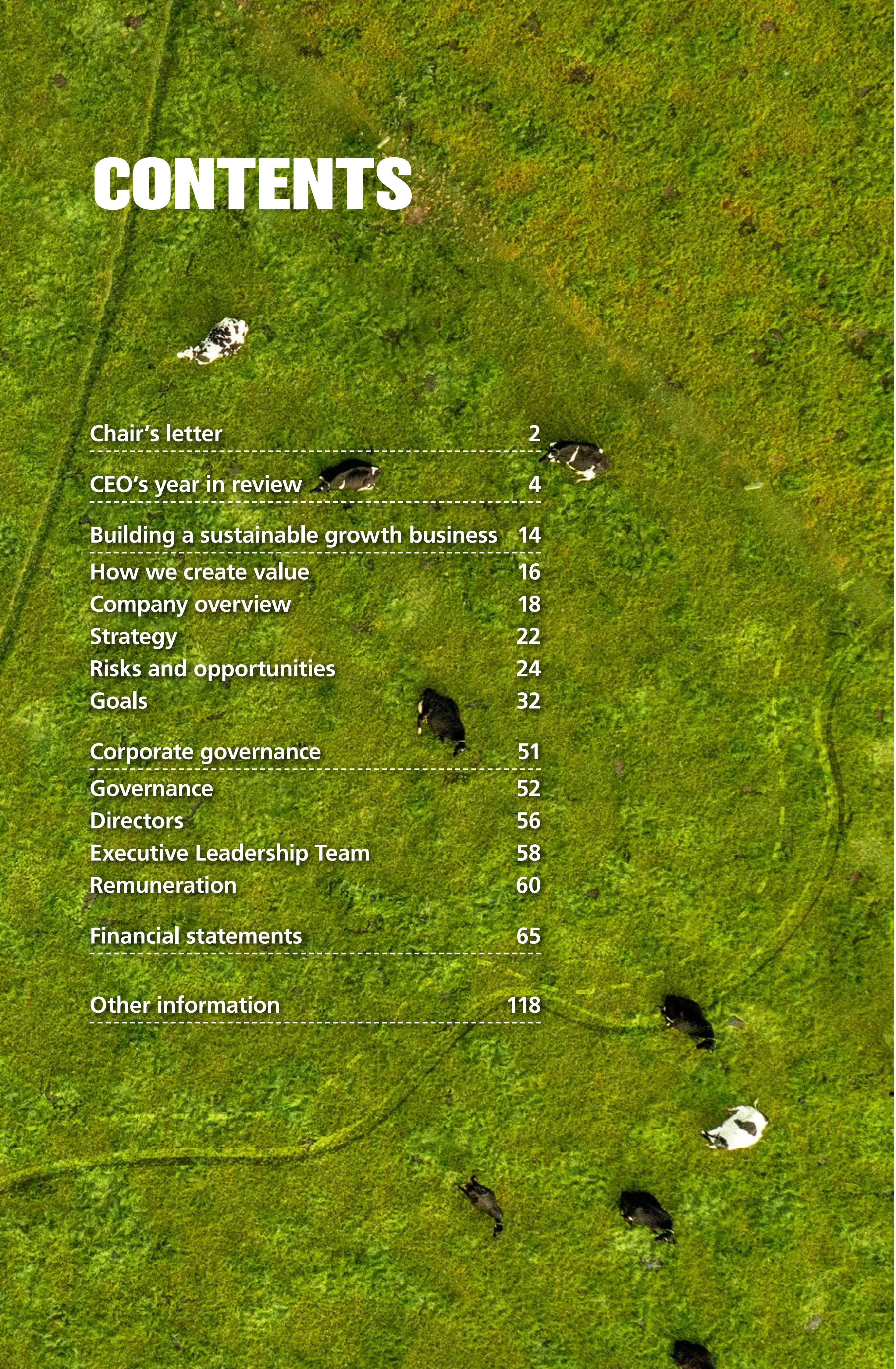
$726m
China and Other Asia ↑ 24.5%

$533m
Australia and New Zealand ↓ 4.8%

$83m
USA ↑ 30.0%

$104m
Mataura Valley Milk

* Includes MVM acquired during FY22.
** Including term deposits and borrowings, excluding subordinated non-current shareholder loans.



CONTENTS

CHAIR'S LETTER

David Hearn

Dear Shareholder

On behalf of your Board, I am pleased to report a positive and much improved performance for The a2 Milk Company in FY22 with almost all the business fundamentals showing strong recovery throughout the year. This strong recovery means that we exit FY22 with the business tracking positively and, as such, gives us confidence that FY23 will show continued growth.

I concluded my letter in FY21 leaving you with two important thoughts. The first was that whilst the issues that arose that year were undoubtedly a challenge, the business remained at its heart a robust, differentiated branded business with exceptionally strong financial fundamentals.

The second was that I, and the Board, recognised the serious challenges created by the market conditions in FY21 for you, our shareholders and that the Board and the executive leadership team (ELT) were determined to make back lost ground.

With that context, it is pleasing to provide a significantly more positive update this year on the progress we have made as a Company in stabilising the business and returning to growth, confirming the underlying strength of the business to which I referred last year.

It was important for us to recognise in FY21, in light of the world changing as a result of the global pandemic, that we would need to develop new and appropriate strategies to succeed in the future, not by discarding the foundations on which we have built past success, but by building on them and developing them further to remain fit for purpose in this new environment.

During the year, the Board and the ELT together, completed a holistic review of our market, brand, product and distribution opportunities and we announced our refreshed growth strategy. This refreshed growth strategy was in response to the rapidly changing infant milk formula (IMF) market dynamics in China. There is strong evidence at many levels in the FY22 result that the plans developed from that strategy are already gaining significant traction and that the significant investments we made in restructuring our business, especially on the supply-side, have definitely shown their worth.

This year's performance proves that our confidence in the underlying strength of the *a2*™ brand was well-founded, and we invested a record amount for the Company in marketing, continuing to build our brand and strengthen consumer loyalty. Our refreshed growth strategy, increased brand investment and a renewed inventory setting have resulted in a strong performance, improved trajectory, clear market share gains and our strongest brand health metrics recorded to date.

We have made significant advancements in delivering against our strategic priorities this year by:

- Investing in people and planet leadership with meaningful and impactful investments in these areas;
- Increasing our marketing investment in China significantly towards capturing the full potential in the China IMF market;
- Ramping-up our product innovation efforts with a number of new products launched and a pipeline developed for the next few years and beyond;
- Transforming our supply chain, particularly with efforts to expand our A1 protein free milk pool at Mataura Valley Milk (MVM) and in accelerating efforts to explore opportunities relating to China label market access and in-market supply capability; and
- Putting plans in place to accelerate our path to profitability for our USA and MVM businesses.

These plans will continue to evolve as we develop and grow and we are pleased with the progress that has been made during the year.

Complementing the work on our growth strategy and delivery against our strategic priorities, we recently also refreshed our purpose and vision. It is important for all businesses to know why they exist and where they want to go. Our refreshed purpose, '*We pioneer the future of Dairy for good*' reflects the unique strengths of the business, and our vision of '*An A1-free world where Dairy nourishes all people and our planet*' reflects the positive future we want to help create. The combination of our purpose, vision and strategy strengthens the foundations on which we will drive further growth in the future.

Given the stabilisation and strength of the business, the robustness of our balance sheet with net cash of $817 million[1] at year end, an improved growth trajectory and more confidence in our outlook, the Board intends to implement an on-market buy-back programme of up to $150 million to effectively utilise excess capital at this time. While we continue to prioritise growth initiatives and will ensure we retain balance sheet strength and flexibility, we have determined that a share buy-back programme is an effective way to return capital to investors and reflects the confidence the Board has in the outlook of the business.

On behalf of the Board, I would like to express my sincere gratitude to David Bortolussi, our Managing Director and Chief Executive Officer, for his leadership and impactful contribution which has been immense through a particularly challenging time for our Company. David has shown tremendous skill and tact in navigating us through these challenges and setting us up for further growth. At the ELT level, there have been changes during the year including a number of new appointments. I extend my thanks and gratitude to the whole ELT and every member of the a2MC team in all of our regions for their contributions this year. In particular, I would like to recognise the extraordinary efforts of our teams and strategic partners in navigating the many supply chain challenges which have been experienced globally in recent times. Being able to maintain continuous supply of our New Zealand IMF products into China required considerable collaboration, careful planning and perseverance – a real team effort.

I would also like to thank my fellow Directors for their significant contribution over the past year. The Board has also undergone some renewal. In March this year, Sandra Yu was appointed to the Board. Sandra is a highly regarded company director and has extensive experience in the IMF market in China as a former head of Mead Johnson Nutrition's Greater China business. Furthermore, David Wang will join the Board as a non-executive director in September. David's appointment will add further China and manufacturing expertise which will be an invaluable asset as we continue to transform our supply chain in New Zealand and China.

"This year's performance proves that our confidence in the underlying strength of the *a2*™ brand was well-founded."

After nearly nine years of exceptional contribution to the Board, and consistent with corporate governance best practice, Julia Hoare, our Deputy Chair, has announced her intention to step down following the release of our FY23 interim results. The Board continues to be active in considering renewal and there are plans in place to undertake additional renewal over the next few years.

Your Board and the ELT is committed to our purpose and vision, we have a refreshed strategy in place and our execution against those plans is gaining increased traction as every month passes. We believe in the science that underpins our products and are investing behind our brand in a focussed and meaningful way. Furthermore, having regrouped and stabilised the business, our performance is stronger and our outlook improved. We did not find ourselves here by chance, and indeed several difficult decisions needed to be made in FY21 to get us here. However, those decisions are proving to have been the right ones and we are pleased to be back on track.

Finally, I would like to thank you, our shareholders, for your continued support for our Company and look forward to updating you at our annual shareholders' meeting in November.

In the meantime, may I take this opportunity to wish you and your family the best of health.

Yours faithfully,

David Hearn
Chair
28 August 2022

1. Including term deposits and borrowings, excluding subordinated non-current shareholder loans

Britta Campion / Newspix

RE
OF DAIRY
FOR GOOD

"It was a successful year for The a2 Milk Company delivering double digit revenue and earnings growth despite challenging market conditions."

DAVID BORTOLUSSI
MANAGING DIRECTOR AND CEO

CEO'S YEAR IN REVIEW
David Bortolussi

The a2 Milk Company has made significant progress in implementing its refreshed growth strategy and improving performance during FY22[1].

More specifically, the:

1. Inventory management actions taken last calendar year to address excess infant milk formula (IMF) inventory have proven effective with channel inventory at target levels, product freshness amongst the best in the industry and improved market pricing
2. Refreshed growth strategy communicated to the market in October 2021 which focused on capturing the full potential of the China market opportunity is having an impact achieving new highs in brand health metrics and record market shares
3. Full year result for FY22 is in line with the Company's expectations as outlined on 21 February 2022, delivering double digit revenue and earnings growth despite challenging market conditions driven by the refreshed growth strategy and improved execution
4. Outlook for the business in FY23 is positive with continued revenue and earnings growth expected, and the Company is on track to deliver on its medium-term financial and non-financial ambitions communicated to the market at its Investor Day in October 2021

As a result of the above, and considering its strong balance sheet position, the Company intends to execute an on-market share buyback of up to $150 million. An on-market share buyback is considered to be the most appropriate form of capital management at this time.

The Board and Executive Leadership Team would like to express their appreciation to the Company's supportive shareholders, talented team, valued farmers, loyal customers/distributors, committed suppliers and strategic partners in China, for their collective support during a challenging period overcoming COVID-19 related disruption and market headwinds.

1 All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.

Financial highlights[2]

- Revenue growth of 19.8% to $1,446.2 million (11.2% ex-MVM[3]) with 2H22 up 18.9% on 1H22 (15.7% ex-MVM)
  - China label and English label IMF sales up 12.2% and 11.6% respectively
  - ANZ and USA liquid milk sales up 1.8% and 30.2% respectively
- Earnings before interest, tax, depreciation and amortisation (EBITDA[4]) up 59.0% to $196.2 million. EBITDA to sales margin increased to 13.6% (16.1% ex-MVM) compared to 10.2% in FY21
- Net profit after tax (NPAT) including amounts attributable to non-controlling interests up 42.3% to $114.7 million with $122.6 million attributable to owners of the Company[5]
- Earnings per share up 51.8% to 16.5 cents in FY22 compared to 10.9 cents in FY21
- Strong balance sheet with closing net cash[6] of $816.5 million with operational cash conversion[7] of 114% during the year
- Positive outlook for FY23 with high single digit revenue growth and EBITDA margin improvement expected (see Outlook below for further detail, including key industry and business risks)

2 All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
3 Excluding the impact of consolidating Mataura Valley Milk (MVM) into the Group result, which was acquired in July 2021.
4 EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's FY22 Investor Presentation (slide 55) and Other information in this Annual Report (page 126).
5 The non-controlling interest represents China Animal Husbandry Group's 25% interest in MVM.
6 Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
7 Operational cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.

Operational highlights

- Brand health metrics reached new highs across the business with total a2MC IMF spontaneous brand awareness in China increasing significantly from 16% to 21% following a 36.3% increase in marketing investment
- Record market shares achieved in China label IMF in mother and baby stores (MBS) and domestic online (DOL), with English label IMF market share in cross border e-commerce (CBEC) increasing in 2H22 and offline-to-online (O2O) over the full year. Record market shares also achieved in Australia and USA milk
- Deliberate shift in distribution of English label IMF to more transparent, performance-based and exclusive partners progressing well with significantly improved share of voice in the Daigou channel
- Increased focus on innovation resulted in the highest number of new product launches in the Company's history: *a2 Milk® Half & Half, HERSHEY'S a2 Milk®, a2 Milk® UHT, a2 Milk® Cream on Top, a2 Milk® Lactose Free* and refreshed *a2 Platinum®* English label IMF
- Completion of Mataura Valley Milk (MVM) acquisition with China Animal Husbandry Group with successful integration and commencement of *a2 Milk®* powder manufacturing underway
- Significant increase in sustainability targets, initiatives and impact in many areas of the business, including committing to New Zealand's first high pressure electrode boiler supplied by 100% renewable energy at the MVM site

Group financial performance[8,9]

The Company's revenue for FY22 was up 19.8% driven by strong growth in the China & Other Asia and USA segments, along with incremental sales from the first-time inclusion of MVM. This was partially offset by lower IMF sales in ANZ due to deliberate changes to the Company's English label IMF route-to-market structure, resulting in a shift in sales towards the China & Other Asia segment. 2H22 revenue growth also reflects actions taken by the Company in 2H21 and 1H22 to address excess IMF channel inventory, execution of the Company's growth strategy, strong China label IMF consumer demand in part due to COVID-19 related lockdowns as well as pricing and favourable foreign exchange.

Gross margin percentage[10] of 46.0% was up 3.7ppts and reflects the cycling of prior year stock write-downs, price increases, reduced trade spend and favourable foreign exchange; partially offset by higher raw material and logistics costs which were impacted by COVID-19 and the inclusion of MVM. Gross margin percentage excluding MVM was 50.9% compared to 42.3% in FY21 which was significantly impacted by stock write-downs.

EBITDA increased by 59.0% to $196.2 million primarily reflecting higher revenue and gross margin. EBITDA growth came notwithstanding a 36.3% increase in marketing spend and the anticipated uplift in Administrative and Other Expenses, which have increased by 15.6% due to capability investment, increase in employee incentive costs (low base last year), and higher professional services fees and insurance costs. COVID-19 adversely impacted in-market freight rates and distribution costs, particularly in the USA business. Together, these factors resulted in an EBITDA margin of 13.6% (16.1% ex-MVM).

Net profit after tax, including amounts attributable to the non-controlling interest was $114.7 million, an increase of 42.3%. Depreciation and amortisation was $18.9 million, net interest income was similar to prior period and the effective tax rate of the Group was 36.7%. NPAT attributable to owners of the Company was $122.6 million.

The balance sheet remains in a strong position with closing cash and term deposits of $887.3 million. The higher cash balance reflects the cash generated during the year offset by $213.7 million of capital invested in the acquisition of MVM (net of cash acquired). As a result of the ownership structure of MVM, the Group is now consolidating MVM's financial debt which was $70.8 million at period end (excluding $36.2 million of subordinated non-current shareholder loans), and therefore, the Company had net cash[11] of $816.5 million. Inventory at the end of the period was $140.0 million, higher than at the end of FY21, mainly due to the inclusion of MVM. The Company's IMF inventory levels were lower than planned at year-end due to COVID-19 impacts on its China label supply chain.

Operating cash flow was $203.8 million. Excluding interest and tax, this represented operational cash conversion of 114%[12] which was relatively high during the period. This was mainly due to an increase in trade and other payables related to the timing of 4Q22 brand investment and inventory orders, combined with delayed invoicing and payments processing in China due to COVID-19 related lockdown impacts.

China IMF market update[13]

The number of births in China decreased by 11.5% in 2021 to 10.6 million[14] and is expected to decline in 2022. This decline has been partially offset by an increase in household penetration and consumption within the IMF market.

In volume terms, the overall IMF market in China decreased by 4.3% in FY22, as several years of declining newborns had a cumulative impact on Stages 2 and 3, partially offset by increasing household penetration particularly in relation to growth in Stage 4. Market value also decreased by 3.1% in FY22 as growth in average market prices was not enough to offset volume declines. Market price growth of 1.3%, driven both by premiumisation (consumers trading-up and new product innovation) and channel mix shift to higher-priced China label channels, was less than in previous years and was also impacted by increasing promotion frequency, albeit at reduced discount levels.

"We are pleased with the progress that has been made in stabilising the business, refreshing our strategy and improving our execution."

8 All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
9 All comparisons are with the 12 months ended 30 June 2021 (FY21), unless otherwise stated.
10 Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.
11 Including term deposits and borrowings, excluding subordinated non-current shareholder loans.
12 Operational cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.
13 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities), unless otherwise stated
14 Source: China National Bureau of Statistics.

The market shift towards China label product continued compared to English label product, although the extent of the shift this year was less pronounced than last year. In FY22, China label product accounted for 85% of the market (compared to 84% in FY21) and English label product accounted for 15% (compared to 16% in FY21). The shift towards China label in the previous year was more significant (7% pts) due to significant COVID-19 related disruption and associated demand and supply volatility.

Growth rates varied significantly between Key&A and BCD cities, with Key&A value sales decreasing by 7.1% whilst in BCD cities market value was broadly flat in line with the divergence of birth rates across city tiers.

Within China label channels, several market dynamics are supporting a2MC's growth, including a continued mix shift to the ultra-premium segment (where the Company's China label product competes), more rapid growth of the A2 protein segment, increasing brand concentration towards market leading brands (with *a2 至初*® remaining one of the few international brands continuing to grow market share) and the continued shift to online channels, where international brands have historically outperformed local brands.

English label channels are showing signs of stabilisation, with the rate of decline in overall English label value sales (down 9%) reducing significantly compared to FY21 (down 33%) and sales growing by 1.6% in BCD cities in 2H22. Within English label channels, there is a mix shift from Daigou to CBEC and O2O channels.

Despite challenging market dynamics, a2MC's growth in FY22 in China label and English label IMF was encouraging, and the Company has a significant opportunity to grow market value share from its current levels of 4-5%.

a2MC regional performance

1. China & Other Asia

China & Other Asia revenue of $726.5 million was up 24.5%, with EBITDA of $145.1 million up 92.0%. Growth was driven by 2H22 performance as the Company ramped-up execution of its growth strategy supported by strong China label IMF consumer demand in part due to COVID-19 related lockdowns, as well as favourable foreign exchange. The increase in EBITDA margin from 13.0% to 20.0% reflected higher gross margin during the period mainly due to cycling the impact of stock write downs last year and the operational leverage benefit of higher sales, partially offset by higher marketing investment.

There were further gains in brand health metrics following the significant increase in marketing investment in 2H22. Based on the Company's most recent tracking (Jul-22 compared to Jan-22), spontaneous awareness for total a2MC IMF (ie China label and English label) increased from 16% to 21%, the rate of consumers who have ever trialled the Company's IMF products increased from 19% to 20% and the percentage of consumers who claim to use the Company's IMF most often increased from 12% to 13%. Within this, China label prompted brand awareness improved from 45% to 50% and English label prompted brand awareness improved from 27% to 29%.

The 2H22 campaign continued to build on the execution themes from the 1H22 campaign with more balanced functional and emotional brand messaging, more precise targeting of consumers, greater use of health care professional marketing, increased social seeding and stronger integration across all channels and of both labels.

China label IMF

Sales for *a2 至初*® China label IMF of $437.6 million were achieved, representing an increase of 12.2%. As referred to in the Company's announcement on 21 February 2022, the Company restricted sales to distributors in 1H22 (particularly in 4Q21 and 1Q22) to rebalance channel inventory levels and improve channel dynamics. As a result of this, sales in 1H22 were down, but were up significantly during 2H22. Consumer demand for *a2 至初*® over the year was strong and the Company increased share in store and online, and across all stages.

"The increase in our marketing investment has driven further gains in brand health metrics and record market shares delivering strong growth in our China infant milk formula business."

a2MC increased offline numeric and weighted distribution as well as same store sales, resulting in Key&A and BCD cities share increases during the year. Offline distribution increased to 26.5k stores at the end of June 2022 from 22.8k at the end of June 2021[15]. The Company has expanded its focus from building share in national key accounts to also pursuing regional key accounts, as well as targeting greater penetration in BCD cities and developing new strategies for accelerated growth in certain high-potential provinces. As measured by Nielsen[16], retail sales for the MBS channel by value were down 2% in FY22[17]. a2MC's market value share in MBS increased to 3.0% at the end of June 2022 versus 2.2% at the end of June 2021, and *a2 至初®* was one of the few international brands that gained share in the period.

Accelerating the Company's online growth is a strategic priority for China label IMF and performance in DOL is a key measure of success. As measured by Smart Path, retail sales for DOL by value were up 4% for FY22[18]. a2MC's market value share in DOL increased to 2.5% at the end of June 2022 versus 2.0% at the end of June 2021.

English label IMF (CBEC)

a2 Platinum® English and other label IMF sales of $255.8 million were up 53.3%. The result reflected improved channel economics and demand during the period, price increases, favourable foreign exchange and reduced discounting during the "6/18" and "11/11" online sales periods in China.

Strong revenue growth in CBEC also reflects execution of the Company's strategy to simplify and delayer its distribution network to move closer to its consumers, which has reduced the extent of indirect unauthorised cross-channel sales from ANZ resellers to CBEC participants. This has resulted in a greater proportion of those sales now being supplied by authorised CBEC distribution partners, increasing reported revenue to CBEC (refer ANZ section below).

a2MC continued to prioritise overall channel economics through tightly controlled inventory levels and promotional activity in CBEC. As a result, and as expected, English label sales during key promotional events in 1H22 were slightly down on last year but recovered in 2H22 with improved market pricing across CBEC platforms and reseller channels, enhancing overall channel economics. Notwithstanding these actions, the Company's platform rankings were maintained or improved during the period.

Similar to DOL, the Company is focused on CBEC online growth and building digital marketing and e-commerce capability to improve its execution which is having an impact, particularly on new user recruitment and late-stage retention. As measured by Smart Path, retail sales by value for the CBEC channel were down 2% for the period[19]. a2MC's market value share in CBEC was 19.5% at the end of June 2022 versus 21.1% at June 2021, with market share improving in 2H22.

Liquid milk and other nutritional products

Sales of liquid milk in China & Other Asia were up 34.4% to $11.1 million and revenue from other nutritional products was also up 19.7% to $22.1 million. This reflected progress in executing against adjacent category growth opportunities, including the launch of UHT in China. These results were achieved notwithstanding significant supply chain disruption in liquid milk during the period due to COVID-19 impacts on manufacturing and logistics.

2. Australia and New Zealand (ANZ)

ANZ segment revenue of $532.7 million was down 4.8%, with EBITDA of $173.2 million up 16.4%. Lower revenue was a direct consequence of the Company restructuring its English label IMF routes-to-market and reflected a mix shift in English label IMF sales from an existing reseller to CBEC distribution partners. The shift in the English label route-to-market is a constructive change and an evolution for the Company in the long term to progress its ambition to have the number one English label product range in China. Higher EBITDA was driven mainly by cycling prior year inventory write-downs, pricing and favourable foreign exchange, partially offset by higher cost of goods sold.

15 a2MC internal data tracking of stores with active sales in the past 12 months.

16 Note that during the period, Nielsen expanded its sample store coverage to enhance channel representativeness, and historical data has been restated to reflect this enhancement.

17 Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). 12-month rolling share. FY22 versus FY21.

18 Smart Path China IMF online market tracking: domestic online platform sales (by value). 12-month rolling share. FY22 versus FY21.

19 Smart Path China IMF online market tracking: for CBEC only retail sales (by value). 12-month rolling share. FY22 versus FY21.

> **"We have maintained our brand leadership position in liquid milk in Australia with increased loyalty and household penetration, and our USA milk business grew strongly during the year driven by innovation."**

IMF resellers and retail

IMF sales in ANZ decreased 7.9% to $328.8 million. In addition to the channel mix shift from ANZ resellers to CBEC, customer mix within ANZ resellers also shifted significantly during the period with some resellers securing additional volume. This managed shift followed an in-depth review of the Company's reseller route-to-market which has resulted in improved visibility and control of channels to market. The lower reseller sales due to the channel mix shift were partially offset by pricing adjustments to address pricing relativities and less promotional activity on CBEC in the interests of maintaining a healthy ecosystem.

Following this route-to-market review and consistent with the Company's growth strategy, management has focused on developing more transparent, performance-based, exclusive and channel compliant distribution partnerships during the period. As a result, significant volume transitioned from the Company's previous largest reseller to CBEC distributors (ANZ volumes ultimately on-sold to CBEC platforms were re-routed through authorised CBEC distributors) and to other existing ANZ reseller partners during the period. Supply continues to be allocated carefully to all reseller partners to ensure appropriate stock levels are maintained in the channel.

Although market share reduced in the Daigou channel during the period, the rate of decline improved in 2H22 following the change in distribution partners. Kantar data[20] indicates consumer sales in the Daigou channel were down 17% for FY22[21] and that a2MC's Daigou market share declined to 18.7% at the end of June 2022 versus 22.2% at the end of June 2021. However, a2MC's Daigou market share decreased by approximately 2% pts in 2H21 and 1H22 but declined by less than 1% in 2H22 following the change.

The ANZ reseller channel is an important channel, particularly in relation to new user recruitment. In addition to changing distribution partners, the Company stepped up its support for the channel through more direct engagement with resellers and Daigou, production of more digital marketing content and conducting Daigou sales events resulting in increased share of voice in the channel which is an important leading indicator of share growth. To enable this increased level of activity, the Company invested in developing its reseller and Daigou trade marketing capability during the period.

An initiative to increase distribution in the O2O channel commenced during the period with growth experienced during FY22. A key strategic focus was working with partners to increase store numbers through the O2O channel and drive new user recruitment. Kantar data indicates consumer sales in the O2O market grew 26%[22] for FY22 and that a2MC's O2O market share increased to 18.6% by the end of June 2022 versus 17.5% at the end of June 2021.

As part of the Company's strategic priority to drive growth through innovation, the Company refreshed its English label IMF product range and packaging in 1Q23 which has gained additional distribution in retail.

Liquid milk

Australian liquid milk sales increased marginally by 1.8% to $172.0 million, reflecting volume growth and price increases implemented during the year in response to higher raw milk prices and other input and logistics costs, as well as favourable foreign exchange. This was partially offset by easing COVID-19 restrictions in 2H22 which negatively impacted in-home consumption levels.

The Company maintained its brand leadership during the year with increased loyalty and household penetration. Brand health metrics improved with awareness and trial increasing. a2MC achieved a value share of 12.4% at the end of June 2022[23] versus 12.2% at the end of June 2021 declining marginally in 2H22 as lockdowns eased. Market share gains were achieved in all states except Western Australia, with new record value shares in New South Wales and Victoria. Pleasingly, three *a2 Milk®* products achieved rankings in the top ten products in the dairy category in Grocery.

a2 Milk® UHT was launched during 3Q22 and is now available in major supermarket chains across Australia. This addition to the Australian liquid milk portfolio provides loyal consumers with a shelf-stable pantry backup or camping supply of their favourite *a2 Milk®*. *a2 Milk® Cream on Top* was also launched during 2H22 and is now available in 350 stores across Australia.

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

21 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities).

22 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities)

23 IRI Australian Grocery Weighted Scan 12-months ending 30 June 2022.

Post year-end, the Company launched a new *a2 Milk® Lactose Free* range for consumers that are lactose intolerant enabling all consumers to enjoy the benefits of *a2 Milk®* (noting that individuals can be A1 protein and/or lactose intolerant). Lactose free milk is a significant category in Australia with retail sales value greater than $130 million. The Company has secured arrangements for distribution of the range with major supermarket retailers in Australia, supported by a targeted marketing campaign. The *a2 Milk® UHT, a2 Milk® Cream on Top* and recent *a2 Milk® Lactose Free* launches are consistent with the Company's strategy of ramping up innovation to drive growth.

Other nutritional products

Revenue in other nutritional products was also impacted by the channel mix shift to CBEC, and was slightly below prior year, declining 5.2% to $31.9 million.

3. North America

USA revenue increased 30.0% to $82.7 million while EBITDA decreased 9.4% resulting in a loss of $36.7 million. The higher revenue was driven by growth in core liquid milk, the introduction of new products, reduced trade spend and favourable foreign exchange. Sales growth in core liquid milk was primarily driven by growth in the Grocery and Mass channels of trade which grew 38% during the period, partially offset by reduced Club channel distribution.

Sales growth was mainly through increased same store sales with only modest increases in distribution from 26.8k stores at the end of June 2021 to 27.4k stores at the end of June 2022[24]. Two new products were launched during 1H22 – *HERSHEY'S a2 Milk®* and *a2 Milk® Half and Half* – achieving higher than expected listings in trade. A combination of growth in the core and innovation increased a2MC's market value share in the premium milk category for the Grocery channel from 1.8% in June 2021 to 2.1% in June 2022[25]. Key marketing and public relations activities continued which resulted in improvements in brand awareness and household penetration.

The increased EBITDA loss was mainly due to a significant increase in freight costs throughout the year, coupled with fuel surcharges from higher diesel prices and higher raw milk costs in 2H22, partly offset by price increases and trade spend reductions. Marketing and SG&A costs were relatively flat in combination. EBITDA losses were also higher due to foreign exchange movements. Accelerating the path to profitability in the USA by FY25/FY26 remains a key strategic focus and the Company expects to make meaningful progress on this during the year ahead.

Mataura Valley Milk

MVM revenue of $104.4 million[26] and an EBITDA loss of $18.8 million were recorded for the eleven months of a2MC's ownership during FY22. The EBITDA loss reflects the current production mix with MVM primarily selling lower value milk powders on the commodity market. The result was slightly better than expected due to favourable foreign exchange and Global Dairy Trade (GDT) pricing partly offset by higher raw milk costs during the period.

a2MC's acquisition of a 75% interest in MVM is strategically important as it provides the opportunity to participate in nutritional products manufacturing and the potential to pursue additional China label registrations and product innovation opportunities in the future. It strengthens relationships with key strategic partners in China, achieves supplier and geographic diversification, reduces risk across a2MC's IMF and other nutritionals businesses, and over time will offer access to insourced manufacturing margins.

Accelerating MVM's path to profitability by FY26 or earlier is a key strategic focus. To improve profitability, the Company commenced manufacturing *a2 Milk® Full cream milk powder* at MVM during 1H22, which was previously manufactured by Synlait Milk Limited (Synlait). The Company is working on in-sourcing *a2 Milk® Skim milk powder* and certain existing English label IMF product from Synlait, developing future product innovation at the facility and exploring additional third-party customer opportunities. To complement this and facilitate future China label registration applications, MVM has commenced planning for the installation of a laboratory and blending and canning capability at the site.

Growth strategy update

At a2MC's Investor Day in October 2021, the Company announced its refreshed growth strategy which was adapted to the rapidly changing IMF market dynamics in China. At the same time, the Company also outlined its medium-term indicative sales and EBITDA margin ambition. In 2H22 the Company focused on implementing its strategic priorities and related initiatives, including a material increase in brand investment. Significant early progress has been made against the Company's five strategic initiatives.

1. Invest in people and planet leadership

The Company refreshed its purpose '*We pioneer the future of Dairy for good*' and vision '*An A1-free world where Dairy nourishes all people and our planet*' which highlights the positive impact the Company wants to have on the world, inspiring its team and partners. New leadership and culture development programmes were launched, and team engagement, net promoter and diversity and inclusion surveys were completed to benchmark progress. Investment was made in organisational capability expansion, particularly in China with a focus on digital marketing and e-commerce targeting DOL, CBEC and O2O growth opportunities. More ambitious sustainability targets were set, and related initiatives launched, including commitments in GHG emissions reduction, farm environmental plans and animal welfare, and for the transition to more sustainable packaging. Importantly, a2MC announced a significant investment to reduce GHG emissions through the MVM boiler electrification, sourced from 100% renewable power, and to support Synlait's biomass boiler conversion.

> **"The Company is committed to investing in tangible climate and nature related programmes that will create a positive impact on the planet."**

24 SPINS retail sales data as of 30 June 2022 and internal counts

25 SPINS data for the Grocery channel only for the 52 weeks ending 30 June 2022 and 30 June 2021.

26 Revenue excluding intercompany sales.

2. Capture full potential in China IMF

The Company's most critical business development focus is to ensure it delivers its full potential in China IMF. The Company completed its brand positioning review, significantly increased China marketing investment, invested in digital content generation and executed integrated marketing campaigns with a more targeted mix to increase impact. In terms of offline sales, the Company commenced China label in-market growth pilots with a mix of above-the-line and below-the-line brand and sales activation initiatives, increased MBS distribution (particularly in lower tier cities) and increased same store sales. Investment was also made in growing DOL and CBEC sales and developing the O2O model in key accounts. The English label route-to-market review was completed and actioned, as well as investing in Daigou marketing support and engagement.

3. Ramp-up product innovation

Liquid milk and other nutritional products grew significantly in China & Other Asia demonstrating progress in executing against adjacent growth opportunities outside of IMF. The Company supported Synlait to complete and submit a2MC's China label IMF new GB registration dossiers for an upgraded formulation. The Company launched *UHT*, *Cream on Top*, *Lactose free*, *Half & Half* and *HERSHEY'S a2 Milk®* products in liquid milk during the year and refreshed English label IMF product post year-end.

4. Transform the supply chain

Following completion of the MVM acquisition, the Company commenced planning for laboratory and blending and canning capability at MVM with third-party support and accelerated efforts to explore additional opportunities relating to China label market access in New Zealand and China. The Company progressed capacity expansion initiatives at its Smeaton Grange and Kyabram manufacturing facilities.

5. Accelerate path to profitability for USA and MVM

USA top-line growth was accelerated through new product launches, reduced trade spend and price increases, which also improved gross margins. The Company accelerated plans to insource *a2 Milk®* branded product manufacturing from Synlait and develop third-party business at MVM to improve capacity utilisation.

China label new GB registration update

a2MC and Synlait are working closely together in relation to the new GB registration process by China's State Administration for Market Regulation (SAMR) for a2MC's China label IMF product, *a2 至初®*. China label product manufactured after 21 February 2023 needs to comply with the new GB standard.

While the Company's new GB registration process is progressing, timing is uncertain and subject to SAMR approval. However, it is noted that the Ministry for Primary Industries (MPI) has co-operation arrangements in place with SAMR which, amongst other things, positions New Zealand well in relation to China registration processes.

a2MC's current China label IMF product registration expires in late September 2022. a2MC and Synlait have applied for the renewal of this existing registration which the Company anticipates receiving in September consistent with SAMR's practice with other brands in similar situations. Such renewal would in effect allow Synlait to manufacture a2MC's current registered product up until the end of the grace period on 21 February 2023 when transition to the new GB standard is required. The current registered product manufactured up until this date is allowed to be sold in market after that date. This period through to 21 February 2023 is sometimes referred to as an "extension" of the existing registration.

In all circumstances, a2MC fully respects SAMR's governance and timing of this important registration process.

On-market share buyback

The Company announces that it intends to undertake a capital return of up to $150 million through an on-market share buyback. The buyback is expected to commence towards the end of September and could run for up to 12 months.

a2MC regularly assesses its balance sheet position in order to deliver the optimum structure to enhance shareholder value in line with the Company's strategy and capital allocation framework. This framework prioritises investment in growth initiatives and maintaining balance sheet flexibility ahead of capital returns to shareholders. Where there is capital which is surplus to achieving these priorities a2MC makes a disciplined assessment of the potential to return funds to shareholders.

The Company's balance sheet is in a strong position that provides the capacity to distribute up to $150 million to shareholders, with the most appropriate method being an on-market share buyback. With a closing net cash balance[27] in FY22 of $816.5 million, there is sufficient capital reserve to fund investment opportunities, maintain an appropriate cash buffer as well as return surplus capital to shareholders.

The buyback is subject to market conditions, a2MC's prevailing share price and all other relevant considerations. a2MC reserves the right to vary, suspend without notice, or terminate the on-market buyback at any time.

Further details in relation to the share buyback are provided in the separate Company announcement also released to the market on 29 August 2022.

27 Including term deposits and borrowings, excluding subordinated non-current shareholder loans.

Board and Management renewal

The Board is continuing its programme of renewal and is focused on increasing its levels of China market, IMF category and manufacturing experience. In March 2022, Sandra Yu was appointed to the Board. Sandra is a highly regarded company director and has extensive experience in the IMF market in China as a former head of Mead Johnson Nutrition's Greater China business. The Company also announced today the appointment of David Wang to the Board as a non-executive director. David's appointment adds further China market and manufacturing expertise which will be an invaluable asset with the recent acquisition of MVM and the Company's strategy to develop its supply chain capability in New Zealand and China.

Consistent with corporate governance best practice, the Company's Deputy Chair, Julia Hoare, who joined the Board in November 2013, has advised of her intention to step down as a Director after the Company has delivered its FY23 interim results in February 2023. A process will shortly commence to identify a suitable replacement director that ensures the Board maintains an appropriate balance of skills, knowledge and experience.

During the year, the Company announced a number of changes to its Executive Leadership Team. Yohan Senaratne was appointed as Executive General Manager – International, Kevin Bush was appointed as Executive General Manager – ANZ, Bernard May joined as Chief Executive – MVM, Amanda Hart was appointed as Chief People & Culture Officer, and Edith Bailey was appointed as Chief Marketing Officer. Lastly, the Company announced the resignation of its Chief Financial Officer, Race Strauss, and the appointment of David Muscat who will join the Company as its Chief Financial Officer in October 2022. Prior to David joining a2MC, Mark Sherwin has assumed the position of Interim Chief Financial Officer.

Outlook

Business and category

China label IMF sales are expected to be up in FY23 with significant growth in sales in 1H23 versus 1H22. At this stage, 2H23 sales growth is expected to be impacted by transition to the Company's pending new GB registration. English label IMF sales are expected to be up in FY23 with 1H23 sales expected to be broadly in line with 2H22 due to the impact of managing transition to the refreshed *a2 Platinum*® range.

Australian liquid milk sales are expected to remain broadly in line with FY22, with reduced in-home consumption following the easing of COVID-19 related lockdowns offset by growth through innovation. USA liquid milk sales are expected to be up in FY23 driven by continued growth in core liquid milk and innovation, and a significant improvement in EBITDA losses is expected.

MVM will be included in the Company's result for 12 months compared with 11 months in FY22. MVM FY22 revenue (excluding intercompany revenue) and EBITDA losses for the 12 months were $116.2 million and a loss of $23.2 million respectively (unaudited). Revenue is expected to be down in FY23 compared to FY22 (12 months) due to increasing levels of insourcing and lower GDT pricing, and EBITDA is expected to be broadly in line with FY22 (12 months).

Key financials

The Company is expecting high single digit revenue growth in FY23. 1H23 growth (on 1H22) is expected to be significantly higher than 2H23 growth (on 2H22).

FY23 gross margin percentage is expected to be broadly in line with FY22, with cost of goods sold headwinds related to increasing milk, ingredient and packaging costs offset by price increases, mix benefits and cost mitigation initiatives.

The Company will continue to increase its brand investment in FY23. Marketing spend will be skewed marginally towards 1H23 with a significant uplift versus 1H22 due to campaign timing.

A further uplift in Administration & Other expenses is expected, reflecting additional capability build, upweighted investment in science, innovation and sustainability, and inflation impacts.

Overall, the Company is expecting EBITDA growth in FY23 and a modest improvement in EBITDA margin (% of sales). With the marketing plan weighted to 1H23, the Company expects a slightly higher EBITDA margin in 2H23 versus 1H23.

Operational cash conversion is likely to be significantly lower in FY23 than FY22 mainly due to the reversal of working capital timing benefits in FY22 and an increase in inventory levels.

The Company expects that capital expenditure will be approximately $25 million during FY23 mainly due to enhancements in existing supply chain capacity and capability. This amount excludes any more substantive investment to develop the Company's New Zealand and China supply chain capability.

Industry and business risks

In addition to trading upside and downside, other risks include, but are not limited to, COVID-19 impacts on supply chain, SAMR registration process timing, volume impact of price increases, foreign exchange movements, cross border trade, changes in the regulatory environment, and commodity prices. These risks could materially impact expected revenue and earnings outcomes.

David Bortolussi
Managing Director and Chief Executive Officer
28 August 2022

BUILDING A SUSTAINABLE GROWTH BUSINESS

Mataura Valley Milk

OUR REPORTING APPROACH

The Company believes a move towards integrated reporting will benefit stakeholders by providing a more complete picture of how it creates and preserves long-term value.

There has been a trend in recent years towards more integrated reporting, driven by the expectations and needs of various stakeholders, including shareholders.

At its core, the integrated reporting concept refers to a principles-based, multi-capital framework in which companies can communicate clearly and concisely about how their strategies, governance, performance and prospects create value in the context of their external environments.

The a2 Milk Company notes the recent developments in this space, and in particular the announcement in November 2021 from the International Finance Reporting Standards Foundation, in forming the International Sustainability Standards Board (ISSB). The ISSB's purpose is to deliver a comprehensive global baseline of sustainability related disclosure standards that provide investors and other capital markets participants with information about companies' sustainability-related risks and opportunities, to help them make informed decisions. It is expected that this will result in a more definitive approach for companies to follow with regard to integrated reporting. While more work will be required to align to these expected standards in the future, this FY22 annual report has been developed with this in mind.

This report outlines how The a2 Milk Company creates value for its shareholders over the short, medium and long-term. It describes the Company's refreshed purpose and vision, its values, strategy and performance as well as the governance framework and management oversight in advancing opportunities whilst managing risks.

One of the Company's goals is to ensure that it creates long-term, enduring value for shareholders through a trusted, transparent relationship. A move towards integrated reporting is one of the ways the Company is seeking to achieve this.

HOW WE CREATE VALUE

INPUTS

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

Our brand
Our trusted brand, our proprietary know-how and A2 protein expertise are our most valuable assets. We are committed to maintaining and growing these assets with appropriate investment. Through ongoing science and research programmes, we are deepening our expertise and advancing global understanding of the potential health benefits of *a2 Milk*™.

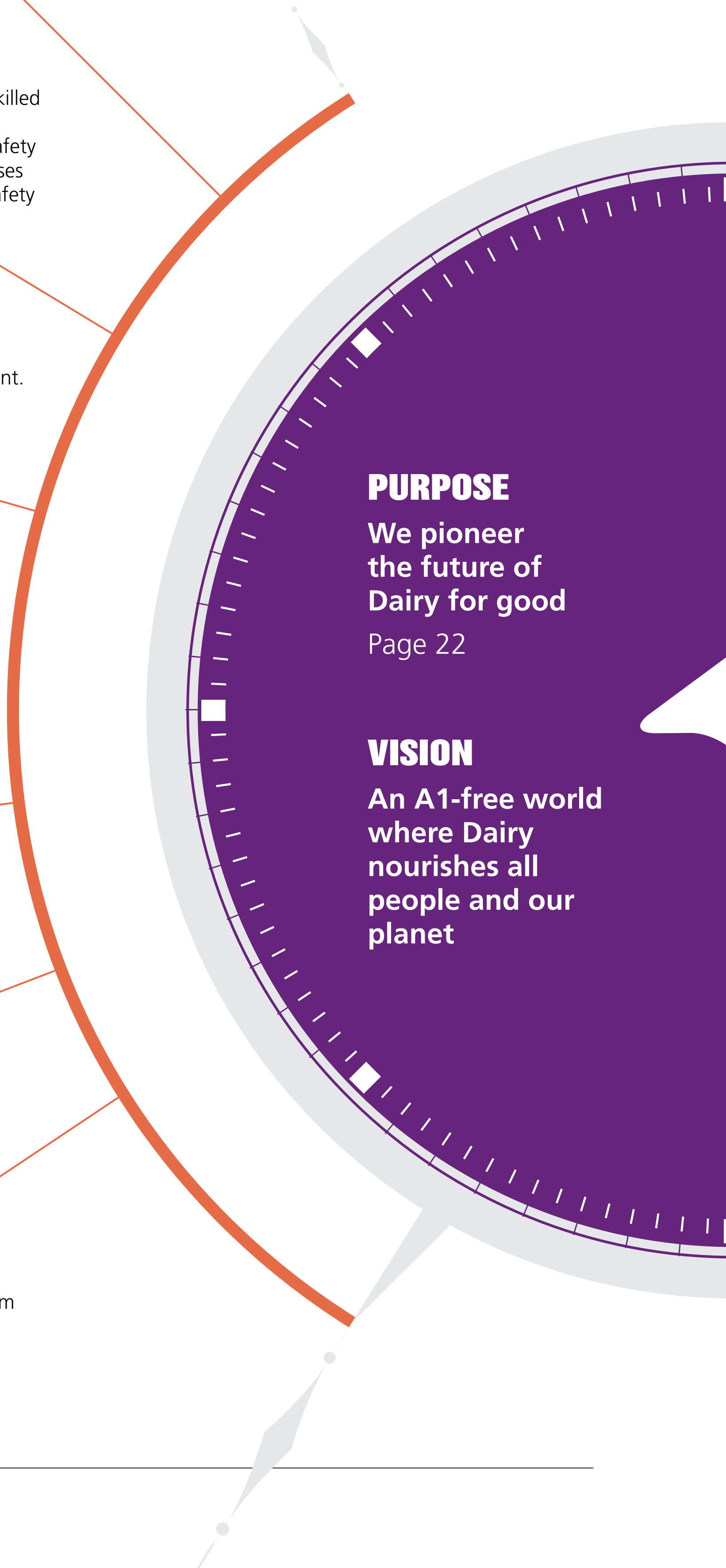
Our environment
Access to natural resources and a thriving agricultural sector that supports healthy ecosystems is fundamental to our business. We recognise that climate change and pressures on agricultural and food systems present a systemic challenge for our world – and we are committed to finding unique and high impact solutions across our value chain to help address these challenges. Appropriately meeting this challenge will enable us to continue providing premium *a2 Milk*™ based products to our consumers and long-term value to our shareholders.

Our supply chain
Complementing our own fresh milk and nutritionals production capability, we work closely with our suppliers and farming community to maintain a reliable and responsible sourcing and manufacturing supply chain. We believe this is critical to our long-term success.

Our communities
We support communities in our key regions of New Zealand, Australia, China and the USA with a focus on proactive wellness to nourish the lives of children and families and help them to thrive.

Our finances
The Company carefully balances investment in its supply chain and distribution through both strategic partnerships and direct ownership. Combined with the rapid growth of its premium products, this approach has enabled the Company to build a strong and robust balance sheet, which, guided by its capital management framework, provides financial capital for the Company to deploy in the pursuit of its strategic objectives.

COMPANY OVERVIEW
Page 18



RISKS AND OPPORTUNITIES

- The sale of nutritional food products — Page 25
- Doing business in international markets — Page 26
- Major international events — Page 27
- Competitive intensity — Page 28
- Climate and nature — Page 28
- Strategic partnerships — Page 29
- Evolving technology — Page 29
- Talent and culture — Page 30
- Social licence to operate — Page 31

STRATEGIC PRIORITIES

- Invest in people and planet leadership
- Capture full potential in China IMF
- Ramp-up product innovation
- Transform our supply chain
- Accelerate path to profitability in USA and MVM

VALUES

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

GOALS

Page 32

PEOPLE

Create a safe, diverse, inclusive and engaging place for our people to thrive, support our farmers and contribute to our communities.

Page 32

PLANET

Protect our planet and cows, rethink packaging, achieve net zero and become nature positive.

Page 36

CONSUMERS

Bring the unique benefits of pure and natural *a2 Milk*™ to as many consumers as possible.

Page 40

SHAREHOLDERS

Create long-term, enduring value for shareholders and a trusted, transparent relationship.

Page 44

COMPANY OVERVIEW

CHINA & OTHER ASIA

Revenue	$726m
EBITDA	$145m
Market size	China IMF market $47 billion[1]
Supply chain	– China State Farm importation agent and master distributor – 110 distributors
Our people	107 (full time equivalent)

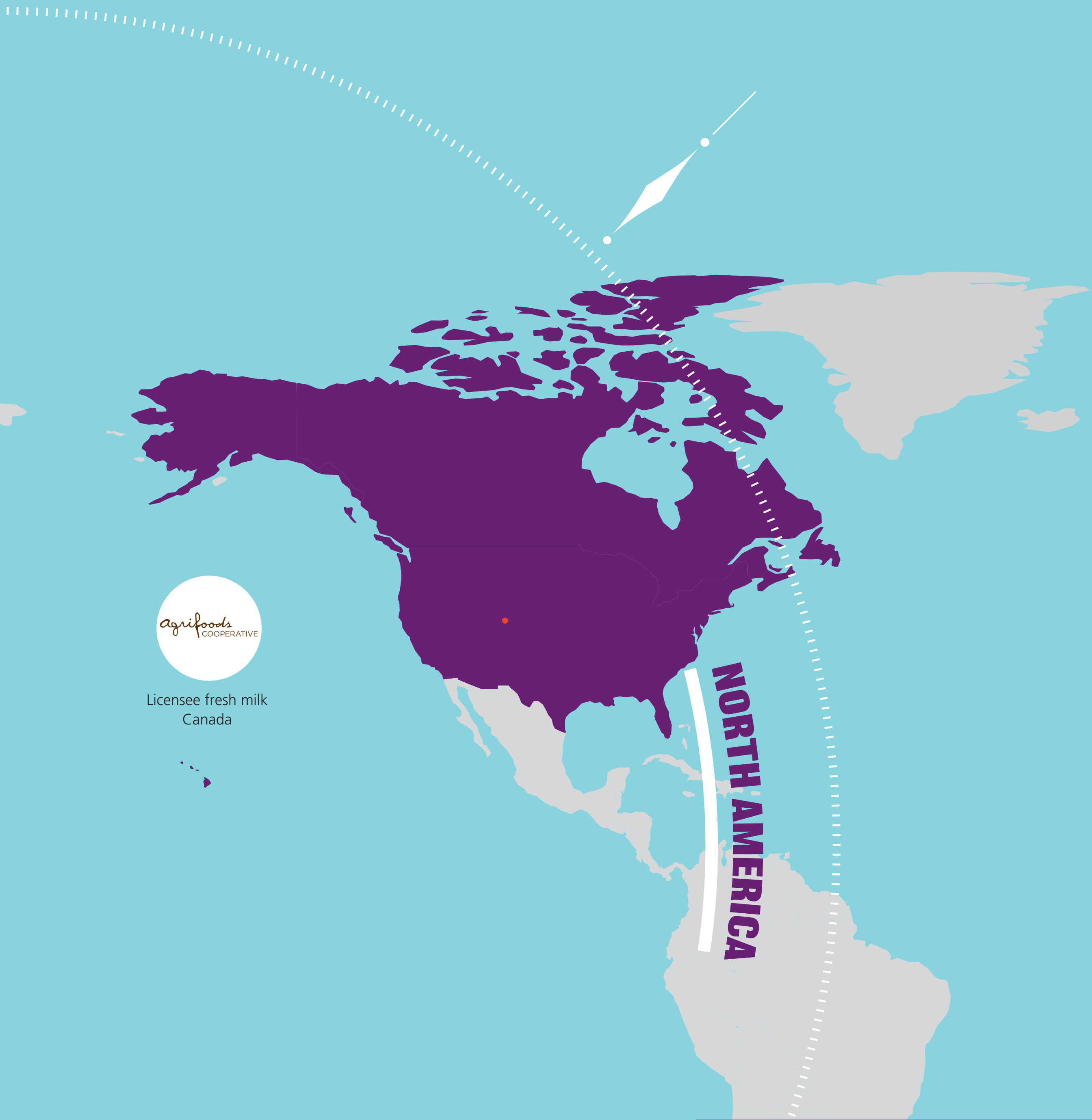
Product Portfolio

AUSTRALIA & NEW ZEALAND

Revenue	$637m
EBITDA	$154m
Market size	Australian liquid milk market $1.9 billion[2] plus cross-border access to China market
Supply chain	Australia (Liquid Milk) – Smeaton Grange (a2MC) – Kyvalley (a2MC) – 4 third-party processing relationships – 25 farmer suppliers New Zealand (Nutritionals) – 75% interest in Mataura Valley Milk – 19.8% interest in Synlait Milk – 209 farmer suppliers
Our people	289 (full time equivalent)

Product Portfolio

mataura VALLEY MILK
Part of The a2 Milk Company



NORTH AMERICA

Revenue	$83m
EBITDA	($37m)
Market size	USA premium milk market $4.3 billion[3]
Supply chain	– Three third party processing relationships – 9 farmer suppliers
Our people	31 (full time equivalent)

Product Portfolio

1. FY21 Market size based on a2MC internal estimation approach
2. FY21 Australian supermarket milk retail sales in NZD Source: IRI Australian Grocery Weighted Scan for the 12-months ending 30 June 2021
3. Source: SPINS US MULO, USA FY21 retail milk sales in the premium segment in NZD

COMPANY OVERVIEW

Who we are

The a2 Milk Company is a dairy nutritionals company, fuelled by its purpose to pioneer the future of dairy for good. The Company was founded in 2000 in New Zealand by scientist Dr Corran (Corrie) McLachlan and his business partner, Howard Paterson, who recognised that not all milk is the same. Dr Corrie McLachlan joined Sir Robert (Bob) Elliot – who had earlier discovered that proteins in milk affect people differently – to pioneer research to understand these differences better.

Originally all cows' milk contained only the A2 protein type. The A1 protein arose through a genetic mutation over many years. Today, most regular milk contains a mixture of A1 and A2 proteins. Results of several published peer-reviewed human clinical trials have shown that A1 protein can cause digestion issues for some people. A scientific and proprietary way to identify cows that naturally produce A1 protein free milk was also discovered.

Today, The a2 Milk Company continues to pioneer this science and research, bringing A1 protein free milk to the world, allowing more consumers to enjoy its unique digestive and other potential health benefits.

The Company produces a portfolio of products made with milk from specially selected cows that naturally produce milk containing only the A2 beta casein protein type and no A1. These products include fresh milk, ultra-heat treatment (UHT) milk, extended shelf life (ESL) milk, infant milk formula (IMF), milk powders (including instant whole and skim milk powder) and other dairy nutritional products primarily for the New Zealand, Australia, China and North American markets.

The Company's primary business activities are:

- **China and Other Asia**: Sales of China label and English label IMF, liquid milk and other nutritional products in offline stores and domestic and cross-border e-commerce channels.
- **ANZ**: Sales of English label IMF and other nutritional products through reseller and retail channels, and sales of liquid milk across Australian and New Zealand retail channels.
- **North America**: Sales of liquid milk products across the United States of America and Canada.
- **Mataura Valley Milk**: Production of nutritional and commodity products in New Zealand.

PURPOSE – WHY WE EXIST AND THE IMPACT WE CAN HAVE ON THE WORLD

The a2 Milk Company's purpose talks to the positive impact the Company can have. Our Purpose lives at the intersection of the Company's unique strengths and what the world needs.

To be continually at the forefront of change

WE PIONEER THE FUTURE OF DAIRY FOR GOOD

Using the processes and products available today and being open to what dairy could become tomorrow

FOR THE GOOD OF

People
- Our consumers (healthy and tasty nutrition)
- Our team (motivated and engaged)
- Our farmers (sustainable partners)

Planet
- Animal welfare (best practice)
- GHG emissions (net zero)
- Nature positive (thriving ecosystems)
- Sustainable packaging

VISION – THE KIND OF POSITIVE FUTURE THE COMPANY WANTS TO HELP CREATE

Opportunity for more consumers to experience the digestive and other potential health benefits of A1 protein free milk

AN A1-FREE WORLD WHERE DAIRY NOURISHES ALL PEOPLE AND OUR PLANET

In combination with other foods, dairy can help deliver on people's complete nutritional needs

Dairy helps nourish consumers, farmers and communities to take advantage of opportunities to live their best lives

Dairy has the potential to be GHG net zero and nature positive

VALUES

Pioneering spirit

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

Bold passion

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

Humility

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

Respect

Seek to understand and appreciate difference in all its forms.

Integrity

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

STRATEGY

Adapting our growth strategy

During FY22, The a2 Milk Company undertook a holistic review of its market, brand, product and distribution opportunities and announced its refreshed growth strategy in October 2021.

Through this review, the Company has set clear goals for the business in four primary areas: People, Planet, Consumers and Shareholders, to ensure that in addition to achieving its commercial ambitions, it is also actively working to deliver its sustainability priorities and is executing in a way that further develops a trusted and transparent relationship with its shareholders.

The Company's growth strategy centres on five key priorities:

– **Invest in people and planet leadership:** While the Company's primary commercial objective is to deliver its full potential in China IMF, critical to doing so is ensuring it has thriving, high performing teams to execute its strategy. The Company has also elevated investment in planet leadership to sit amongst its top strategic priorities, by taking direct action to lead the industry, particularly in GHG emissions reduction, farming practices and sustainable packaging. The Company has also started the journey to become more focused on supporting healthy ecosystems through nature positive initiatives.

– **Capture full potential in China IMF:** To achieve its commercial ambitions, at this stage the Company remains primarily focused on capturing its opportunity in IMF in the China market. To accomplish this, the Company has identified that it must increase control over its China label (CL) and English label (EL) distribution, get closer to consumers, continue to increase investment in its brand, and further invest in its digital marketing and e-commerce capability.

– **Ramp-up product innovation:** While the Company has historically been focused on a narrow product range, to continue to drive growth in IMF and beyond, it will be important to expand its portfolio both in China label and English label IMF, as well as entering adjacent product categories in key markets.

– **Transform our supply chain:** Connected to its IMF and innovation ambitions, the Company will need to transform its supply chain. This includes obtaining additional China label IMF registrations, increasingly leveraging its manufacturing capability at Mataura Valley Milk Limited (MVM), partnering with new suppliers to deliver new products and, over time, developing supply capability in China.

– **Accelerate path to profitability for MVM and USA:** To maximise investment in China and to improve Group return on sales, the Company needs to ensure it accelerates the paths to profitability for each of the USA and MVM. The Company is targeting achieving this during FY26 or sooner.

<table>
<tr><td>Purpose</td><td colspan="20">We pioneer the future of Dairy for good</td></tr>
<tr><td>Vision</td><td colspan="20">An A1-free world where Dairy nourishes all people and our planet</td></tr>
<tr><td>Goals</td><td colspan="5">PEOPLE
Create a safe, diverse, inclusive and engaging place for our people to thrive, support our farmers and contribute to our communities</td><td colspan="5">PLANET
Protect our planet and cows, rethink packaging, achieve net zero and become nature positive</td><td colspan="5">CONSUMERS
Bring the unique benefits of high quality, pure and natural a2 Milk™ to as many consumers as possible</td><td colspan="5">SHAREHOLDERS
Create long-term, enduring value for shareholders and a trusted, transparent relationship</td></tr>
<tr><td>Strategic priorities</td><td colspan="4">1
Invest in people and planet leadership
– Invest in our people to enable them to thrive
– Take direct action to lead the industry in GHG emissions reduction, farming practices and sustainable packaging</td><td colspan="4">2
Capture full potential in China IMF
– Gain more control over CL and EL distribution and get closer to our consumers
– Increase investment in our brand, digital marketing and e-commerce</td><td colspan="4">3
Ramp-up product innovation
– Expand our CL and EL IMF product portfolios
– Enter adjacent product categories in relevant markets to drive growth</td><td colspan="4">4
Transform our supply chain
– Expand CL registered market access
– Utilise MVM and invest in New Zealand capability
– Develop China supply capability over time</td><td colspan="4">5
Accelerate path to profitability
– Take action to realise potential in USA
– Expedite insourcing of a2™ products and third party nutritional volume to significantly increase MVM profitability</td></tr>
<tr><td>Enablers</td><td colspan="5">Brand strength</td><td colspan="5">Science and innovation</td><td colspan="5">Strategic relationships</td><td colspan="5">Capability development</td></tr>
<tr><td>Values</td><td colspan="4">Bold passion</td><td colspan="4">Pioneering spirit</td><td colspan="4">Humility</td><td colspan="4">Respect</td><td colspan="4">Integrity</td></tr>
</table>

Financial measures of success

The Company's medium-term ambition is to grow sales from $1.2 billion in FY21 to approximately $2 billion in the next five or more years (FY26+) and to deliver EBITDA margins in the 'teens'. The sales ambition is expected to be predominantly driven by growth in China label and English label IMF as well as other nutritional products sold in China.

The key drivers for the sales growth are:

- Increasing share of China label infant nutrition
- Supporting English label channel recovery post COVID-19 and executing strategy to gain share
- Growing other dairy and nutritional products in China through innovation and distribution growth
- Growing in existing and new emerging markets
- Expanding in milk and adjacent categories in ANZ and the USA

While the Company's ambition is to improve EBITDA margins over time, in the medium-term it is anticipated to be in the 'teens' due to a range of factors. This includes China IMF market conditions and channel dynamics, mix of business (IMF channel mix and overall product mix), investment levels in brand and capability, timing and investment required to deliver the Company's priorities around its supply chain transformation, and achieving profitability in the USA and at MVM.

There are also key macro uncertainties that may impact the future outlook, including:

- How the China birth rate will evolve and the impact policy changes may have on this
- The extent and pace of recovery in cross-border trade post COVID-19
- How the competitive landscape will evolve in China including the outcome of the new GB registration process
- The extent and pace of change in consumer product and channel preferences
- How the China regulatory framework and international relations may evolve and impact trade

Because of these uncertainties, it is very difficult to define future state targets and when they will be achieved – the path is also unlikely to be linear. Accordingly, future results may be materially different to the Company's ambition.

Non-financial measures of success

The Company is also focused on several medium-term non-financial measures of success over time, as summarised in the image below.

With regards to its people, the Company is targeting below 10 for its safety TRIFR[1], improving its employee engagement score to above 80%, and maintaining its diversity and inclusion rating, which scored 4 out of 5 across the organisation in the Company's most recent engagement survey.

The Company is committed to minimising its impact on the planet and improving a variety of areas to become a more sustainable business. This includes targeting net zero emissions for Scope 1 and 2 by 2030 and Scope 3 by 2040, targeting 100% completion of Farm Environmental Plans and Certified Animal Welfare Programmes by the end of calendar year 2023 and targeting 100% reusable, recyclable or compostable packaging with 50% average recycled content by 2025.

The Company has also set brand health, market share, and innovation targets to deliver on its Consumer goals. For brand health, the Company is targeting greater than 25% for unprompted awareness in China, loyalty of greater than 40% in Australian fresh milk, and household penetration above 10% in the USA in the premium milk segment.

Across market share, the Company is working to become a top five China label IMF player with greater than 5% market share and to have the leading English label IMF range with market share for that range of greater than 25%. For its liquid milk business, the Company is targeting greater than 15% market share in Australia and greater than 5% in the premium milk segment in the USA.

For innovation, the Company is looking to secure three or more China label registrations while also expanding its English label IMF portfolio to grow its overall China IMF business. Additionally, the Company is looking to drive $200 million in incremental revenue from dairy and other nutritionals in China while also driving 25% of sales from new products in Australia and the USA.

Medium-term measures of success

PEOPLE	PLANET	CONSUMERS			SHAREHOLDERS
		Brand health	**Market share**	**Innovation**	
Safety TRIFR[1] <10 with continuous improvement Engagement >80% Diversity and inclusion rated >4 out of 5 by team	GHG emissions reduction – Scope 1+2 net zero by 2030 – Scope 3 net zero by 2040 100% completion of Farm Environmental Plans and Certified Animal Welfare Programmes 100% reusable, recyclable or compostable packaging with 50% average recycled content	China unprompted awareness >25% Australian fresh milk loyalty >40% USA household penetration >10% in premium milk	Top-5 IMF player in China with share >5% Leading EL IMF range in China with share >25% Australian fresh milk share >15% USA premium milk share >5% Incremental $100m revenue from existing and new emerging markets	Access to ≥3 CL registrations Expanded EL IMF portfolio Incremental $200m in revenue from dairy and other nutritionals to China >25% of sales from new products in Australia and USA	Medium-term sales ambition (≥5 years from FY21) of ~$2.0b Targeting EBITDA margins in the 'teens' in the medium-term

1 Total Recordable Injury Frequency Rate (TRIFR)

RISKS AND OPPORTUNITIES

The Company recognises that the management of risks and opportunities 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, which is critical to sustainable, long-term value creation.

The a2MC Risk Management Policy outlines the programme the Company has implemented to deliver appropriate risk management within its processes, systems, culture and decision making. A copy of the Risk Management Policy is available at www.thea2milkcompany.com/corporate-governance.

Governance of risk

The Board is responsible for the overall system of internal control and has delegated responsibility for ensuring that the Company maintains effective risk management and internal control systems and processes to the Audit and Risk Management Committee. The Audit and Risk Management Committee reviews the risk profile including material business risks and provides regular reports to the Board on the operation of the internal control system.

The Company's management is responsible for designing and implementing risk management and internal control systems which identify material risks for the Company and aim to provide the Company with warnings of risks before they escalate. Management implements the action plans developed to address material business risks across the Company.

Management regularly monitors and evaluates the effectiveness of the action plans. In addition, management promotes and monitors the culture of risk management within the Company and compliance with the internal risk control systems and processes. Management reports regularly to the Board regarding the status and effectiveness of the risk management programme.

The Committee and management may also refer particular risk management issues to the Board for final consideration and direction.

Approach to risk management

Our approach to risk management is anchored to ISO 31000 principles to ensure that robust foundations support our processes and procedures and, in doing so, this allows the Board to fulfil its governance responsibilities by making a balanced assessment of the risk management process. Risks are identified, assessed and monitored through regular workshops with senior management and the Audit and Risk Management Committee on a regular basis. Mitigating actions and controls are designed to limit the likelihood of key risks occurring, as well as the associated impact if these risks do occur.

Our risk management approach evolves continually as we identify, assess, mitigate, and monitor both financial and non-financial risks that may affect our ability to achieve our strategic objectives.

KEY SOURCES OF RISK AND OPPORTUNITY

The Company has identified nine sources of risk and opportunity relevant to its business activities.

The following summary provides an overview of each key source, including key economic, environmental and social risks with the potential to materially impact the Company's ability to achieve its objectives. It also summarises how the Company is responding to those risks, as well as associated opportunities.

The sale of nutritional food products

a2MC supplies food products for human consumption, including complex nutritional products for consumption by infants and children. As a result, the Company is inherently exposed to potential product quality, food safety and/or food integrity events.

Key Risks	Key Responses
– Genuine, perceived, or alleged contamination, or unsafe products	– Priority focus on food safety and quality management – Food safety and quality systems audited by accredited third-party verification agencies – High-quality third-party manufacturing partners – Rigorous positive release protocols (comprehensive testing of product quality and integrity prior to the release of finished product) – Traceability systems – Product innovation and technology to enhance product security – Testing of certain distributed products in selected markets – Dedicated customer careline covering all active markets

Key Opportunities

An increasingly health-conscious society combined with the size and enduring nature of the nutritional food category provides significant opportunity to:

- Leverage our pioneer status to promote the benefits of products made with *a2 Milk*™
- Assert the Company's competitive advantage in beta casein testing and technology (our *True a2*™ ecosystem – page 43)
- Continually advance an uncompromising, unrivalled and renowned Quality Assurance programme
- Maximise the potential of our existing product portfolio in key markets
- Explore opportunities to expand our existing product portfolio, and enter adjacent product categories to drive growth

Doing business in international markets

With the Company's expanding geographical footprint, it is exposed to various risks and opportunities associated with conducting business in international markets.

Key Risks	Key Responses
Failure to renew the SAMR product registration[1] for China label infant nutrition: – Extension of existing GB registered product from September 2022 to February 2023; and/or – Approval of GB registration for new formulation	– Close partnership with infant nutrition manufacturer, Synlait Milk Limited (Synlait), which holds GACC[2] and SAMR registrations allowing canned formula to be exported to and sold into the China market – Supported Synlait to complete and submit SAMR China label IMF new GB registration dossiers for all stages with site audit timing to be confirmed – Operational plans in place to navigate orderly transition to newly registered China label product
– Changing macro trends (including demographic, economic and social trends), which can impact the size of addressable markets and/or the complexity of operating in those markets (e.g. decline in birth-rate in China)	– Continued strong investment in brand to grow share – Agile approach to the execution of sales and marketing programmes, adjusting where appropriate to reflect shifts in consumer and channel dynamics – Leverage multi-label, multi-channel portfolio to broaden distribution and consumer reach (including into lower-tier cities in China) – Exploring opportunities to expand our China label and English label infant nutrition product portfolios; and enter adjacent product categories to drive growth
– Geopolitical tension and regulatory environments influencing channels to market, market access, product registrations, trade tariffs, taxes, and quotas	– Strong understanding of local standards, regulations and guidelines, supported by expert in-market advisory – Strong strategic and collaborative partnerships with Chinese State-owned enterprises – A multi-product, multi-channel route to market strategy for the sale of infant nutrition into China
– Foreign currency exchange rate volatility	– Treasury management activities, providing oversight and monitoring of foreign currency exposures with some cash flow hedging
– Multilayered, complex, and opaque route to market channels	– Actions taken to simplify and delayer our English label infant milk formula distribution network, supported by more transparent partner relationships

Key Opportunities

Doing business in international markets provides the opportunities for us to fulfil our strategic goal to 'bring the unique benefits of pure and natural *a2 Milk*™ to as many consumers as possible'. These include:

- Significant further growth potential of infant nutrition and other products in China, the largest and most attractive market for infant nutrition globally
- Exposure and potential entry to large and attractive new markets
- Ability to leverage the unique benefits of *a2 Milk*™ to 'cut through' to consumers in international markets
- Operational resilience through developing and leveraging enduring strategic relationships
- 'Experience sharing' of consumer and product insights across markets

1 Registration achieved by Synlait and given by China's State Administration of Market Regulation (SAMR) in September 2017 for the Company's China label infant nutrition. SAMR requires registration to be held in the name of the manufacturer as opposed to the brand owner.

2 General Administration of Customs of the People's Republic of China.

Major international events

The COVID-19 pandemic continues to cause unprecedented social, economic and supply chain disruptions globally. Recent international conflicts have also reshaped the global energy market, and contributed to major global food shortages and increasing rates of inflation globally. Additionally, potential outbreaks of animal diseases are a risk for the business.

Key Risks	Key Responses
– Route to market disruption and transport cost volatility	– Continued close cooperation with Synlait to maintain continuity of infant milk nutrition supply, and third-party suppliers in Australia and the USA to maintain continuity of liquid milk supply – Increased warehousing locations in China to mitigate against disruptions caused by lockdowns associated with COVID-19 – Enhanced inventory surveillance and reporting to maintain stock control and availability through the supply chain
– Health and wellbeing of our people	– Adoption of robust infection control protocols in line with all relevant government requirements, particularly across the Company's manufacturing facilities
– Inflationary pressures creating volatility in operating costs and availability of ingredients and raw materials	– Use of long-term milk supply agreements in certain markets – Forward procurement of key ingredients to stabilise price and ensure availability – Multiple sources of supply for certain ingredients – Strong premium brand providing platform for cost recovery to varying extent through wholesale price adjustments
– Potential animal disease incursions impacting the ability to supply export markets	– Assist farmers with farm biosecurity plans and preparedness – Business Continuity and Crisis Management frameworks and procedures including simulations to mimic real life events such as animal disease outbreaks

Key Opportunities

Our response to global events provides opportunities to enhance our profile in existing markets, and provide support to disrupted markets.

- Consumer share gain opportunities through ensuring product availability in a supply-constrained environment
- Our Company structure provides agility to rapidly respond to global events
- New market/product opportunities

Competitive intensity

a2MC has experienced significant growth over recent years, driven predominantly by the success of its infant nutrition businesses in Australia and China and liquid milk businesses in Australia and the USA. This success has inspired others to compete with a2MC in the A2 beta casein protein segment.

Key Risks	Key Responses
– Market share erosion in core markets due to domestic brands' potential to resonate and connect more effectively with local consumers than international brands	– Significant and ongoing investment in brand building activities globally – Use of consumer and health care professional education to ensure clear understanding of the unique A2 protein proposition and benefits – Significant and ongoing investment in science, nutrition and innovation globally to ensure we deliver unique consumer value propositions in all our markets underpinned by our proprietary know-how and quality processes – Regular monitoring of market share data and consumer/shopper insights, preferences, and expectations – Continued investment in intellectual property to expand the Company's trademark and patent portfolio
– Infringements of our intellectual property rights resulting from third-party conduct or claims against such IP rights	– Monitoring infringement of the Company's IP and taking action to protect it
– Counterfeit products	– Processes and technology to identify and manage potential counterfeit products including the use of external agencies and in-market authentication testing – Development of the *True a2*™ ecosystem, which includes independent product audits and QR code verification systems to ensure products are of the highest quality and safety (see *True a2*™ page 43)

Key Opportunities

While competitive intensity can present market share erosion risks, it also expands consumer awareness and engagement with the benefits of *a2 Milk*™, encourages opportunities in relation to product innovation, and allows a2MC to further leverage its 'pioneer' and premium brand status. Opportunities exist to:

– Emphasise our proprietary know-how and quality processes to deliver A2 protein products that are of unrivalled quality
– Invest in science, nutrition and innovation to continue to pioneer the future of dairy and explore new opportunities
– Drive awareness and education of our unique A2 protein proposition and benefits to increase our consumer base

Climate and nature

Being heavily dependent on agricultural inputs, a2MC is exposed to short, medium and long-term climate and environmental risks including physical risks resulting from acute and chronic changes in climate, and transition risks resulting from regulatory, or market pressures associated with on-farm emissions (see Task Force on Climate-related Financial Disclosures page 47).

Key Risks	Key Responses
– Climate change effect on biodiversity, soil, ecosystems, water access and uncertainty in carbon pricing, quality and availability of raw materials and ingredients	– Establishing baselines and setting targets across GHG emissions, energy and water consumption, waste-to-landfill and product packaging (see pages 36 to 39) – Sourcing milk from diversified milk pools within New Zealand, Australia and the USA and incorporating climate impacts into future sourcing strategies – Investing in new technologies and emissions reduction initiatives – Global framework for farm environmental plans, addressing the most material aspects of environmental management in the dairy industry – Farmer grant programmes to support farmer-led sustainable dairy farming projects

Key Opportunities

Acknowledging climate and nature risks provides significant opportunity for the Company to play a leading role in driving industry change. Building trust with increasingly climate aware consumers and ensuring climate scenarios and modelling are considered in medium-term and long-term strategic planning to develop operational resilience. Opportunities exist to:

– Develop operational resilience by incorporating climate and nature scenario modelling into long-term strategic planning
– Strengthen brand and social positioning via a leadership position in GHG emissions reduction, recyclable packaging and farming practices
– Realise increased productivity and efficiency via new technologies and practices that lower emissions and environmental impact
– Enhance our climate risk modelling and Task Force on Climate-related Financial Disclosures (TCFD) reporting and early adoption of the voluntary Taskforce of Nature-Related Financial Disclosures framework

Strategic partnerships

The Company's success has been underpinned by relationships with key strategic partners, including critical supply and distribution partners. As a result, the business is inherently exposed to the operations of key partners changing in a material way, or as the result of one or more partners reprioritising their support for a2MC.

Key Risks	Key Responses
– Disruption to key partner operations impacting supply and/or access to critical markets	– A broad range of strategic partner relationships have been developed over time – Long-term partnership with dairy nutritionals manufacturer, Synlait, complemented by the Company's equity interest in that business (and in which Bright Dairy, a multinational food and beverage company headquartered in China has a 39.0% interest) – Acquisition of MVM providing supplier geographical diversification – Strong partnership with China State Farm Holding Shanghai Co., Ltd, a2MC's exclusive import agent for its China label products – Strengthened relationship with key partners in China via MVM acquisition, forming a joint venture with China Animal Husbandry Group
– Key partners reprioritising their support for a2MC or failing to act ethically or in line with a2MC's values	– Multiple milk processors contracted in Australia and the USA, mitigating reliance on a single processor in these regions – A controlling 75% interest in MVM acquisition supports growth of the Company's nutritionals business and further strengthens our relationship with China National Agriculture Development Group Corp – Actions taken to simplify and delayer our English label infant milk formula distribution network, supported by more transparent partner relationships
– Ability to ensure timely supply of finished products to customers	– Ongoing access to milk pools that exceed the Company's current usage requirements – Access to manufacturing capacity that exceeds current usage requirements

Key Opportunities

Our key partnerships provide significant opportunities including:

- Access to high quality manufacturing capacity to support growth ambitions
- Access to international markets (including opportunities to expand product registrations)
- Opportunities to diversify supply chain partners over time to build operational resilience

Evolving technology

Technology is used by a2MC to process transactions, manage stock, manage product purchases and deliveries and manage operational production amongst other functions. Uninterrupted availability of the technology solutions is a crucial element of the value creation chain.

Key Risks	Key Responses
– Cyber attacks (including ransomware) – Unauthorised disclosure of or loss of confidential data/information	– Improved cyber security systems and protections, including restricting access to sensitive data, conducting regionally-specific cyber security audits, implementing more sophisticated cyber tracking and monitoring tools
– Reliability/stability of critical applications	– Transitioned to Tier 1 cloud-based enterprise resource planning (ERP) software and reduced the number of applications in use across the business

Key Opportunities

Advances in technology also present significant opportunities, including:

- Digital platforms that support consumer engagement and marketing initiatives
- Real-time data to drive insights and informed decision making
- The use of product technology including traceability systems
- Increased automation of manufacturing and distribution processes over time

Talent and culture

The Company relies on the talent and wellbeing of its people and the effectiveness of its culture for success. The loss of business-critical skills or the inability to identify, attract and retain qualified people could have a direct impact on managing business operations successfully.

Key Risks	Key Responses
– Physical and psychological health, safety and wellbeing	– Invested further in resourcing structures to ensure capacity supports business needs – Implemented an integrated safety management framework, deployed through education, leadership and establishment of revised safety standards across all sites and operations – Established a Head of Workplace Health and Safety role – Established numerous wellbeing initiatives (see People section, from page 32)
– Loss of business-critical skills and/or corporate knowledge	– Alignment of remuneration to market benchmarks, Company objectives and risk tolerances
– Reduced workforce capacity and productivity, and people capability	– Commenced the 'Thrive' leadership programme with the Executive Leadership Team and Senior Leaders as well as 'Situational Leadership' training for leaders at all levels – Investment in training and career development programmes – Succession planning to ensure continuity of knowledge, skills and experience

Key Opportunities

Providing a safe, diverse, inclusive and engaging working environment is foundational to attracting, developing and retaining talent, which in turn is critical to sustainable growth. Opportunities exist to:

- Amplify the unique attributes of working at a2MC and aim to be the employer of choice in the sector
- Nurture the inherent energy, passion and enthusiasm that working for a trusted and unique brand attracts
- Promote the employee experience, foster a learning environment, and celebrate diversity and inclusion
- Cultivate our purpose-driven culture

Social licence to operate

Acting and operating in an ethical manner, consistent with the expectations of our shareholders, customers, consumers, suppliers, regulators, governments, communities and other stakeholders protects our reputation and economic sustainability. A real or perceived abuse of our social licence to operate could result in significant brand damage, financial loss, and the loss of strategic partnerships.

Key Risks	Key Responses
– Non-compliant or substandard animal welfare practices	– The Company's animal welfare programme aligns to globally recognised frameworks for Animal Health and is evolving from the Five Freedoms Model to the Five Domains Framework of animal welfare (refer to page 37)
– Responsible marketing breaches (eg promotion of breast milk substitutes)	– Signatory to the Marketing in Australia of Infant Formula: Manufacturers and Importers Agreement 1992 (MAIF Agreement) (refer to page 42) – Cross-functional approval process implemented (including regulatory and legal review) prior to publication of marketing material
– Modern slavery in the supply chain (refer to page 34)	– Modern slavery risk management programme, with annual Modern Slavery Statement submissions – Corporate values and a suite of corporate codes and polices developed and embedded (including a Code of Conduct and a responsible sourcing policy)
– Potential bribery and corruption allegations	– Corporate values and a suite of corporate codes and polices developed and embedded (including an Anti-bribery and corruption policy and gifts and benefits policy)
– Water usage, waste water and water pollution	– Establishing baseline and setting targets across water – Water use monitoring systems in place at MVM and Smeaton Grange milk processing site – Undertaking water usage reduction projects and utilisation of a waste-water treatment system on-site at Smeaton Grange, with liquid waste products returned to farms and used as fertiliser – Farmer grant programmes to support farmer-led sustainable dairy farming projects

Key Opportunities

Our purpose to 'pioneer the future of dairy for good' refers to a significant leadership opportunity to do business the 'right way' and exceed stakeholder expectations in doing so. This includes:

– Aspire to lead the market in making a positive contribution to society. For example to set and monitor industry leading standards for animal welfare on a2MC product supplier farms and to commit to engage and invest in the communities in which the Company operates through proactive programmes as well as reactive support in times of need

– Take a leadership position in protecting our planet

GOALS

PEOPLE

SDG alignment:

3 GOOD HEALTH AND WELL-BEING
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH

Create a safe, diverse, inclusive and engaging place for our people to thrive, support our farmers and contribute to our communities.

Passionate and thriving team

The Company is committed to creating a safe and highly diverse and inclusive environment for its people. The Company's ambition is to be an employer of choice by creating a fulfilling employee engagement experience that enables employees to thrive personally and professionally. To facilitate this ambition, the Company focuses on health and safety, invests in leadership, promotes the employee experience, fosters a learning environment, and celebrates diversity and inclusion.

During FY22, the Company launched various initiatives to deliver on its ambition to achieve engaged and effective teams who create long-term value for the Company and its shareholders.

FY22 PROGRESS

Health and safety

- Implemented an integrated safety management framework, deployed through education, leadership and establishment of revised safety standards across all sites and operations.
- Established a Head of Workplace Health and Safety role.
- Provided free access to all team members and their families to resources and tools promoting mindfulness, meditation and mental wellbeing.
- Offered the Company's first ever 'Wellbeing Day' across all regions in recognition of employees' efforts throughout the year.
- Renewed and updated health and safety policies across the business.
- Continued to partner with 'Headspace', a global provider of web-based resources to promote mental health training and support.

Investment in leadership

- Commenced the 'Thrive' leadership programme with the Executive Leadership Team and Senior Leaders, integrating constructive leadership tools within the business.
- 'Situational Leadership' training being undertaken by all leaders at all levels – the intent of this programme is to provide an integrated and practical approach to effective leadership styles.

Reward and recognition

- Launched global reward and recognition platform 'LegenDairy', accessible to all team members.
  - The platform provides wellbeing and rewards, celebrates tenure and also provides an opportunity to celebrate the many examples of individuals and teams who are going 'above and beyond' in a way that is consistent with the Company's values.
- Celebrated team members in Global Town Halls which recognises monthly 'a2 Legends'.
- Celebrated annual a2 Legend award at Senior Leaders conference.

Recruitment

- Implemented frameworks to underpin the employee lifecycle.
- Adopted Recruitment Provider Onsite model to integrate and align the talent acquisition function to business values, goals and future success.

Supporting a diverse and inclusive workplace

- Enhanced family leave policy in Australia, New Zealand, China and the USA.
- Launched the 'Families @ a2' platform for team members to gain access to family support resources.
- Established a membership with the Diversity Council of Australia.

KEY METRICS DATA

As at 30 June 2022	Cohort	Male	%	Female	%	Variance to Last Year % females
Directors*	**6**	**3**	50%	**3**	50%	0%
Executive Leadership Team*	**12**	**9**	75%	**3**	25%	11%
People Leaders**	**95**	**64**	67%	**31**	33%	(8%)
Remaining Team Members	**315**	**143**	45%	**172**	55%	(7%)
Total	**427**	**218**	51%	**209**	49%	(7%)

Age as at 30 June 2022	Number	%	Variance to LY
Under 30	**50**	12%	1%
30 to 50	**291**	68%	4%
Over 50	**86**	20%	(5%)
Total	**427**		

Tenure as at 30 June 2022	Number	%	Variance to LY
0-2 Years	**187**	44%	(8%)
2-5 Years	**190**	44%	15%
5+ Years	**50**	12%	(6%)
Total	**427**		

* David Bortolussi has been included in both the Director and ELT calculations.
** The a2 Milk Company defines People Leaders as any Team Member with direct reports.

NEXT STEPS

- Facilitate evolution of individual development plans
- Launch of 'Udemy', an online learning platform
- Develop and launch the Company's Reconciliation Action Plan
- Facilitate series of education sessions on unconscious bias and mental wellness
- Continue to rollout constructive leadership training programme across the organisation
- Launch upgraded website capability for 'Careers at a2', showcasing 'Working at a2' insights and providing future team members with an understanding of the Company's purpose, culture and values, as well as vacancies and benefits
- Embed partnership with an external provider as an integrated talent function in the ANZ business that will enable a proactive and strategic approach to talent acquisition and talent management
- Enhance current benefits to strengthen the Company's value proposition for employees

Modern slavery

The Company's values and principles have an impact well beyond its own operations. The Company believes in the vital role business plays in upholding human rights and considers it a basic responsibility to ensure that individuals, communities and the environment are treated with respect.

Modern slavery is unacceptable and addressing risks of modern slavery is an important part of the Company's approach to business and human rights. The Company's approach to human rights and the management of modern slavery risk is guided by the United Nations Guiding Principles on Business and Human Rights. The Company is committed to continuing to develop its approach and focus on addressing modern slavery risks within its operations and supply chain.

During FY22, the Company delved deeper into its operations and supply chain by continuing to scale up its due diligence both internally and externally. The Company undertook a second-tier review of its modern slavery risks, expanded its due diligence process for higher risk suppliers, reviewed its indirect modern slavery risks in its operations and supply chain, and completed its internal due diligence process to better understand the minimum employment standards across its global operations. This due diligence process assisted the Company in determining which countries and industries have higher modern slavery risks and therefore which to focus on to improve outcomes for workers.

In the identified areas of concern, the Company took a more focused approach. After its review of the employment standards for promotional staff used in China, the Company made changes to its engagement with these companies, creating better oversight and enforcing stricter and better work practices. The Company has also developed a pledge from its USA farmers whereby they confirm that they do not engage in modern slavery practices.

The Company is now developing a Modern Slavery Response Protocol. The protocol will provide further structure to the Company's modern slavery programme and sets out the key pillars of the Company's modern slavery risk management (response) programme, with action items aligned to each pillar.

FY22 PROGRESS

- Updated responsible sourcing policy
- Undertook second-tier review of modern slavery risks
- Commenced review and analysis of modern slavery risks in relation to MVM
- Reviewed indirect modern slavery risks in operations and supply chain
- Expanded due diligence process for higher risk new suppliers
- Published the Company's second Modern Slavery Statement in December 2021

NEXT STEPS

- Further review of the Company's Responsible Sourcing Policy
- Complete review and analysis of modern slavery risks in relation to MVM
- Prepare modern slavery questionnaire to be sent to all suppliers of the Company
- Prepare modern slavery remediation process
- Expand existing training programme to include training tools for key employees, on-farm suppliers and the China team

Enriching communities

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

The Company has developed a community support framework to guide how to engage, invest in, and give back to the communities in which it operates, act on relevant social issues, and contribute to other programmes that are aligned to the Company's purpose and which employees are passionate about.

Support takes the form of funds and product donations to help communities, as well investments of time from the Company's people to work directly with partner organisations. As a business founded on innovation, the Company believes that science plays an essential role in enhancing the health and wellbeing of communities over time and by harnessing science, the Company can deliver superior outcomes for its consumers.

FY22 PROGRESS

Proactive support

- Foodbank School Breakfast Program (Australia)
- Cure Kids support (New Zealand)
- KidsCan (New Zealand)
- Feed the Children (USA)
- More Good for Rural Schools (China)
- Operation Smile (China)

Event-based (or reactive) support

- GIVIT New South Wales and Queensland Floods (Australia)
- Save the Children (Ukraine)
- Boulder Fires contribution (USA)
- Shanghai lockdown product donations (China)

Additional farming community specific programmes and support

SURFING FOR FARMERS

baleup CONFERENCE

NSW Women in Dairy
Creating tomorrow's change today

$3.2m
in cash and product donations

KIDSCAN (NEW ZEALAND)

KidsCan is New Zealand's leading charity dedicated to helping New Zealand children affected by poverty. The Child Poverty Monitor in New Zealand shows 11.3% of all children living in households in material hardship regularly go without essentials.

The Company has recently become a major partner of KidsCan to help support low socio-economic early childhood education centres across New Zealand to provide children attending those centres with food, clothing, and health products. a2MC supports KidsCan's belief that education is a child's ticket out of poverty and that children struggle to learn when they are cold or hungry.

The Company is proud to partner with KidsCan, providing children with the essentials, to help them participate in learning and have the opportunity for a better future.

FOODBANK (AUSTRALIA)

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

In FY22, support was increased by providing a cash donation to support Foodbank School Breakfast Programs. The Company also donated *a2 Milk*™ products to Foodbank through the National Donor Partnership.

The School Breakfast Program provides a healthy breakfast for school children who would otherwise go without, and delivers important benefits for the students across a broad range of physical and mental health outcomes, including energy levels and concentration. Through this donation, the Company was able to support Foodbank to provide 47 schools in some of Australia's most remote Indigenous communities with access to the School Breakfast Program.

CURE KIDS (NEW ZEALAND)

Cure Kids is the largest funder of child health research in New Zealand after the government. The Company was proud to support Cure Kids Professorial Chair, Andrew Day, in FY20 and FY21 to research digestive health for children, with a special focus on coeliac disease and irritable bowel disease. In FY21 and FY22, the Company also made a significant donation to Cure Kids' Elliott-Caughey Fund, a fund created to recognise the co-founders of Cure Kids, emeritus Sir Bob Elliott and Dr Ron Caughey. Sir Bob was passionate about conditions of inequity and preventable childhood illness, hence those conditions are a focus for this fund. This is a continuation of research support from a2MC into children's health and nutrition.

OPERATION SMILE (CHINA)

About 25,000 babies born in China each year suffer from cleft lip palate. Corrective surgery can help to transform those children's lives – but they cannot undergo surgery until they achieve the requisite 'health standard', which includes weight targets.

The Company partnered with Operation Smile during the year to provide corrective surgery expenses and nutrition products to 300 children suffering from cleft lip palate, before and after their operations.

With more than 6,000 medical volunteers from around the world, Operation Smile is one of the world's largest volunteer-based not-for-profit organisations.

FEED THE CHILDREN (USA)

The Company partnered with Feed the Children in the USA to help give struggling families the supplies they need to send their children back to school with confidence.

With the increased hardship children and families have faced since the outbreak of COVID-19, it is estimated that 1 in 6 children in the USA suffer from food insecurity.

In August and September 2021, the Company donated cash to provide food and supplies to school children, giving children what they need to do and be their best.

PLANET

SDG alignment:

Protect our planet and cows, rethink packaging, achieve net zero and become nature positive.

The relationships the Company has with farmers and the natural systems in which it operates are pivotal to its success and long-term value creation.

The Company continues to work with farmers to promote strong animal welfare practices, and put in place farm environmental plans, which are key initiatives that support the natural resources utilised by the business. Additionally, the impact of climate change has the potential to drive significant structural transformation across the dairy sector and the Company is actively looking at ways to reduce its impact on climate and the environment more broadly. The Company has a number of initiatives addressing key areas as they relate to the resources and the downstream impacts as a result of using these resources.

Thriving farms

Farmers play a vital role in the Company's supply chain, not only as suppliers of the precious milk source for the Company's products but also as stewards of the environment and as vital contributors to local communities. In addition, the humane treatment of cows is of the utmost importance. The Company is committed to working with and supporting farmers to enable them to improve the impact on the environment.

Farm environmental plans

The Company has developed a global framework for farm environmental plans. The principles of the framework address the most material aspects of environmental management in the dairy industry:

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

TARGETS AND COMMITMENTS

Climate impact

- Net zero GHG emissions for Scope 1 and 2 by 2030
- Net zero GHG emissions for Scope 3 by 2040

Farm environmental plans

- 100% of farms supplying raw A1 protein free milk to have a farm environmental plan in place by the end of 2023

Animal welfare

- 100% of farms to be certified under an upgraded programme by the end of 2023

Other natural resources

- Reviewing water, waste and biodiversity targets as part of work commenced on nature risk assessment

FY22 PROGRESS

- Continued to roll out farm environmental plans
- Continued to evolve and refine farm environmental plan roadmap
- Secured in-region partners to execute roadmap
- 83% of farms supplying raw A1 protein free milk had a farm environmental plan in place, up from 81% in FY21 and approximately 65% in FY20

NEXT STEPS

- Progress towards farm environmental plan target for end CY23
- Review farm ambassador programme
- Establish farm environmental plan programme with Mataura Valley Milk

Animal welfare programme

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

The Company's animal welfare programme meets globally recognised frameworks for Animal Health and is evolving from the Five Freedoms Model to the Five Domains Framework of animal welfare.

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

A number of extensions to the animal welfare programme were developed in FY22, supporting farmers to establish systems for continuous improvement in animal welfare and to further improve programmes beyond the industry standard.

Climate impact

Climate change and the reliance on natural resources is driving significant structural transformation across the dairy sector.

The sector will need to take concerted action to manage the risks and opportunities associated with a move towards a lower carbon footprint. The risks include regulatory initiatives, such as carbon pricing, market risks and changes in consumer preferences.

The sector's reliance on natural systems and vulnerability to changes in temperature and rainfall will also drive mounting physical risks across agriculture.

There will also be extraordinary opportunity for the sector to realise increased productivity and efficiency through new technologies and practices that lower emissions and environmental impact throughout the supply chain.

During the year the Company undertook a detailed assessment of the GHG emissions footprint related to MVM, to incorporate it into its reporting framework.

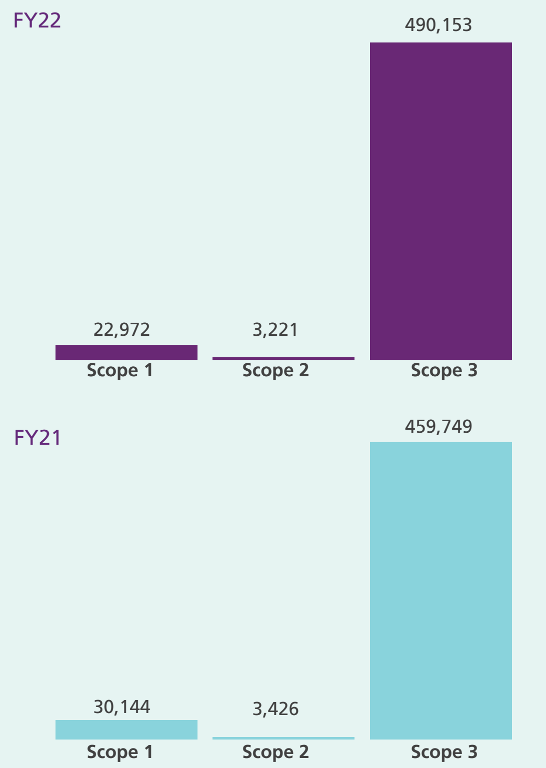
FY22 PROGRESS

- Commenced roll-out of auditor and a2MC farm services team training modules
- Staged launch of upgraded animal welfare programme and farmer online portal
- Commenced implementation of robust audit scope and frequency to increase visibility and reduce risk
- Launched redefined animal welfare programme with Synlait

NEXT STEPS

- Progress towards animal welfare certification target for end CY23
- Launch a2MC redefined animal welfare programme with MVM
- Undertake pilot technology trial on farm to validate animal welfare auditing data
- Progress towards global certification of the redefined programme

GHG EMISSIONS PROFILE[1]



GHG footprint

ON-FARM
78%
TOTAL GHG EMISSIONS
405,547 t CO_2-e

PROCESSING
16%
TOTAL GHG EMISSIONS
83,826 t CO_2-e

DISTRIBUTION AND OTHER
6%
TOTAL GHG EMISSIONS
28,475 t CO_2-e

1. Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO_2-e), refer calculation at the bottom of page 38.

GHG emissions reduction programme

For FY19 and FY20, a2MC purchased carbon credits to offset its GHG emissions. In FY21, the Company decided to redeploy the financial contribution that would have funded carbon credits offsets, into environmental programs that were more tangible in actively reducing its emissions over time. This more direct approach to GHG emissions reduction continues to be a strong focus for the business. The Company's GHG emission reduction programme covers Scope 1, 2 and 3 emissions.

While much of the Scope 1 and 2 emissions, primarily from processing activities, are within the Company's control to reduce, they account for approximately 5% of total emissions. The Company is progressing the installation of a new high pressure electric boiler at MVM which will substantially reduce its Scope 1 emissions once commissioned (scheduled for FY24).

By contrast, Scope 3 emissions account for approximately 95% of emissions. The largest contributors to Scope 3 emissions are on-farm emissions (including methane), third party processing emissions (including use of coal) and emissions from transport and logistics (including sea freight and ocean freight). The Company is working to progress projects in methane reduction from inhibitors such as asparagopsis. Other scientific breakthroughs may allow alternative solutions to be considered and adopted in the future. Importantly, the Company is also seeking to partner with research organisations to address GHG emissions via a holistic approach to sustainable and regenerative agriculture.

FY22 PROGRESS

Scope 1: GHG emissions from direct operations

- Committed to, and progressing, the installation of a new high pressure electric boiler at MVM which received co-investment from the New Zealand Government Investment in Decarbonising Industry (GIDI) Fund
- Commissioned and completed a study for the Company's primary Australian milk processing facility at Smeaton Grange, New South Wales, with key projects progressed to a detailed feasibility study for GHG emission reduction opportunities

Scope 2: Electricity utilised in direct operations

- 'Green energy' or equivalent electricity supply contracts established at all sites where available, which included converting electricity supply contracts for offices in Sydney and Melbourne and at the Smeaton Grange processing site in New South Wales, while continuing contracts already in place for the Auckland office and USA office (partial green energy supply)

Scope 3: Indirect GHG emissions

- Following contribution by a2MC to Synlait boiler conversion, progress made by Synlait towards that installation
- Further exploration of on-farm commercial trial utilising Sea Forest's SeaFeed™ product – a methane inhibitor from asparagopsis seaweed

1 Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO_2 e), have been estimated using considerations from The GHG Protocol guidelines. Emissions and conversion factors were sourced from the National Greenhouse Accounts Factors for Australia, the UK DEFRA GHG conversion factors and a range of other country specific sources. Where required, non-direct emissions sources have been estimated using default and/or extrapolated emissions intensity rates to provide a more complete picture of our Scope 1, 2 and 3 carbon footprint. Total emissions calculations exclude packaging. We expect data quality to improve over time as we continue to work with our partners.

KEY METRICS DATA[1]

a2 GHG emissions (TCO_2-e)[1]	FY22	FY21[7]	FY20[7]
Total GHG emissions	516,345	493,319	516,552
Scope 1[2]	22,972	30,144	228
Scope 2[3]	3,221	3,426	1,613
Scope 3[4]	490,153	459,749	514,711
Direct operations[5]	2,669	2,737	3,854
Third-party processing and freight	110,247	113,651	127,177
On-farm[6]	403,429	376,930	385,521

Metric	FY22	FY21	FY20
Smeaton Grange			
Total water usage ('000 litres)	24,692	28,361	27,662
Water efficiency (litres/litre of milk)	0.7	0.6	0.7
Waste water diverted to beneficial land application (litres)	627,200	813,600	919,900
Waste produced (tonnes)	26.5	28.0	28.9
Waste diversion	96.6%	96.9%	97.1%
Energy consumption (kWh)	1.7m	1.8m	1.7m

Metric	FY22
Mataura Valley Milk	
Total water usage ('000 litres)	306,596
Water efficiency (litres/litre of milk)	2.6
Waste water diverted to beneficial land application (litres)	2,275,750
Waste produced (tonnes)	85.3
Waste diversion	96.4%
Energy consumption (kWh)	15.1m

2 Includes natural gas estimates and/or extrapolations for some information not yet available. These figures include lignite used for MVM boiler (FY21 and FY22); plan in place to install a new high pressure boiler at MVM, scheduled to be commissioned in FY24.

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

4 Due to the nature of Scope 3 emissions occurring outside of areas under our direct control, this represents a conservative estimate of our Scope 3 emissions. Key emissions sources include: on-farm emissions, energy consumed within third party processing and warehouse facilities, fuel consumed in freight logistics and business travel, as well as emissions associated with waste, recycling and water consumption. Where required, estimations have been made where data was not able to be directly sourced or where data was not yet released. This includes assumptions and extrapolations from available data. Moving forward, we will endeavour to source as much actual data as possible to improve data quality.

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

6 Calculated using actuals and industry estimations based on milk unit sales for all farms in Australia, NZ, the US and the UK, excluding Synlait for which emissions are estimated based on our proportion of total output.

7 GHG emissions have been restated to incorporate new available data from our partners. (For FY21 and FY20). For FY21 the GHG emissions have been updated to include MVM which was acquired on 1 July 2021. The inclusion of the MVM emissions for FY21 have been included to provide an adequate comparison to FY22.

Sustainable packaging

Sustainable packaging is an important element in the Company's ambition to protect the planet. It is also an increasingly important area for many stakeholders, including consumers.

The Company has a vision for as much of its packaging as possible to be reusable, recyclable or compostable.

Achieving this will require a region-by-region and product-by-product approach over time. In the latest year there was a focus on products sold in Australia and New Zealand.

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

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

As a signatory to the Covenant, a2MC is required to report on its progress on an annual basis and to publish an action plan. This covers all Australian sales which captures a significant proportion of the Company's product portfolio including IMF. During the year, the Company extended and aligned its sustainable packaging targets to APCO targets for products sold in all markets.

TARGETS

Sustainable packaging

- 100% reusable, recyclable, or compostable packaging
- 70% plastic packaging being recycled or composted
- 50% average recycled content included in packaging
- Phase out of problematic and unnecessary single-use plastics packaging

FY22 PROGRESS

Fully recyclable packaging reduced from 97.3% in FY21 to 90.2% in FY22. The introduction of UHT to the Company's product portfolio in FY22 accounts for this change. However, alternative packaging solutions are being investigated through the long-term sustainable packaging roadmap project to meet the '2025 National Packaging Targets'.

- Extended and aligned the Company's sustainable packaging targets to APCO targets for products sold in all markets
- Continued to investigate innovative packaging design for sustainable solutions
- Improved the Company's APCO rating to 'Leading'
- Updated the Company's APCO action plan
- Commenced a project to develop a long-term sustainable packaging roadmap

NEXT STEPS

- Complete the development of the long-term sustainable packaging roadmap
- Continue to execute against the APCO action plan and make progress against sustainable packaging targets

FARMER GRANTS PROGRAMMES

The Company has partnered with Landcare Australia since 2017 and provided more than $850,000 of funding for sustainability initiatives with positive environmental and business outcomes. In 2022, the Company commenced a partnership with Lincoln University, New Zealand's only specialist land-based university, to launch a new initiative to support sustainable dairy farming projects – The New Zealand Farm Sustainability Fund™.

The Company committed up to $500,000 in the first year to enable fund grants for farm projects that demonstrate an integrated approach to a sustainable future and enable a positive and meaningful impact across the community and environment.

The Fund was open to New Zealand farms that supply milk under contract with MVM or Synlait for use in the manufacture of products for the Company.

Awards will be made on the basis of assessment criteria that include alignment with a2MC's sustainability objectives and one or more of the following key environmental improvement themes:

- Lowering GHG emissions
- Increasing on-farm carbon sequestration
- Improving farm system resilience
- Improving water quality and efficiency
- Enhancing on-farm biodiversity
- Enhancing animal wellbeing/health
- Managing and improving soil health

It is expected that successful applications will be announced in September 2022.

Landcare Australia | FARM SUSTAINABILITY FUND

BUILDING A MORE SUSTAINABLE BUSINESS AT MATAURA VALLEY MILK

The Company acquired a 75% interest in MVM, a dairy nutritionals facility located in Southland, New Zealand during the year.

A significant amount of work was undertaken to integrate MVM into the business including several activities to build upon MVM's sustainability credentials:

- Completed detailed assessment of MVM's GHG emissions impact
- Updating the Company's climate scenario analysis to include MVM
- Included MVM in a2MC's GHG emissions reduction targets for Scope 1, 2 and 3 emissions
- Committed to replacing the boiler at MVM from a lignite boiler to a high-pressure electrode boiler through the full electrification of the site and received co-investment from the New Zealand GIDI Fund
- Enabled MVM's participation in the Farm Sustainability Fund, with grants available to eligible suppliers of raw A1 protein free milk to MVM
- Exploration of a commercial trial using methane inhibitor asparagopsis seaweed

SDG alignment:

CONSUMERS

Bring the unique benefits of pure and natural *a2 Milk*™ to as many consumers as possible.

The Company's trusted brand, its proprietary know-how and A2 protein expertise are valuable assets. The Company is committed to maintaining and sustainably growing these assets with ongoing investment.

The Company's premium brand is strengthening in awareness, consumption and loyalty to varying levels across its key markets. The Company has increased its investment to grow and protect its brand and its trademarks in all product categories and regions.

Through ongoing science and research and development programmes, the Company is deepening its expertise and advancing global understanding of the potential health benefits of *a2 Milk*™. In addition, the Company believes in the potential of science and will continue to invest in research programmes to drive innovation for the betterment of consumers at large.

There are three key focus areas to ensure the Company can continue to deliver a targeted and differentiated brand proposition and distinctive product portfolio: build and strengthen brand love, create a distinctive product portfolio and invest in science, nutrition and beta casein science. In addition, the Company is focused on delivering products that are safe and of high quality as well as responsibly marketing to consumers.

Build and strengthen brand love with the Company's targeted consumers

The Company is committed to increasing investment levels to improve brand equity in its key markets of China, Australia and the USA. The Company targets consumers who experience perceived discomfort consuming products that contain A1 beta casein protein as well as progressive and health-conscious consumers who are drawn to the differentiated, and quality proposition that a2MC delivers.

When targeting consumers who would otherwise limit their consumption of dairy products or avoid them altogether, the Company's marketing approach emphasises the potential health and well-being benefits of its branded products. a2MC aims to 'welcome these consumers back to milk' and allow them to enjoy the nutritional wonder of dairy products.

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

Distinctive product portfolio

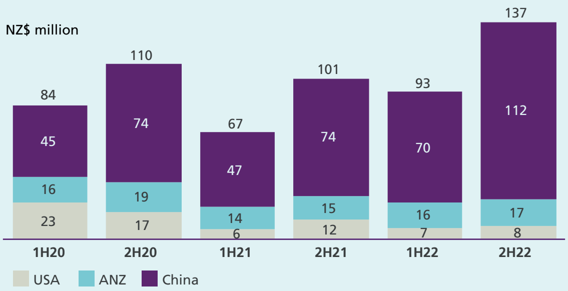
The Company has a distinctive product portfolio which is based around the benefits of products made from milk that contains only the A2 protein type and no A1. The product portfolio can be divided into three core categories: liquid milk, infant milk formula and macro milk. Each is positioned in the premium segment of their respective categories.

The Company's approach to growing its products varies within each market in which it operates – adapting to local consumer preferences, category nuances, channel dynamics, regulatory requirements and overall category maturity.

FY22 PROGRESS AND NEXT STEPS

The Company increased marketing investment by 36.3% primarily reflecting a significant step-up in China above the line brand investment as well as below the line activation in line with its refreshed growth strategy.

Marketing Investment[1]



China

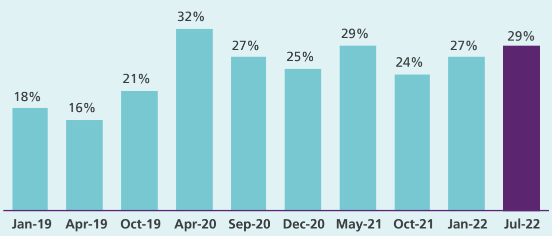
- Successfully launched two marketing campaigns which emphasised functional benefits
- Achieved the highest brand health metrics in the Company's history following the campaigns

Total Brand Awareness China[2]

International

- Delivered material improvements in brand engagement, following increased brand support to resellers, and direct engagement with daigou
- Upward momentum in English label brand awareness following two marketing campaigns in FY22
- Completed preparations for 1H23 relaunch of *a2 Platinum®*

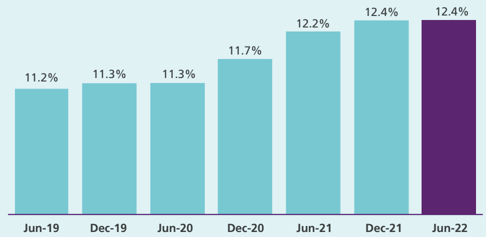
Total a2MC EL Prompted Brand Awareness[2]



ANZ

- Continued to invest in brand and in ensuring strong in-market presence
- Brand health metrics improved during the period
  - Brand leadership maintained with increased loyalty and household penetration
  - Largest brand advertiser in the fresh milk category in Australia

Australian milk market value share[3]



- Launch of *a2 Milk® Cream on Top* and *a2 Milk®* UHT products during the period
- *a2 Milk® Lactose Free* launched in 1Q23 with distribution across all major supermarket chains in Australia to be supported by a targeted marketing campaign

USA

- New marketing campaign launched to drive increased awareness and new consumers to brand
- Launched *a2 Milk®* Half and Half which has now been accepted in over 6,000 stores
- Launched *a2 Milk®* HERSHEY'S which has now been accepted in over 6,000 stores including Walmart and Sam's Club

1. Marketing investment by region in NZD$ million.
2. Source: IPSOS China brand health quarterly tracker (n= 9750 respondents)
3. IRI Australian Grocery Weighted Scan 12-months ending.

Invest in science, nutrition and A2 protein science education

As the pioneer of the A2 protein science, the Company is also the custodian of the category.

The Company's science priorities have always aligned with its business strategy, and most importantly, its consumer needs.

Science, and the newly created nutrition function, are enablers to support growth and delivery of key strategic priorities, and decrease risk to the business.

The Company will increase its investment in strengthening its global leadership in A1/A2 beta-casein research. Key strategic priorities include:

- Continue to strengthen the evidence supporting digestive benefits of *a2 Milk*™
- Expand research to explore the immune and cognitive benefits of *a2 Milk*™
- Expand on research across different life-stages

Overall, with research being undertaken in China, ANZ and USA, and with the integration of the science and nutrition functions, a2MC will expand its scientific credibility, knowledge and understanding of the A1/A2 protein science, enabling it to communicate the functional story in an innovative manner.

a2 Centre of Research Excellence™

To strengthen its category leadership the Company is investing in the *a2 Centre of Research Excellence*™ (*a2 Core*™).

The objective of *a2 Core*™ is to centralise research expertise and education that will:

- Build credibility for A1/A2 protein science
- Promote academic partnerships and industry collaboration
- Enable the Company to participate with regulatory authorities to define and protect the A2 protein category
- House research summaries, scientific references and education materials for health care professionals

Product quality and food safety

The Company is committed to the highest standards of product quality and food safety, especially given a large proportion of its products are consumed by infants, young children and pregnant women. The Company has significant proprietary knowledge and quality processes to deliver A2 protein products that achieve these standards, as well as compliance with other market regulations and requirements.

This commitment is supported by:

- A comprehensive and unique focus on A2 beta casein protein segregation and testing from farm to finished product
- A priority focus on food and safety and quality management audited by accredited third party verification agencies for both self-owned and third party manufacturing sites
- Long-term partnerships with high quality third-party manufacturers who share the Company's focus and ambition on social responsibility
- Relevant industry certifications including ISO 9001 (IMF), and SQF (certification of the Company's Sydney processing facility)
- Ongoing monitoring and compliance with relevant regulatory requirements in the markets in which the Company operates
- Investment in people and training to ensure capability to meet product quality and food safety standards
- *True a2*™ system for our powdered products for those most vulnerable

Responsible marketing

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

The Company complies with local best practice in each of its active markets with respect to marketing of IMF products.

Marketing in Australia of Infant Formula (MAIF) and Infant Nutrition Council

The Company is a signatory to the MAIF Agreement and a member of the Infant Nutrition Council, which represents the major manufacturers and marketers of infant nutrition in Australia and New Zealand. All members abide by a Code of Conduct including the MAIF Agreement and The Infant Nutrition Council Code of Practice for the Marketing of Infant Nutrition in New Zealand.

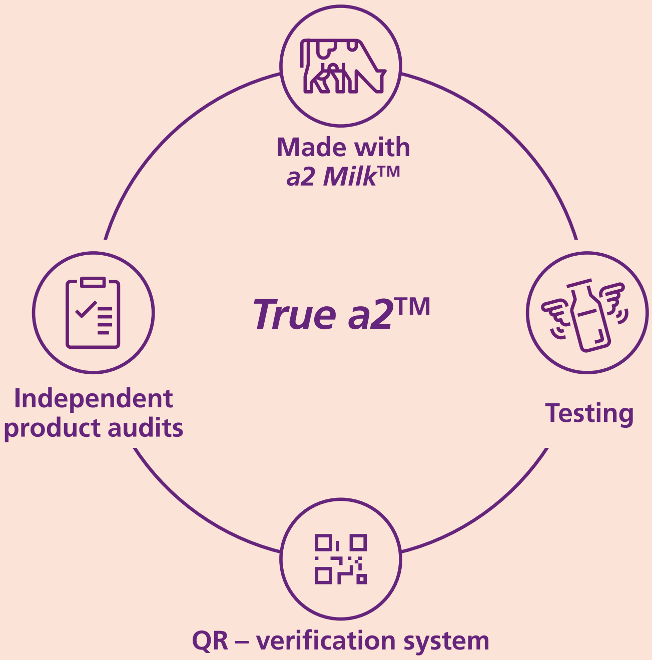
TRUE a2™

The Company takes great care in leveraging its significant proprietary know-how and quality processes to deliver products that are made with A1 protein free milk, are of the highest quality and are safe and compliant with market regulations and requirements.

The four pillars of the *True a2*™ ecosystem cover the complete product lifecycle. While the 'Made with *a2 Milk*™' and 'Testing' pillars are fundamental to the composition and safety of our products, the 'Independent product audits' and 'QR – verification system' pillars demonstrate a2MC's commitment to reducing risks around food fraud.

The *True a2*™ ecosystem captures the Company's proprietary know how and processes to deliver superior quality and authentic traceable products. This ensures that a parent in China or a parent in Australia has the same, highest quality powdered products from The a2 Milk Company.

Underlying the four pillars is the Company's scientific heritage, clinical research and understanding, the quality of its raw materials, its knowledge of beta casein protein testing from farm to shelf, and its production and supply chain.



Made with *a2 Milk*™

At The a2 Milk Company, we go to great lengths to ensure that our *a2 Milk*™ is from cows that naturally produce milk with only the A2 protein type and no A1.

Our farmers hand select cows that naturally produce only the A2 protein type by using a simple and non-invasive genetic test that analyses a hair or tissue sample from each cow. These cows are then milked separately and the milk is segregated throughout the supply chain.

Testing

Testing is an integral part of the product development process. At multiple stages along the *a2 Platinum*® and *Zhi Chu*® product journeys, each individual ingredient and packaging component is appropriately tested, as well as the final product.

This ensures all our *a2 Platinum*® and *Zhi Chu*® products meet the highest quality and safety standards.

QR code – verification system

Each and every can of *a2 Platinum*® and *Zhi Chu*® products have a unique QR code, allowing consumers to obtain further information about the product.

Independent product audits

The a2 Milk Company employs an independent third party to verify its *a2 Platinum*® and *Zhi Chu*® products. Oritain is a food-traceability expert and tests samples of *a2 Platinum*® and *Zhi Chu*® products it obtains straight from retail shelves to confirm that these products are *True a2*™. This testing is scientific, ongoing and completely independent.

SHAREHOLDERS

SDG alignment:

8 DECENT WORK AND ECONOMIC GROWTH

Create long-term, enduring value for shareholders and a trusted, transparent relationship.

One of the Company's principal objectives is to create long-term enduring value for its shareholders.

Delivering on this objective requires strong financial performance underpinned by long-term strategic decision making and supported by a robust capital management framework. Close management of business risks and opportunities is also critical to delivering successful outcomes. The Company's strong balance sheet provides it with the flexibility to respond to risks and opportunities in pursuit of long-term value creation and in line with the Company's strategic objectives.

The Company continues to strengthen its strategic partnerships to support its next phase of growth. Its strategic partners provide a range of benefits including manufacturing expertise, market access support, distribution and logistics services, and consumer and regulatory insights.

Maintaining transparency with the Company's shareholders ensures they are informed, and updated with the Company's strategic priorities and decision-making processes. The Company continues to provide more information through a variety of reporting frameworks including the Task Force for Climate-related Financial Disclosures and the Carbon Disclosure Project. The Company hosted an Investor Day during the year to engage with the investment community and communicate its refreshed growth strategy.

In FY22 the Company made meaningful progress against its medium-term financial ambitions, with strong growth in revenue and earnings, and is well positioned for further growth.

KEY METRICS DATA (FY22)

$1,446m
Revenue

+19.8%
Revenue growth

13.6%
EBITDA margin

+51.8%
Earnings per share (EPS) growth

45.6%
Return on capital employed (ROCE)[1]

114%
Operating cash flow conversion

The Company continues to target medium-term sales of approximately $2 billion in FY26+ and is targeting EBITDA margins in the 'teens' in the medium-term.

1. ROCE is defined as EBIT / Capital Employed. Capital Employed is calculated as total assets less current liabilities and cash & term deposits

Capital allocation to drive growth

The Company's capital allocation framework prioritises investment in growth initiatives ahead of returning capital to shareholders. There are several critical elements to be considered as part of the capital framework. Firstly, the Company will invest to grow the core business in existing markets, which includes investment to build its business in China, participation in IMF manufacturing, and other infrastructure to support growth.

The second element is investment to expand the boundaries of its business. This includes:

- Expanding its presence in an existing market with a new product, or entering a new market with an existing product
- Assessing complementary mergers and acquisitions to drive further growth in core markets

Thirdly, the Company needs to ensure it maintains a level of balance sheet strength and flexibility to support business growth and risk management activities, and to manage in uncertain operating environments.

Finally, the Company will make decisions to return excess capital to shareholders where it is in shareholders' long-term interest to do so. The Company's capital allocation framework is continually reviewed by management and the Board and is summarised in the image below.

Capital management

On 27 August 2022, the Board of Directors resolved that the Company intends to undertake a capital return to shareholders of up to $150 million through an on-market share buyback. The buyback is expected to commence towards the end of September and could run for up to 12 months.

The Company's balance sheet is in a strong position that provides the capacity to distribute up to $150 million to shareholders, with the most effective method being an on-market share buyback. With a closing cash balance exceeding $800 million, there is sufficient capital reserve to fund investment opportunities, maintain an appropriate cash buffer as well as return surplus capital to shareholders. The buyback is subject to market conditions, a2MC's prevailing share price and all other relevant considerations.

CAPITAL ALLOCATION FRAMEWORK

Operating cash flow generation

Capital funding

Grow the core business in existing markets

- Invest in building core business
- Participate in infant nutrition manufacturing
- Enable investment in systems, infrastructure, quality, safety and expertise
- Organic growth – existing and new products/ new retail channels
- Assess M&A opportunities to support core business growth and supply chain evolution

Expand the boundaries

- Adjacent new product categories in existing markets
- Geographic expansion of existing products into new markets
- Assess M&A opportunities to expand boundaries

Balance sheet strength and flexibility

- Capacity to support business growth and risk management initiatives
- Maintain a conservative cash reserve to manage in an uncertain environment

Excess cash flow

Shareholder returns

Strategic partnerships

The Company has built its foundations with a number of key strategic partnerships.

Each partner brings different strengths that enable the Company to execute against its strategic objectives. In particular, its partnerships with CNADC, CAHG, CSF and Synlait provide invaluable insights and assistance in understanding the consumer and regulatory environment in China.

China National Agriculture Development Group Co., Ltd.

China National Agriculture Development Group Co., Ltd. (CNADC) offers comprehensive agricultural services in mainland China and is the parent company of China State Farm and China Animal Husbandry Group.

CNADC is a leading State Owned Enterprise, meeting China's agricultural needs and holding seventeen wholly-owned or share-controlled subsidiaries, and three publicly listed companies. CNADC's knowledge of the Chinese market and its ownership of China State Farm and China Animal Husbandry Group positions it as a strong partner for a2MC for the long-term.

China State Farm

China State Farm Holding Shanghai Co., Ltd (CSF) became the Company's exclusive logistics and distribution partner for IMF products in China in 2013. CSF is the exclusive import agent for the Company's China label IMF products with 120 active IMF distributors and approximately 110 UHT and milk powder distributors throughout the country.

The Company renewed its agreement with CSF in December 2018. This is due for renewal again in 2022. The expertise of CSF especially during lockdowns in China assisted a2MC in navigating city closures and fulfilling product deliveries despite the challenges.

China Animal Husbandry Group

China Animal Husbandry Group (CAHG) became a strategic partner when the Company purchased 75% of MVM in 2021. CAHG holds 25% of Mataura Valley Milk and is also owned by CNADC.

The partnership with CAHG provides the opportunity to build and enhance the Company's relationships with key partners in China.

Synlait

Synlait Milk Limited (Synlait) has been instrumental in producing a2MC's IMF products since 2012. a2MC and Synlait renewed their agreement in 2019. The agreement outlined a two-year extension to the original agreement providing for a rolling three-year term from 1 August 2022 (or effectively a new minimum term to 31 July 2025, at the earliest), an increase in the volume of nutritional products over which Synlait has exclusive supply rights, increased committed production capacity from Synlait, and an update to the pricing terms that reflect the commitment on the part of both companies.

In addition to its operating agreements, a2MC holds a 19.8% equity interest in Synlait, making it the second largest shareholder.

Synlait's largest shareholder is Bright Dairy, a multinational food and beverages manufacturing company headquartered in China. Bright has a 39.0% interest in Synlait.

Fonterra

In 2018, the Company announced a strategic relationship with Fonterra Co-operative Group Limited. The arrangements include an exclusive licensing agreement for the production, distribution, sale, and marketing of *a2 Milk*™ branded fresh milk in the New Zealand market.

Investment in Mataura Valley Milk (MVM)

On 30 July 2021, a2MC completed its acquisition of a 75% interest in MVM, a dairy nutritionals business, located in Southland, New Zealand. The benefits of the acquisition include:

- Opportunity to build and enhance the Company's relationships with key partners in China including CAHG which retained a 25% interest in MVM alongside a2MC
- A unique opportunity to acquire a new world class nutritional manufacturing capability
- Existing supply agreements with local farmers engaged to supply the highest quality milk and significantly transition to being A1 protein free milk suppliers as quickly as possible
- Supplier and geographic diversification within New Zealand to complement existing supply from Synlait
- Innovation and new product capability to deliver on the Company's growth strategy
- Opportunity to capture manufacturing margins in the future
- Ability to further enhance and protect the Company's intellectual property
- Greater control over the Company's future with respect to its China label IMF registrations

While the short-term outlook is challenging, utilisation will increase over time with plans to reach profitability during FY26. The Company has commenced manufacturing its *a2 Milk*™ powder from MVM, with plans to transition more product from Synlait to MVM, and to prioritise development of new products over the short-to-medium term.

Reporting transparency

Nature-related financial disclosures

Broader nature related risk and opportunity disclosure is an emerging area of focus for stakeholders. There is new awareness globally that nature underpins the global economy. A series of recent reports led to the launch of the Taskforce of Nature-Related Financial Disclosures which aims to introduce a framework for companies to voluntarily report and act on evolving nature related risks. It is expected that this framework will be published in 2023.

Given the importance of nature to its business model and activities, the Company has commenced reviewing this voluntary framework in the context of its business. This year, the Company commenced an initial pilot analysis of nature-related risks and intends to build on this work in future years.

Investor Day

The Company hosted an Investor Day in October 2021 to release its refreshed growth strategy. The Investor Day outlined the findings of its holistic review of its growth opportunities, insights on key markets, categories and channels, as well as its financial ambition and key initiatives to deliver on this ambition. The event also provided an opportunity for the Company to introduce its renewed Executive Leadership Team.

The objective of the Investor Day was to provide the market with a greater understanding of the Company's business, and extensive information was provided to the market to facilitate this.

Carbon Disclosure Project (CDP) Climate Change Questionnaire

The Company completed the FY21 Climate Change questionnaire to receive a rating for the first time during the period and this was the Company's third submission since FY20. The questionnaire measures and outlines the risks and opportunities the business faces with regards to climate change. This questionnaire is scored by CDP and then released for public review following the rating. This comprehensive questionnaire provides transparency to shareholders on climate change impacts and how the Company is navigating these challenges. The rating also provides shareholders with a comparison to other corporates as it relates to its approach to climate change.

Task Force on Climate-related Financial Disclosures

In 2019, the Company indicated that in response to the increasing demand for transparency on the identification and management of climate-related risks, it would move towards aligning with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). In subsequent years, the Company increased its disclosures on climate-related financial disclosure reflecting the additional work being undertaken internally to understand these dimensions and potential impacts to the business. This report includes disclosures to fully align to the original voluntary TCFD framework in line with the Company's commitment to do so for FY22. The framework will be mandatory for a2MC from FY24.

Recently, the New Zealand External Reporting Board, announced it is developing new standards for climate-related financial disclosure. It is expected that these standards will closely follow the recommendations of the Taskforce for Climate-Related Financial Disclosures. Based on the work undertaken by a2MC over the past number of years, the Company believes it will be well placed to report to the requirements of the External Reporting Board when the standards are published.

Overview of climate scenarios methodology and approach

As part of the ongoing management and integration of climate risk and to better understand its exposure to climate risks and opportunities, the Company has conducted a detailed scenario analysis across both transition and physical risks and opportunities in line with the TCFD recommendations.

The Company first undertook this analysis in 2020, and again in 2022 based on material changes to its business operations including in particular the Company's acquisition of a 75% interest in Mataura Valley Milk, along with the latest available climate data. The analysis involved modelling the potential financial impacts of climate change on the business, taking a long-term view out to 2050, to inform future strategic and financial planning.

The Company has undertaken two climate risk and opportunities analyses:

- **Transition risk analysis**: two transition risk scenarios representing a high transition risk future aligned with 1.5-degree trajectory and a low transition risk future aligned with a greater than 3-degree trajectory
- **Physical risk analysis**: two physical risk scenarios representing a high physical risk future aligned with a greater than 3-degree trajectory and a low physical risk future aligned with a less than 2-degree trajectory

Whilst these scenarios are hypothetical constructs and not designed to deliver precise outcomes or forecasts, the analysis will assist the Company with strategic planning and in responding to trends and external events which may change over time.

	Transition risk analysis		Physical risk analysis	
	Risk profile	Underlying scenario	Risk profile	Underlying scenario
High temperature scenario **>3°C**	LOW	IEA STEPS	HIGH	RCP8.5
Low temperature scenario **<2°C**	HIGH	IEA NZE	LOW	RCP2.6

Transition risk analysis

The above transition scenarios were used to assess how the Company would perform and operate under a low carbon transition scenario where the economy decarbonises in line with 1.5-degrees relative to a business-as-usual trajectory. This allowed for an assessment of the impact of climate action, policy, technology deployment and market shifts on the Company.

To model these impacts, the Company used data provided by the International Energy Agency's (IEA's) Net Zero emissions by 2050 scenario to assess high transition risks and data from the IEA Stated Policies Scenario to assess low transition risks.

The analysis focused on two key impacts which were deemed to be most material to the Company:

- Regulatory impacts associated with future implementation of plausible emissions pricing regimes in Australia, New Zealand and the United States; and
- Market impacts focusing on changing consumer preferences associated with the shift from traditional dairy products to plant-based milk products.

Physical risk analysis

The above physical scenarios were used to assess how the Company would perform and operate under a 'hot house world' scenario in which there is limited climate action and as such the economy fails to decarbonise resulting in global temperature rise of above 3-degrees relative to a low physical risk trajectory. This allowed for an assessment of the impact of acute and chronic physical risks on the Company.

To model these impacts, the Company used data provided in the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5 to assess high physical risks and the RCP2.6 to assess low physical risks. The analysis included bottom-up farm level analysis of exposure to acute and chronic physical risks across the Company's supply chain, with deep dives on the most material risks, being drought and flood.

Analysis on an unmitigated basis

Aligned to the TCFD recommendations, the Company's analysis under each scenario combined the internal and external data referred to above to identify financial material impacts on the Company, with the impacts being assessed on an unmitigated basis. This was done to inform future strategic decision making around how the Company can better build resilience and capitalise on future opportunities. The Company plans to update the scenario analysis as material changes to the business arise and will continue to deepen and evolve the methodology.

Key insights: Transition risks and opportunities

The following key insights have been taken from the Company's transition risk scenario analysis.

1. If the Company meets its emissions reduction targets, it will significantly reduce exposure to carbon pricing across the business

Carbon pricing would increase costs for the Company's products in the absence of emissions reduction activities scenario relative to a scenario in which the Company delivers on its emissions reduction targets.

The plan to meet these targets is based on several initiatives including methane inhibitors, electrification of coal boilers, renewable energy supply and decarbonisation of transport over time.

Investments in these initiatives will make the business more resilient to carbon pricing in the medium to long-term.

2. The Company's liquid milk products could be exposed to demand erosion associated with plant-based milk alternatives

The demand and market share of plant-based milk alternatives is growing and poses a risk to dairy milk products. Perceived health benefits are the biggest driver of 'switching' from dairy to plant-based alternatives with environment and animal welfare concerns being secondary drivers.

Carbon pricing has the potential to amplify these trends by affecting dairy milk supply chains substantially more than plant-based supply chains – resulting in a smaller price differential between the two product categories.

Given the Company's premium brand – which is driven by health benefits – it is possible that a2MC is protected from 'switching'. Underpinning the 'premium' brand position with both health and sustainability attributes, coupled with demonstrating environmental credentials, may offer further protection.

3. Product exposure to emissions pricing is dependent on price elasticity of demand as well as product emissions intensity

IMF is relatively more protected from emissions pricing than liquid milk products due to lower emissions intensity per dollar of revenue. However, these impacts could be more pronounced in a more disorderly transition scenario in which carbon pricing is rolled out sharply and heterogeneously across different markets.

Key insights: Physical risks and opportunities

The following key insights have been taken from the Company's physical risk scenario analysis.

1. Reliance of the Company's liquid milk products on local supply chains in Australia and the USA exposes them to supply chain disruption from drought

The Company's liquid milk supply chains in Australia and the USA are highly exposed to drought risks. Drought has the potential to significantly impact on-farm dairy productivity, creating supply constraints in highly exposed regions.

The Company's analysis indicates that if unmitigated, drought risk could impact profitability under both the below 2-degrees scenario and the above 3-degrees scenario referred to above.

2. The Company's New Zealand IMF supply chains are relatively protected from drought risk but are exposed to regulatory risks relating to water

The New Zealand IMF supply chain is relatively protected from drought risk under climate scenarios with some regions forecast to experience increased intensification of rainfall.

While some farms are at risk across the New Zealand supplier base, surplus milk available in the milk pool could provide some protection against impacts on supply and profitability. Despite this, some parts of the supply chain – including the Canterbury region – are exposed to water quality and usage issues.

Transition and physical risks and opportunities summary

The following table summarises the key risks and opportunities, the potential financial impact, magnitude and time horizon.

Transition risks and opportunities	Risk / opportunity	Overview	Potential financial impact	Potential magnitude	Time horizon
Regulation	**Risk**	**Carbon pricing** The Company's direct operational emissions (Scope 1 and 2) are predominantly from the lignite used for the boiler at MVM. With a plan in place for a high-pressure electrode boiler to be commissioned in 2023, a2MC's direct operational emissions will be modest, making direct carbon pricing liabilities immaterial to the business. However, emissions pricing (across all GHG emissions) in the supply chain could increase the cost of milk inputs. On farm emissions represent a large proportion of the Company's lifecycle emissions footprint and these costs are likely to be passed on by farmers under current market conditions. This is particularly relevant in the New Zealand context where proposed regulatory changes regarding a price on agricultural emissions are being developed. The materiality of these regulatory risks will depend on market price elasticity of demand for the Company's products and the extent to which these costs are passed on by suppliers. Under current market conditions the price elasticity of demand for the Company's IMF and liquid milk products is low, reducing the materiality of this risk. It will also be impacted by the extent to which the Company can reduce its emissions and decarbonise its supply chain.	**Increased indirect operating costs**	**Low**	**Medium-term**
Market	**Risk / opportunity**	**Changing consumer behaviour** Consumer preference shifts away from traditional dairy products towards plant-based products have been observed in recent years, driven by various factors including climate and environmental considerations. Carbon pricing has the potential to amplify switching, by affecting dairy milk supply chains more than plant-based supply chains resulting in a smaller price differential between the two product categories. The Company views this as both a risk and opportunity and is responding with strategies to maintain and grow its premium brand positioning, and through the development of a low-carbon transition strategy to reduce potential carbon liabilities.	**Decreased / increased revenues due to reduced demand for products**	**Low**	**Short-term**
Physical risks and opportunities	**Risk / opportunity**	**Overview**	**Potential financial impact**	**Potential magnitude**	**Time horizon**
Chronic	**Risk**	**Drought** Drought can impact dairy farms in several ways, including limited supply and high cost of feed, limited water supply, and impacts to the health and output of cattle due to change in feed nutrition mix. Drought has the potential to impact availability of supply and increase operating costs.	**Increased indirect operating costs**	**Medium**	**Long-term**
Acute	**Risk**	**Flooding** Flooding can result in the loss of livestock, occupational health and safety risks for employees and other stakeholders, damage to property including paddocks and pastures, critical equipment and facilities, temporary loss of farm access, and loss of inventory.	**Increased indirect operating costs**	**Medium**	**Long-term**

Strategic response and next steps

The Company is implementing and will continue to evolve a mitigation and adaptation strategy to address the impact of climate change.

Importantly, it has commenced the development of low carbon transition strategy out to 2040 with targets for Scope 1, 2 and 3 greenhouse gas emissions reduction to net zero by 2030 (for Scope 1 and 2) and by 2040 (for Scope 3).

Furthermore, the Company views changing consumer preferences as both a risk and opportunity and is responding with strategies to maintain and grow its premium brand positioning, and through the development of a low-carbon transition strategy to reduce potential carbon liabilities. It is likely that over time there will be a shift in consumer preference towards climate and environmentally friendly dairy products. This creates an opportunity to strengthen the visibility and transparency around these attributes in the Company's products.

The Company's mitigation approach to the impact of climate change includes decarbonisation initiatives already underway in our direct operations, for example:

- Converting the MVM coal-fired boiler to a high-pressure electrode boiler and utilising renewable energy for the electrification of the site.
- Undertaking a study for the Company's primary milk processing facility in Australia, Smeaton Grange, with key projects progressed to a detailed feasibility study, following the installation of solar power at Smeaton Grange last year.
- 'Green Energy' or equivalent contracts established at all sites where available which included converting contracts for offices in Sydney and Melbourne, operations in Sydney, while continuing contracts already in place for Auckland and the USA.

Given the materiality of the Company's Scope 3 GHG emissions, it is also investing in mitigation initiatives in its supply chain. These include:

- Contribution to the conversion of Synlait's coal-fired boiler to biomass
- Working with methane mitigating asparagopsis based feed supplement provider
- Establishing / continuing farmer grants programmes, which in 2022 were extended beyond Australia to New Zealand (see page 39 for further details)

The Company's adaptation approach includes investing in resilience throughout its direct operations and supply chain, for example:

- Establishing a global framework for 'farm environmental plans' which is currently being rolled-out across supplier farms
- Farmer grants programmes, which in 2022 was extended beyond Australia to New Zealand (see page 39 for further details)

In August 2022, New Zealand released its first national adaptation plan which contains strategies, policies and actions that will help the country adapt to the changing climate and its effects. a2MC is reviewing this plan to help inform the next steps on adaptation.

CORPORATE GOVERNANCE

GOVERNANCE

The a2 Milk Company is committed to maintaining the highest standards of corporate governance. The Company's corporate governance framework has been established to ensure that directors, officers, and employees fulfil their functions responsibly, whilst protecting and enhancing the interests of shareholders.

Good corporate governance adds to the performance of the Company, creates shareholder value and engenders the confidence of the investment market.

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

- the NZX Corporate Governance Code; and
- the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 4th Edition (ASX Principles).

For FY22 the Company's corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles, except as noted below.

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

Based on these measures, and the considerations discussed in this Annual Report, the Board considers there is an appropriate level of independent view and judgement exercised by all directors and that David Hearn (as of February 2022), Julia Hoare, Pip Greenwood, Warwick Every-Burns, and Sandra Yu are independent directors as at 30 June 2022, and that up to her resignation on 28 February 2022, Bessie Lee was also an independent director.

Corporate Governance Statement

The Company's Corporate Governance Statement, which is current as at 30 June 2022 and approved by the Board, can be found at https://www.thea2milkcompany.com/corporate-governance.

The Board

Role of the Board and delegation of authority

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

The role and responsibilities of the Board are set out in the Board Charter, available on the Company's website at www.thea2milkcompany.com/corporate-governance. These include matters relating to the Company's strategic direction, financial performance, executive management, audit and risk management, business planning, corporate governance and disclosure, performance evaluation, workplace health and safety, ethical conduct, and determining the Company's sustainability strategy, including to respond to the Company's environmental and social sustainability risks and opportunities.

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

Audit and Risk Management Committee (ARMC)

The principal purpose of this committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Group's risk management and internal control systems, accounting policies and practices, internal and external audit functions, and corporate reporting.

People and Remuneration Committee (PRC)

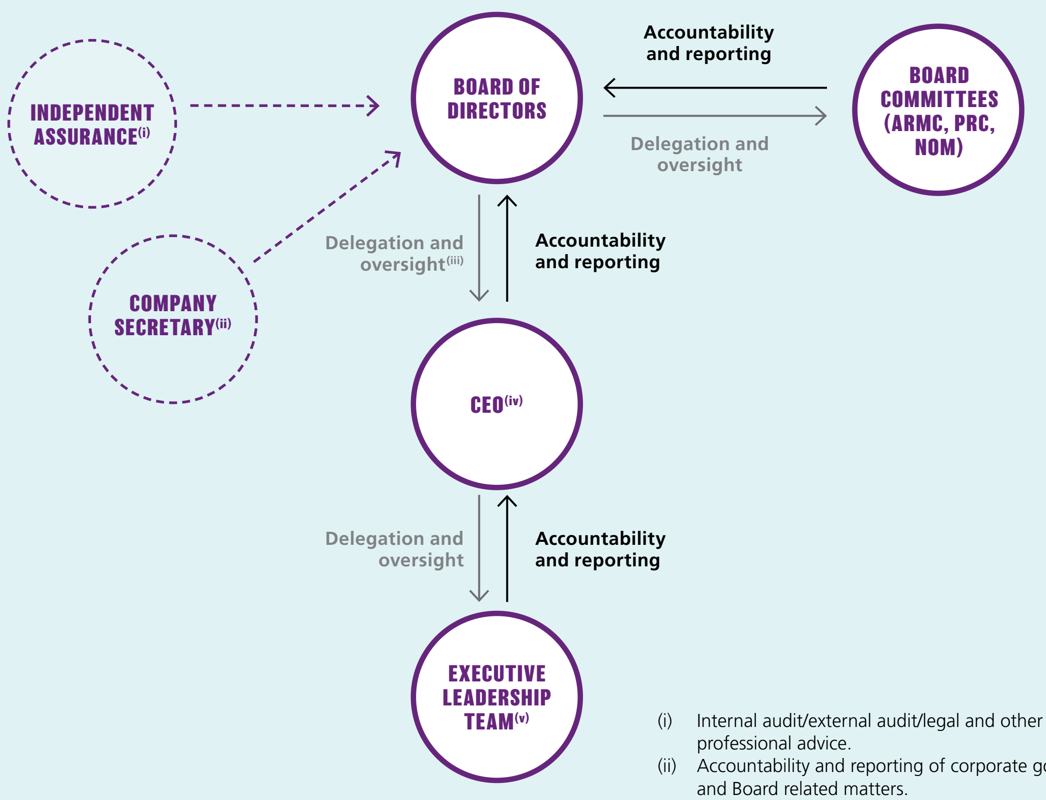
This committee assists the Board in overseeing the design and implementation of appropriate people and remuneration policies and practices for the Company, to ensure the Company can deliver on its business objectives, remuneration is fair and current, and the Company is compliant with relevant laws, regulations and applicable listing rules.

Nomination Committee (NOM)

This committee assists the Board by considering nominations to the Board to provide an appropriate mix of expertise, diversity, skills and experience on the Board.

These Board committees are governed by charters detailing their specific functions and responsibilities. The charter for each committee is reviewed by the Board annually. Copies of the committee charters are available at www.thea2milkcompany.com/corporate-governance.

GOVERNANCE FRAMEWORK



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

GOVERNANCE (CONTINUED)

Board size, skills and structure

During the reporting period, the Board comprised between four and five independent non-executive directors (with Sandra Yu replacing Bessie Lee following her retirement on 28 February 2022 and David Hearn considered to be independent from February 2022) and one executive director, the Managing Director and CEO, David Bortolussi. The Company's constitution provides for a minimum of four directors and a maximum of eight, of which at least two must be ordinarily resident in New Zealand to comply with the NZX Listing Rules.

The Board comprises directors with a diverse range of skills, experience and backgrounds to support the effective governance and robust decision-making of the Group. A summary of the key skills and experience of the current directors against those identified in the skills matrix is set out below:

Capability	No. of Directors (total of 6) Level of capability – High	No. of Directors (total of 6) Level of capability – Medium
Governance – experience in and commitment to the highest standards of corporate governance, including as a non-executive director of a listed company, large or complex organisation or government body	2	2
Sustainability – understanding and experience in sustainable practices to manage the impact of business operations on the environment and community and the impact of climate change on business operations	1	2
Strategy – development of corporate and business unit strategy and/or mergers, acquisitions and alliance structuring and execution	4	2
Risk management – experience in identification, monitoring and management of material financial and non-financial risks and understanding, implementation and oversight of risk management frameworks and controls	2	3
Financial – understanding of financial statements and reporting, key drivers of financial performance, corporate finance and internal financial controls	2	2
Leadership – experience in a senior management position in a listed company, large or complex organisation or government body, including experience in leading strategy execution and operational performance improvement	4	2
People and culture – experience in overseeing workplace culture, people management, development and succession planning, setting remuneration frameworks and promoting diversity and inclusion	1	4
Consumer products – experience as a senior executive in, or as a professional advisor to, consumer products (including dairy and/or nutritional) businesses, including sales and marketing and supply chain	4	1
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	1	1
Digital, data and technology – experience and expertise identifying, assessing, implementing and leveraging digital technologies and other innovations, including in digital marketing and commerce, understanding the use of data and analytics and responding to digital disruption	1	1
International markets – experience as a senior executive in, or as a professional advisor to, international businesses and exposure to global markets and a range of different political, regulatory and business environments	2	4

The Board skills matrix identifies the predominant skills of each Director. The Board has specifically limited each Director to having a maximum of four areas identified as 'high capability' and four areas identified as 'medium capability'.

Board committees

The Board's three standing committees facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the committees as at, and throughout the financial year ended 30 June 2022 was as follows:

Committee	Members	Independent	Non-executive
Audit and Risk Management Committee	Julia Hoare (Chair)	✓	✓
	Warwick Every-Burns	✓	✓
	Sandra Yu (appointed 1 March 2022)	✓	✓
	Bessie Lee (retired 28 February 2022)	✓	✓
People and Remuneration Committee	Warwick Every-Burns (Chair)	✓	✓
	Pip Greenwood	✓	✓
	Sandra Yu (appointed 1 March 2022)	✓	✓
	Bessie Lee (retired 28 February 2022)	✓	✓
Nomination Committee	Pip Greenwood (Chair)	✓	✓
	Julia Hoare	✓	✓
	David Hearn	✓	✓

Attendance at Board and Committee meetings

Director attendance at Board and Committee meetings during FY22 is set out below.

	Meetings of the Board		Audit and Risk Management Committee[4]		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
David Hearn[1] (Chair)	12	12	–	–	–	–	6	6
Julia Hoare (Deputy Chair)	12	12	6	6	–	–	6	6
David Bortolussi (Managing Director and CEO)	12	12	–	–	–	–	–	–
Pip Greenwood	12	12	–	–	2	2	6	6
Warwick Every-Burns	12	12	6	6	2	2	–	–
Sandra Yu[2]	2	2	1	1	1	1	–	–
Bessie Lee[3]	10	10	5	5	1	1	–	–

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

1 David Hearn: independent director from 21 February 2022.

2 Sandra Yu: appointed 1 March 2022

3 Bessie Lee: retired 28 February 2022

4 In addition to the formal Audit and Risk Management Committee meetings, the Committee also had 3 workshops to prepare for formal meetings and discuss any issues as they arose

Corporate governance policies

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

- Code of Ethics;
- Continuous Disclosure Policy;
- Diversity Policy;
- Risk Management Policy. Refer to the discussion of this policy commencing on page 24;
- Securities Trading Policy;
- Shareholder Communications Policy;
- Global Whistleblower Policy;
- Global Anti-Bribery and Anti-Corruption Policy; and
- Responsible Sourcing Policy.

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

DIRECTORS

David Hearn

Chair and Independent, Non-Executive Director

Master of Arts

Director since February 2014

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

David has 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 SafeStore Holdings PLC, Lovat Partners Limited and Committed Capital Limited.

David resides in the United Kingdom.

Julia Hoare

Deputy Chair and Independent, Non-Executive Director

Bachelor of Commerce, FCA, Chartered Member of the Institute of Directors (NZ)

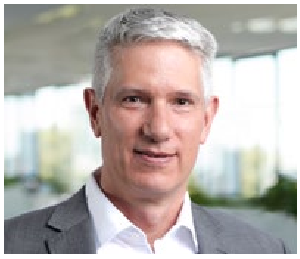
Director since November 2013

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

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

Prior to joining the Board, Julia had extensive chartered accounting experience in Australia, the UK and NZ and was a partner with PwC NZ for 20 years. She was a member of the New Zealand External Reporting Advisory Panel from 2013 to 2021.

Julia resides in New Zealand.



David Bortolussi

Managing Director and CEO

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

Director since February 2021

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

Prior to this David spent five years at Foster's Group, where he held the role of Chief Strategy Officer responsible for corporate strategy, M&A, business development and performance improvement. Prior to Foster's Group, David held senior consulting roles at McKinsey & Company and PwC.

David's career has largely been focused on the Consumer and Retail sector in Australia and New Zealand complemented by significant international experience in various markets and categories in China, SE Asia, EU and the USA.

David resides in Australia.

Warwick Every-Burns

Independent, Non-Executive Director

Advanced Management Program (Harvard)

Director since August 2016

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

Warwick has been a career Consumer Packaged Goods (CPG) executive of global scale. His executive roles have included a successful career with The Clorox Company of the USA as Senior Vice President, International, based in the USA and prior to that as VP Asia Pacific. His earlier roles included Managing Director of NationalPak Limited (the Glad Products Company ultimately acquired by Clorox) and a long career with Unilever PLC where he was based in Australia. Warwick is a Non-Executive Director of one of the leading international wine companies, the ASX listed Treasury Wine Estates Limited.

Warwick resides in Australia.

Pip Greenwood

Independent, Non-Executive Director

Bachelor of Laws (LL.B.), University of Canterbury (NZ)

Director since July 2019

Pip has been a director of the Company from 1 July 2019. She is also Chair of the Nomination Committee and a member of the People and Remuneration Committee.

Currently Pip is also a director on the boards of Westpac New Zealand, Spark New Zealand, Fisher & Paykel Healthcare and Vulcan Steel. She was previously a senior partner at law firm Russell McVeagh, where she spent over 10 years on the firm's board including acting as the firm's board Chair and interim CEO.

Pip brings extensive commercial and board experience to The a2 Milk Company board. A leader in the field of corporate law and in the New Zealand business community, she is the recipient of numerous industry awards including being named New Zealand 'Dealmaker of the Year' at the Australasian Law Awards 2018, an accolade she has won five times; and she has twice been recognised as a finalist at the Women of Influence Awards.

Pip resides in New Zealand.

Sandra Yu

Independent, Non-Executive Director

Master – Marketing, International Business Management (National Taiwan University)
Advanced Management Program (Harvard Business School)

Director since March 2022

Sandra Yu has been a Director of the Company since 1 March 2022. Sandra sits on both the Audit and Risk Management and the People and Remuneration committees.

Sandra is an experienced global executive in consumer goods industries, and importantly in the infant milk formula (IMF) market in China, with a proven track record of driving business and brand transformation, leveraging opportunities for growth, and building organisational capabilities across China as well as the USA and other parts of Asia.

As the former head of Mead Johnson Nutrition's Greater China business, Sandra was a member of the Mead Johnson Nutrition's Global leadership team. Prior to that, Sandra held various other senior executive roles at Mead Johnson Nutrition, including as the Global Marketing Vice President, responsible for transition to new digital media and e-commerce channels globally.

Sandra was also appointed as the non-executive chairwoman to lead RB China's advisory board after the merger between Reckitt Benckiser and Mead Johnson Nutrition in 2017.

Prior to joining Mead Johnson, Sandra held executive positions at Unilever, where she worked across Asia for thirteen years.

Sandra resides in Greater China.

OUR EXECUTIVE LEADERSHIP TEAM

David Bortolussi
Managing Director and CEO

Bachelor of Commerce (University of Melbourne), FCA, F FIN, MAICD

Refer to page 56 for biography

Mark Sherwin
Chief Financial Officer (Interim)

Bachelor of Business – Finance and Accounting (University of Technology, Sydney), CA, DipInvRel

Mark Sherwin assumed the position of Interim Chief Financial Officer in May 2022. He is responsible for finance, investor relations, risk and IT across the Group.

Mark has been with the Company since 2015 in a range of Group Finance roles and brings 17 years' experience across finance, tax, investor relations, FP&A and risk management. During this time, Mark also spent 3 years leading the Group's Investor Relations function.

Prior to joining a2MC, Mark gained experience with Deloitte, Shell plc and UGL Limited.

Jaron McVicar
Chief Legal and Sustainability Officer and Company Secretary

Bachelor of Laws (University of Otago)

Jaron joined the Group in November 2016, having already provided legal advice to the Group over a number of years in his previous role with a leading New Zealand law firm.

Jaron is responsible for the Group's legal function and in his role as Company Secretary works closely with the Board on governance. Jaron's role also includes leading our important sustainability programme.

Prior to joining the Group, Jaron worked in private practice for 15 years as a corporate and commercial lawyer, including seven years working in London.

Jaron is a qualified solicitor in New Zealand and England and Wales.

Shareef Khan
Chief Operations Officer

Bachelor of Science, CSCP, APICS

Shareef joined the Group in June 2012 and is responsible for all operations including farm services, planning, supply chain, quality and regulatory and product development across the Group in each of our geographies.

This spans from farmers through to distribution to our customers and includes management of key strategic partnerships.

Shareef has over 18 years' senior management experience in the dairy and infant nutrition category. He is a qualified supply chain professional and has experience across a number of industries.

Edith Bailey
Chief Marketing Officer

Bachelor of Business, Marketing and Management – University of Technology Sydney.

Edith joined the Company in December 2021 and is responsible for managing the strategic and creative direction of the a2™ brand, overseeing science and nutrition functions, developing integrated marketing programmes and leading product innovation.

Edith was previously Consumer Marketing Director, ANZ, with Danone Nutricia's Specialised Nutrition division, having spent the past 14 years with the organisation in several senior marketing, channel and category development positions. Edith has significant experience in the infant nutrition category across China, New Zealand, Australia and South East Asia.

Before her time at Danone, Edith held senior marketing roles with Pepsico, Campbell Arnotts and S.C. Johnson & Son.

Eleanor Khor
Chief Strategy Officer

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

Eleanor joined the Company in August 2018, bringing a diverse range of experience, including her time as a corporate and M&A lawyer at Allen Linklaters, a management consultant at Bain & Co, and working in private equity with a focus on consumer goods businesses.

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

Since joining a2MC, Eleanor has spent significant time working across China and the Asia Pacific regions.

Amanda Hart
Chief People and Culture Officer

Bachelor of Business Administration – University of South Australia

Amanda joined the Company in September 2021 and is responsible for driving the people strategy and executing integrated programmes focused on continuing to improve the Company's capability building, leadership development, employee engagement, diversity and inclusion, and pioneering culture.

Amanda was previously Head of Human Resources (Australia and New Zealand), with Dyson Appliances, having spent the past four years with the organisation as a senior human resources leader across several Asia Pacific markets with a focus on leadership development and organisational change.

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

Xiao Li

Chief Executive – Greater China

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

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

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

Blake Waltrip

Chief Executive – USA

BA Economics (University of California at San Diego), Masters of Business Administration (Anderson Graduate School of Management, UCLA)

Blake joined the Group in May 2016, assuming the role of Chief Executive of the USA region. Blake is responsible for leading our Northern American liquid milk business as well as managing our supply chain partnerships and performance for this region.

Blake has a strong marketing, sales and general management skill set. Blake was previously the CEO of Quinoa Corporation Inc, (The Ancient Harvest Brand) based in Boulder, Colorado.

His previous roles have included VP and CMO of the beverage division of the Hain Celestial Group, Managing Partner of a marketing services and strategy group, Growth Ventures, President Americas of Lowe Alpine, and an earlier extensive marketing career with Nestlé USA beverage brands.

Kevin Bush

Executive General Manager – ANZ

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

Kevin was appointed to the role of Executive General Manager – ANZ in July 2021. Kevin is responsible for leading the Company's business in Australia and New Zealand.

Kevin previously held the role of Sales Director – ANZ from July 2016 and was pivotal in growing the *a2 Milk*™ liquid milk brand and driving increased market share.

He has also overseen the successful establishment of the *a2 Platinum*® brand in the South Korean market and various other business development initiatives across the Group.

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

Yohan Senaratne

Executive General Manager – International

Master (Business Administration) – Kellogg School of Management, Northwestern University, Bachelor Commerce, Bachelor Business Systems – Monash University, Member of the Australian Institute of Company Directors (MAICD)

Yohan is responsible for leading the Company's cross-border export business, primarily focused on English label IMF products manufactured in New Zealand and sold into China, including liquid milk and other nutritional products. Yohan is responsible for managing products sold through all channels, principally via the daigou/reseller/O2O and cross-border e-commerce (CBEC) channels. The International team is also responsible for developing the Company's business in emerging markets.

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

Bernard May

CEO – Mataura Valley Milk

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

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

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

As a skilled leader with 35 years of experience in the food and beverage industry, Bernard has a comprehensive knowledge of operations management, commercial leadership, product development and people development including in his management roles for both Lion and Westland Milk Products.

REMUNERATION

The Company's success depends on the quality and contribution of its people, with their talents enabling us to realise our enduring purpose and vision, and achieve our short and long-term ambition and strategic objectives. The Company's remuneration philosophy for all employees and executives aims to:

- link rewards to the creation of sustainable value for shareholders, whilst avoiding inappropriate risk;
- attract, motivate and retain talented employees and executives;
- initiate and execute the Company's strategy and business plans as endorsed by the Board;
- incentivise, recognise and reward the delivery of outstanding performance;
- have a balanced mix of short-term and long-term remuneration components;
- be consistent with, and supportive of, the Company's ethical framework and commitment to good corporate governance; and
- ensure that remuneration arrangements are competitive and fair in a broad market.

REMUNERATION POLICIES AND PRACTICES

The People and Remuneration Committee advises the Board on the policies and practices of the Company regarding the remuneration of directors, the executive leadership team (reporting directly to the CEO) (ELT) and other senior leaders of the Group and reviews all components of the Group's remuneration practices relevant to its employees. The People and Remuneration Committee Charter sets out the objectives, responsibilities and authority of the People and Remuneration Committee in relation to remuneration matters. The Charter stipulates that the Committee will make recommendations to the Board, but all decision-making authority in relation to remuneration remains with the Board.

The Board's policy for remunerating the CEO, ELT and other senior leaders is to provide market-based remuneration packages comprising a blend of fixed and variable at-risk incentive-based remuneration with clear links between individual and Company performance, and reward. The People and Remuneration Committee reviews the remuneration packages of the CEO, ELT and other senior leaders at least annually and as an aggregate, all other employees at least annually.

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

In FY22, eligible employees, not participating in the LTI plan, were entitled to participate in the Company's Gift Plan, under which they receive shares in the Company worth up to A$1,000, at no cost to the employee. This plan is designed to give participating employees an ownership interest in the Company.

Remuneration packages for senior leaders are structured so that a significant portion of remuneration is at risk but can be earned by the achievement of superior performance. The LTI plan is designed to drive sustained performance over time and to both attract and retain the best possible talent.

An appropriate remuneration mix is determined for each position, taking into consideration the employee's role and level of responsibility.

MANAGING EXECUTIVE PERFORMANCE

Robust processes are in place for supporting and evaluating the performance of the CEO, ELT and other senior leaders.

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

The objectives agreed between the Board and the CEO are discussed and cascaded to each member of the ELT and captured in individual performance plans. The CEO uses the performance plans to facilitate individual conversations with each member of the ELT. The performance discussions are documented and form the basis of the annual performance review that each executive undertakes with the CEO at the end of the performance period.

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

During FY22, each member of the ELT who was an employee for the duration of the reporting period had at least one performance discussion documented.

REMUNERATION FRAMEWORK

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

FIXED REMUNERATION

Employees' fixed remuneration is based on a matrix of an individual's skills and experience relevant to the role, their individual performance and their current level of remuneration relative to market remuneration benchmarks. Fixed remuneration is reviewed on an annual basis with reference to independent external surveys, and where appropriate, is adjusted based on consideration of individual performance and market remuneration benchmarks.

VARIABLE REMUNERATION

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

The following table illustrates the relative percentages of fixed remuneration and at risk STI and LTI for FY22.

	Fixed	STI (at target)	LTI (face value)
CEO	27%	32%	41%
Executive Leadership Team (not including the CEO)	30%-45%	24%-29%	27%-45%

Short-Term Incentive (STI) plan

The purpose of the STI plan is to build a results-focused culture, incentivising delivery of the Group's short-term targets and objectives and rewarding team and individual performance. STI values and performance targets are approved by the People and Remuneration Committee and Board each financial year.

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

The FY22 STI plan provides that the amount of any cash bonus payable to a participating employee will be determined by reference to:

- the amount of the employee's target incentive, as referenced against their fixed annual remuneration;
- the Group's performance against the FY22 Group Performance Scorecard (comprising both financial and non-financial targets) including implementation of the Group's refreshed growth strategy, as set out below; and
- the employee's performance against personal objectives for the performance period reflected in an individual performance multiplier.

The FY22 Group Performance Scorecard includes financial measures with a weighting of 60% and non-financial measures with a weighting of 40%, as set out in the table below.

For each objective there are threshold, target (as shown in the table below) and maximum metrics to assess the Group's performance against and the outcomes as determined independently by the Board (excluding the CEO).

FY22 Group Performance Scorecard		
FY22 Group Objectives	**Metric**	**Weighting at target**
Financial Measures	Net sales revenue EBITDA	**60%**
Non-Financial Measures		**40%**
People	Safety performance, awareness and leadership; employee engagement; and constructive leadership programme implementation	5%
Sustainability	Development of sustainability targets across six capitals framework and implementation progress	5%
Market access	China label new GB formulation registration progress	10%
Brand health	Brand health targets across Australian milk trial; China unprompted brand awareness; and USA household penetration (with most weight placed on China outcomes)	5%
Market share	Market share targets across China label IMF (offline and online); English label IMF; Australian fresh milk and USA liquid milk	5%
Inventory	Inventory months cover for Group and across multiple channels to market and at relevant points of distribution	10%
Total at target		**100%**

The FY22 STI plan provided threshold to maximum potential metrics for the Group Performance Scorecard with outcomes ranging from 0% to 130%, with target at 100%. The outcome of the FY22 Group Performance Scorecard determined by the Board for all Executive Leadership Team members (including the CEO) was 95% reflecting that an outcome of 55% (of 60%) was achieved against financial measures (with FY22 net sales revenue being above target, and with FY22 EBITDA being marginally below target) and an outcome of 40% (of 40%) was achieved against non-financial measures with the various components overall being at target.

Long-Term Incentive (LTI) plan

Participation in the LTI plan is by invitation only, at the sole and absolute discretion of the Board. The LTI plan is designed to reward performance in support of the achievement of the Company's refreshed growth strategy: targeting profitable, long-term revenue growth, which requires appropriate investment.

The Company grants performance rights (Awards) to eligible participants under the plan, governed by specific terms and conditions. Each Award granted represents a right to receive one fully paid share in the Company (or cash equivalent, at the election of the Company) once the Award vests and is exercised. The number of Awards and the vesting conditions for Awards issued under the LTI plan are determined by and at the sole discretion of the Board, with the number of Awards to an eligible participant set by reference to a fixed percentage of that participant's fixed annual remuneration. No dividends are paid on performance rights. The Board may forfeit performance rights for fraud, dishonesty or wilful breach of duties.

Performance rights granted in FY22

During the year the Board authorised the issue of 4,355,314 performance rights to the CEO, ELT and senior leaders under the LTI plan in respect of FY21 (the issue of which was temporarily deferred) and FY22.

The deferral of the issue of performance rights under the LTI programme in FY21 meant that performance rights were issued in the period in two tranches, with differing performance periods and performance hurdles as set out below.

The performance rights vest subject to:

- Continuing employment; and
- Achieving certain EPS CAGR (compound annual growth in diluted earnings per share) and minimum Revenue CAGR (compound annual growth in sales) performance hurdles over the performance periods:

Performance rights grants:	Performance period	EPS CAGR hurdle	Revenue CAGR hurdles		
			50% vest	85% vest	100% vest
Tranche 1 (FY21 plan)					
1,955,113 rights	2 years to 30 June 2023	20%	7.5%	10%	12.5%
Tranche 2 (FY22 plan)					
2,400,201 rights	3 years to 30 June 2024	20%	6%	8%	10%

Both the minimum EPS CAGR and minimum Revenue CAGR must be achieved for any vesting of performance rights. The minimum vesting proportion is 50%; thereafter, vesting is on a straight-line basis between each vesting hurdle.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and are subject to adjustment to remove the impact of material items as the Board may determine, including, without limitation, adjustments made to exclude the impact of unusual or one-off items, discontinued operations, acquisitions and disposals and capital management.

It is currently intended that, subject to compliance with relevant laws, the Company will satisfy its obligation to allocate ordinary shares upon the vesting of performance rights by instructing the trustee of the a2MC Group Employee Share Trust to purchase shares on market.

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

Minimum Shareholding Requirement

Executive Leadership Team

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

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

Each member of the ELT is required to acquire and hold a minimum shareholding equivalent to 100% of their fixed annual remuneration comprising base salary and compulsory employer superannuation contributions (or equivalent) before any tax or social security deductions.

ELT members are expected to achieve the MSR by the end of five annual vesting periods for LTI grants. All executives are currently expected to achieve the MSR within the timeframe required by the policy.

Directors' remuneration

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

The annual aggregate non-executive directors' remuneration pool, approved by shareholders at the Company's Annual Meeting of Shareholders held on 20 November 2018, is capped at $1,365,000.

Directors' fees structure	$ annual
Base board fees:	
Chair of the Board (refer below)	265,000*
Deputy Chair	210,000
Non-executive director	165,000
Audit and Risk Management Committee:	
Chair	35,000
Committee member	16,500
People and Remuneration Committee:	
Chair	35,000
Committee member	16,500
Nomination Committee:	
Chair	22,000
Committee member	11,000

* The Chair's annual base fee was increased to $265,000 with effect from 21 February 2022, being the date on which it was confirmed that the Board had determined that David Hearn was an independent director of the Company.

Remuneration and the value of other benefits paid to non-executive directors of the Company for the year ended 30 June 2022 was as follows:

	Board fees	Committee fees			Total remuneration
	$	Audit and Risk Management $	People and Remuneration $	Nomination $	$
David Hearn (Chair)	200,000[3]	–	–	–	200,000
Julia Hoare (Deputy Chair)	210,000	35,000	–	11,000	256,000
Pip Greenwood	165,000	–	16,500	22,000	203,500
Warwick Every-Burns	165,000	16,500	35,000	–	216,500
Bessie Lee[1]	110,000	11,000	11,000	–	132,000
Sandra Yu[2]	55,000	5,500	5,500	–	66,000
Total	905,000	68,000	68,000	33,000	1,074,000

1 Bessie Lee: retired on 28 February 2022
2 Sandra Yu: appointed 1 March 2022
3 Reflects that the Chair's base fee increased from $165,000 to $265,000 effective 21 February 2022

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

REMUNERATION (CONTINUED)

Remuneration of CEO – David Bortolussi

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

Term

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

Total Fixed Remuneration

A$1,795,082 per annum (inclusive of superannuation), to be reviewed annually.

STI

On an annual basis, David participates in the Company's STI plan. For FY22, his STI incentive at target is 120% of his Total Fixed Remuneration subject to the achievement of the Group Performance Scorecard and individual performance objectives both determined by the Board (excluding David). In FY22, the Group Performance Scorecard outcome range is from 0% to 130% and David's individual performance multiplier range is from 0% to 130% which is consistent with the prior year. Accordingly, David's STI payment in FY22 is determined by multiplying his Total Fixed Remuneration by 120% multiplied by the Group Performance Scorecard outcome multiplied by the individual performance multiplier.

LTI

On an annual basis David will be invited to take up performance rights under the Company's LTI plan. To date, performance rights issued to David have been issued on the basis that they may only be satisfied on exercise with shares purchased on market.

Relocation allowance

An allowance of A$10,000 per month (net of tax) was paid to assist David during FY22 to assist with the cost of David's accommodation in Sydney and travel between Melbourne and Sydney.

Notice period

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

Leave

Five weeks per annum paid annual leave.

Other terms

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

Remuneration paid in FY22

The remuneration paid to David Bortolussi in the financial year was as follows:

	2022 A$	2021* A$
Fixed remuneration	1,795,082	693,160
STI paid	630,000	–
Transition benefits[1]	–	1,270,000
Allowance	226,416	94,340
Total remuneration received	2,651,498	2,057,500

* From 8 February 2021 to 30 June 2021

1 Refer to FY21 Annual Report for details of transition benefits received by David on a one-off basis in FY21.

As noted above, for FY22, David is entitled to receive an STI payment at target of 120% of his Total Fixed Remuneration modified for group and individual performance. The Board has determined that the Group Performance Scorecard outcome is 95% and David's individual performance multiplier is 110%. As a result, a payment in the amount of A$2,251,031 is to be made to David under the FY22 STI plan representing 105% of his entitlement at target.

LTI – granted in FY22

In October 2021, the following performance rights, totalling 969,483 rights, were granted to David under the Company's LTI Plan:

- Tranche 1 (FY21 plan) 478,577 performance rights vesting August 2023; and
- Tranche 2 (FY22 plan) 490,906 performance rights vesting August 2024.

Time-based rights – transition benefits

In FY21, David was granted 311,283 time-based rights as a transition benefit, being partial compensation for vested and unvested entitlements that he forfeited on resigning from his previous employment.

Of these time-based rights, 155,642 vested on 21 February 2022, when the share price was NZ$6.31; and the remaining 155,641 rights are scheduled to vest in February 2023.

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

FINANCIAL STATEMENTS

DIRECTORS' APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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 2022.

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 2022 and the results of its operations and cash flows for the period ended on that date.

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

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

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

There are reasonable grounds to believe that the Company and the Group entities identified in Note E1 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785.

David Hearn
Chair

David Bortolussi
Managing Director and CEO

28 August 2022

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2022

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The a2 Milk Company Limited (the "Company") and its subsidiaries (together "the Group") on pages 72 to 117, which comprise the consolidated statement of financial position of the Group as at 30 June 2022, 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 72 to 117 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2022 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2022

Building a better working world

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Customer rebates and promotional allowances

Why significant	How our audit addressed the key audit matter
Revenue and associated trade receivables are recognised net of rebates and promotional allowances owed to customers based on their individual contractual arrangements. The recognition and measurement of rebates and promotional allowances, including the establishment of an appropriate accrual at year end, involves judgment and estimation, particularly relating to variable rebates and the expected level of rebate claims by the customers. This was considered a key audit matter given the value of rebates and promotional allowances provided to customers, together with the level of judgment involved in estimating this variable consideration at year end. Disclosures regarding revenue and the related rebates and promotional allowances are included in note B2 to the financial statements.	Our audit procedures included the following: ▶ Considered the appropriateness of the Group's revenue recognition accounting policies as they relate to rebates and promotional allowances. ▶ Understood the Group's processes and controls over the recording of rebates and promotional allowances. ▶ Selected a sample of customer contracts, determined whether variable rebates were calculated in accordance with the agreed terms and inquired of management as to the existence of any non-standard agreements or side arrangements with customers. ▶ Selected a sample of variable rebates recorded and assessed whether the timing and value of amounts recognised were in accordance with NZ IFRS. ▶ Compared a sample of customer claims for variable consideration and payments made subsequent to year end to recorded accruals. ▶ Considered the year end ageing profile of rebates and promotional allowances and inquired as to the likelihood of aged balances being settled. ▶ Considered the adequacy of the associated disclosures in the financial statements.

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Valuation of inventory

Why significant	How our audit addressed the key audit matter
As at 30 June 2022, the Group held $140.0 m (FY21: $112.2m) of inventories. As detailed in note C2 of the financial report, inventories are valued at the lower of cost and net realisable value. Significant judgement is involved in estimating the net realisable value of inventory across a range of product types with limited shelf life sold through a number of sales channels. In addition, complexities associated with COVID-19 and the geopolitical environment continue to impact international trade, supply chain efficiency, consumer preferences and inflation, leading to increased uncertainly in forming these estimates. We considered this a key audit matter due to the size of the inventory balance and the complexity in estimating the valuation of inventory.	Our audit procedures assessed the valuation of inventories and the related financial statement disclosures. These procedures included the following: ▶ Assessed the application of inventory costing methodologies and tested the recorded cost of a sample of inventory items to supplier invoice or other relevant documentation. ▶ Assessed the effectiveness of relevant controls to identify inventory that is no longer considered saleable. ▶ Attended stocktakes at a selection of locations to validate the existence and expiry dates of inventory on a sample basis. ▶ Attended the destruction of stock at a sample of locations to validate the accuracy of prior year inventory written off and associated costs of disposal. ▶ Tested the year-end inventory ageing forecast model prepared by the Group which is used in calculating the net realisable value of inventory. Our procedures included validating model inputs, including expiry dates, and assessing the sales volume and pricing used based on historical evidence, seasonal trends and enquiry with management. ▶ Considered the adequacy of the associated disclosures in the financial statements.

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Acquisition of Mataura Valley Milk Limited

Why significant	How our audit addressed the key audit matter
On 30 July 2021, the Group completed the acquisition of 75% of Mataura Valley Milk Limited ("MVM") for $161.8m and concurrently entered into a shareholder loan with MVM for $106.7m, resulting in a cash outflow of $268.5m. As detailed in note E2 of the financial statements, the Group's share of identifiable net assets acquired was assessed as $67.7m. Goodwill on acquisition amounted to $94.1m. This goodwill was allocated to existing cash generating units of the Group. Acquisition accounting, including determining the value of purchase consideration, identifying and estimating the fair value of identifiable net assets and the allocation of goodwill on acquisition to cash generating units ("CGUs") requires significant judgement and estimation. The Group engaged specialists to determine the fair value of property, plant and equipment. We considered this a key audit matter due to the size and complexity of the acquisition and its resulting impact on the Group's financial position.	Our audit procedures included the following: ▶ Inspected the acquisition contracts and settlement support to assess the nature and timing of the business acquisition in accordance with NZ IFRS 3. ▶ Evaluated the fair value of purchase consideration based on the contract terms, settlement adjustments and disbursements. ▶ Assessed the reasonableness of the Group's assessment of the identifiable assets and liabilities included in the acquisition and the fair value of those assets and liabilities. ▶ Involved our in-house valuation specialists in evaluating the fair value of property, plant and equipment. ▶ Assessed the competence, qualifications and objectivity of the Group's valuation specialists. ▶ Recalculated the goodwill on acquisition and assessed the Group's allocation of goodwill to its identified CGUs. ▶ Assessed the adequacy of the associated disclosures in the financial statements.

Information other than the financial statements and auditor's report

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

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

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

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

Building a better working world

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/ . We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied. This description forms part of our auditor's report.

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

Ernst & Young

Ernst & Young
Sydney
28 August 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $'000	2021 $'000
Sales	B1	1,443,740	1,205,034
Cost of sales		(780,222)	(695,321)
Gross margin		663,518	509,713
Other revenue	B1	2,489	1,700
Distribution expenses		(48,854)	(45,175)
Administrative expenses		(105,200)	(87,020)
Marketing expenses		(230,019)	(168,710)
Other expenses		(104,525)	(94,462)
Operating profit		177,409	116,046
Interest income		6,569	3,989
Finance costs	B4	(2,591)	(770)
Net finance income		3,978	3,219
Profit before tax		181,387	119,265
Income tax expense	B6	(66,646)	(38,607)
Profit for the year		114,741	80,658
Profit for the year attributable to:			
Owners of the Company		122,624	80,658
Non-controlling interests		(7,883)	–
		114,741	80,658
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation profit		11,073	1,073
Cash flow hedges		(14,113)	–
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	C7	(22,543)	(134,618)
Total other comprehensive loss		(25,583)	(133,545)
Total other comprehensive loss attributable to:			
Owners of the Company		(24,471)	(133,545)
Non-controlling interests		(1,112)	–
		(25,583)	(133,545)
Total comprehensive income/(loss)		89,158	(52,887)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		98,153	(52,887)
Non-controlling interests		(8,995)	–
		89,158	(52,887)
Earnings per share			
Basic and Diluted (cents per share)	B5	16.49	10.86

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

	Attributable to owners of the Company										
Year ended 30 June 2022	**Foreign currency translation reserve $'000**	**Fair value revaluation reserve $'000**	**Employee equity settled payments reserve $'000**	**Treasury shares reserve $'000**	**Hedging reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Share capital $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance 1 July 2021	(11,405)	(130,978)	36,058	(3,773)	–	(110,098)	1,044,937	149,121	1,083,960	–	1,083,960
Profit after tax for the period	–	–	–	–	–	–	122,624	–	122,624	(7,883)	114,741
Foreign currency translation differences – foreign operations	10,454	–	–	–	–	10,454	–	–	10,454	–	10,454
Changes in cash flow hedges taken to equity	–	–	–	–	(21,632)	(21,632)	–	–	(21,632)	(1,727)	(23,359)
Cash flow hedges reclassified to profit or loss	–	–	–	–	4,872	4,872	–	–	4,872	615	5,487
Listed investment – fair value movement	–	(22,543)	–	–	–	(22,543)	–	–	(22,543)	–	(22,543)
Income tax	619	–	–	–	3,759	4,378	–	–	4,378	–	4,378
Total comprehensive income for the period	11,073	(22,543)	–	–	(13,001)	(24,471)	122,624	–	98,153	(8,995)	89,158
Transactions with owners in their capacity as owners:											
Issue of ordinary shares	–	–	–	–	–	–	–	45	45	–	45
Share issue costs	–	–	–	–	–	–	–	(9)	(9)	–	(9)
Employee withholding tax payments	–	–	(250)	–	–	(250)	–	–	(250)	–	(250)
Treasury shares purchased	–	–	–	(13,306)	–	(13,306)	–	–	(13,306)	–	(13,306)
Treasury shares transferred	–	–	(1,189)	1,281	–	92	–	–	92	–	92
Share-based payments	–	–	11,609	–	–	11,609	–	–	11,609	–	11,609
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	22,578	22,578
Income tax	–	–	83	–	–	83	–	–	83	–	83
Total transactions with owners	–	–	10,253	(12,025)	–	(1,772)	–	36	(1,736)	22,578	20,842
Balance 30 June 2022	(332)	(153,521)	46,311	(15,798)	(13,001)	(136,341)	1,167,561	149,157	1,180,377	13,583	1,193,960

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

Year ended 30 June 2021	Foreign currency translation reserve $'000	Fair value revaluation reserve $'000	Employee equity settled payments reserve $'000	Treasury shares reserve $'000	Total reserves $'000	Retained earnings $'000	Share capital $'000	Total equity $'000
Balance 1 July 2020	(12,478)	3,640	41,719	(10,031)	22,850	964,279	146,933	1,134,062
Profit after tax for the period	–	–	–	–	–	80,658	–	80,658
Foreign currency translation differences – foreign operations	1,117	–	–	–	1,117	–	–	1,117
Listed investment – fair value movement	–	(134,618)	–	–	(134,618)	–	–	(134,618)
Income tax	(44)	–	–	–	(44)	–	–	(44)
Total comprehensive income for the period	1,073	(134,618)	–	–	(133,545)	80,658	–	(52,887)
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	–	–	–	–	–	–	2,207	2,207
Share issue costs	–	–	–	–	–	–	(19)	(19)
Treasury shares retained for employee withholding tax payments	–	–	–	(316)	(316)	–	–	(316)
Treasury shares transferred	–	–	(6,574)	6,574	–	–	–	–
Share-based payments	–	–	1,835	–	1,835	–	–	1,835
Income tax	–	–	(922)	–	(922)	–	–	(922)
Total transactions with owners	–	–	(5,661)	6,258	597	–	2,188	2,785
Balance 30 June 2021	(11,405)	(130,978)	36,058	(3,773)	(110,098)	1,044,937	149,121	1,083,960

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and term deposits	D3	887,308	875,150
Trade and other receivables	C1	83,510	65,284
Prepayments		54,537	27,819
Inventories	C2	140,044	112,204
Income tax receivable		5,841	16,435
Total current assets		1,171,240	1,096,892
Non-current assets			
Property, plant and equipment	C4	240,547	17,162
Right-of-use assets	D7	16,030	15,302
Investment property	C5	15,663	16,614
Intangible assets	C6	109,322	15,137
Other financial assets	C7	135,260	157,803
Prepayments		2,059	–
Deferred tax assets	B6	25,731	53,101
Total non-current assets		544,612	275,119
Total assets		1,715,852	1,372,011
Liabilities			
Current liabilities			
Trade and other payables	C3	376,082	266,296
Customer contract liabilities	B2	3,171	4,746
Lease liabilities	D7	3,128	3,648
Loans and borrowings	D8	40,794	–
Other financial liabilities	C8	16,999	–
Total current liabilities		440,174	274,690
Non-current liabilities			
Trade and other payables	C3	416	511
Lease liabilities	D7	14,224	12,850
Loans and borrowings	D8	66,206	–
Other financial liabilities	C8	872	–
Total non-current liabilities		81,718	13,361
Total liabilities		521,892	288,051
Net assets		1,193,960	1,083,960
Equity			
Share capital	D5	149,157	149,121
Retained earnings		1,167,561	1,044,937
Reserves	D6	(136,341)	(110,098)
Total equity attributable to owners of the Company		1,180,377	1,083,960
Non-controlling interests		13,583	–
Total equity		1,193,960	1,083,960

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		1,431,254	1,251,909
Payments to suppliers and employees		(1,207,386)	(1,067,977)
Interest received		4,341	3,989
Interest paid		(1,383)	(699)
Taxes paid		(23,026)	(97,807)
Net cash inflow from operating activities	D4	203,800	89,415
Cash flows from investing activities			
Payments for property, plant and equipment	C4	(4,939)	(5,673)
Payments for investment property	C5	(1,071)	(17,216)
Payments for intangible assets	C6	(229)	(1,638)
Acquisition of subsidiary	E2	(213,746)	–
Payment for listed investment	C7	–	(39,841)
Payments for term deposits	D3	(450,000)	–
Net cash outflow from investing activities		(669,985)	(64,368)
Cash flows from financing activities			
Payments of lease principal	D7	(4,089)	(3,230)
Purchase of treasury shares	D6	(13,306)	–
Proceeds from issue of equity shares	D5	36	2,188
Proceeds from borrowings	D2	27,000	–
Net cash inflow/(outflow) from financing activities		9,641	(1,042)
Net (decrease)/increase in cash and short-term deposits		(456,544)	24,005
Cash and short-term deposits at the beginning of the year		875,150	854,178
Effect of exchange rate changes on cash		18,702	(3,033)
Cash and short-term deposits at the end of the year	D3	437,308	875,150

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

BASIS OF PREPARATION

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 2022 comprise the Company and its subsidiaries (together referred to as the Group).

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

The principal activity of the Company is the sale of branded products in targeted markets made with milk naturally containing the A2 protein type.

The consolidated financial statements were authorised for issue by the directors on 28 August 2022.

The consolidated financial statements:

- have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand;
- comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS);
- comply with International Financial Reporting Standards adopted by the International Accounting Standards Board;
- are 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
- have been prepared in accordance with the historical cost convention and, except for listed investments and foreign currency forward contracts, do not take into account changing money values or fair values of assets.

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

Significant accounting policies have been:

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

Accounting policy: Foreign currency

Transactions

Foreign currency transactions are initially translated to the respective functional currencies of Group companies at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date. Foreign exchange differences are generally recognised in profit or loss in the 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 B6: Income taxes – Deferred tax balances
  - Note C2: Inventories – Estimation of net realisable value
  - Note C5: Investment property
  - Note C6: Intangible assets – Impairment review of goodwill and intangibles
  - Note C6: Intangible assets – Allocation of goodwill
  - Note C8: Other financial liabilities – Fair value measurement of foreign currency forward contracts
  - Note D7: Leases – Determination of lease term

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2022.

New standards and interpretations not yet adopted

There are no new standards and interpretations that are issued, but not yet effective as at 30 June 2022, that are expected to have a material impact on the Group in current or future reporting periods.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

GROUP PERFORMANCE

B. GROUP PERFORMANCE

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

The Group's key performance measures are segment revenue and segment results before interest, tax, depreciation and amortisation (Segment EBITDA, a non-GAAP measure). Further information and analysis of performance can be found in the CEO's year in review report, which forms part of the 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, and in the current financial year it has four reportable operating segments as follows:

- The *Australia and New Zealand* segment receives external revenue from milk, infant milk formula and other nutritional products along with rent, royalty and licence fee income.
- The *China and Other Asia* segment receives external revenue from infant milk formula, other nutritional products and milk.
- The *USA* segment receives external revenue from milk sales and licence fees.
- The *Mataura Valley Milk* segment (from acquisition on 30 July 2021) receives external revenue from the manufacturing and sale of nutritional and commodity products.

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)

2022	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Eliminations $'000	Total $'000
Consolidated sales	530,508	726,498	82,384	104,350	–	1,443,740
Other revenue	2,218	–	271	–	–	2,489
Total external revenue	532,726	726,498	82,655	104,350	–	1,446,229
Inter-segment revenue	–	–	–	4,543	(4,543)	–
Reportable segment revenue	532,726	726,498	82,655	108,893	(4,543)	1,446,229
Reportable segment results (Segment EBITDA)	173,210	145,078	(36,677)	(18,795)	–	262,816
Corporate EBITDA						(66,602)
Group EBITDA						196,214
Interest income						6,569
Interest expense						(2,467)
Depreciation and amortisation						(18,929)
Income tax expense						(66,646)
Consolidated profit after tax						114,741

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

One customer within the Australia and New Zealand segment contributed revenue in excess of 10% of Group revenue of $175,391,000 (2021: $200,514,000).

Mataura Valley Milk results are for the 11 months from the acquisition on 30 July 2021.

B1. Operating segments (continued)

Other segment information

2022	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Corporate $'000	Total $'000
Additions to non-current assets	3,595	88	44	2,220	3,913	9,860
Depreciation and amortisation	5,098	2,223	505	8,420	2,683	18,929
2021						
Additions to non-current assets	20,364	47	3,051	–	4,105	27,567
Depreciation and amortisation	3,087	2,176	489	–	1,701	7,453

Geographical information

	2022 $'000	2021 $'000
Revenue from external customers based on the location of the customer		
New Zealand	138,874	28,813
Australia	498,203	530,907
China	714,133	574,119
Other	95,019	72,895
	1,446,229	1,206,734
Non-current assets based on the geographical location of assets		
New Zealand	233,553	5,978
Australia	42,779	43,219
China	1,935	3,858
Other	2,886	2,988
	281,153	56,043

Non-current assets exclude financial instruments and deferred tax assets.

In FY22, New Zealand revenue and non-current assets include Mataura Valley Milk Limited, acquired on 30 July 2021. Refer Note E2.

B2. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical location (reportable segments) and major product types.

2022	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Total $'000
Infant milk formula:					
China label	–	437,591	–	–	437,591
English and other labels[1]	328,819	255,761	–	–	584,580
Liquid milk	171,964	11,092	82,384	–	265,440
Other	31,943	22,054	271	104,350	158,618
	532,726	726,498	82,655	104,350	1,446,229

2021	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000
Infant milk formula:				
China label	–	389,882	–	389,882
English and other labels[1]	357,037	166,870	–	523,907
Liquid milk	168,986	8,252	63,282	240,520
Other	33,697	18,417	311	52,425
	559,720	583,421	63,593	1,206,734

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

Contract balances

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

	Note	2022 $'000	2021 $'000
Receivables	C1	67,411	47,838
Customer contract liabilities		(3,171)	(4,746)

Customer contract liabilities are payments received in advance from customers. The amount of $4,746,000 recognised in customer contract liabilities at 30 June 2021 was recognised as revenue in the year ended 30 June 2022.

Remaining performance obligations at 30 June 2022 have an original expected duration of one year or less.

B2. Revenue (continued)

Recognition and measurement

Sales of products

The Group sells branded milk products made with milk from cows that are specially selected to produce milk that naturally contains the A2 protein type, to wholesale customers; and manufactures nutritional and commodity products for sale to wholesale customers.

A sale is recognised when control of the product has transferred, being when the product is delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Delivery occurs when the product has been shipped to the location specified by the customer and the customer accepts the product.

Revenue from sales is recognised based on arrangements as agreed with the customer. These arrangements are applied on an order by order basis and do not commit the customers to purchase a specified quantity or type of product; nor do they commit the Group to deliver a specified quantity or type of product. The arrangements set out the terms and conditions that apply to the parties each time an order is placed by a customer and accepted by the Group, creating a sale contract for that order. The terms and conditions cover, as appropriate to the customer, pricing, settlement of liabilities, return policies and any other negotiated performance obligations.

Revenue is recognised after offsetting items of variable consideration such as rebates agreed with customers.

Settlement terms range from cash-on-delivery or prepaid terms to various credit terms not exceeding 60 days from end of month. These terms reflect assessment of customer credit risk and industry practice.

Customer contract liabilities refer to payments in advance received from customers, with subsequent delivery to customers, and recognition of revenue, generally occurring within a week of receipt of the payment.

For credit customers a receivable is recognised when the products are delivered, being the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

Interest revenue

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

B3. Expenses

	2022 $'000	2021 $'000
Profit before income tax includes the following significant items:		
Salary and wage costs	76,990	62,860
Equity-settled share-based payments (refer Note F2)	11,609	1,835
Directors' fees and expenses	1,074	1,040
Audit fees (refer Note F3)	1,695	1,410
Bad and doubtful debts	30	17
Insurance	22,069	20,371
Professional service fees	16,848	13,138
ERP project costs[1]	–	9,695
Depreciation and amortisation	18,929	7,453
Net foreign exchange losses	6,436	8,956
Cash flow hedge losses	5,487	–
Mataura Valley Milk Limited acquisition costs (refer Note E2)	–	10,376

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

B4. Finance costs

	2022 $'000	2021 $'000
Interest expense – lease liabilities	592	699
Interest expense	1,875	–
Finance costs	124	71
	2,591	770

GROUP PERFORMANCE

B5. Earnings per share (EPS)

	2022	2021
Profit attributable to members of the Company used in calculating basic and diluted EPS ($'000)	122,624	80,658
Weighted average number of ordinary shares ('000) for basic EPS	743,618	742,456
Effect of dilution due to time-based and performance rights ('000)	176	293
Weighted average number of ordinary shares ('000) for diluted EPS	743,794	742,749
Earnings per share		
Basic EPS (cents)	16.49	10.86
Diluted EPS (cents)	16.49	10.86

Recognition and measurement

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

Diluted EPS adjusts basic EPS for the dilutive effect of employee share rights that may be converted into ordinary shares in the Company.

B6. Income taxes

	2022 $'000	2021 $'000
Income tax recognised in profit or loss		
Current tax	45,482	65,820
Deferred tax origination and reversal of temporary differences	28,072	(25,647)
Adjustments in respect of current income tax of previous year	(6,908)	(1,566)
Total tax expense	66,646	38,607
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Accounting profit before income tax	181,387	119,265
Income tax expense calculated at 28% (2021: 28%)	50,788	33,394
Difference in income tax rates: Australia 30% (2021: 30%), USA 24% (2021: 24%), and China 25% (2021: 25%)	923	2,566
Non-deductible expenses and non-assessable income	2,377	3,191
Prior period adjustment to tax expense	1,292	(5,243)
Unutilised foreign tax credits	1,325	726
Income tax recognised in equity	–	(219)
Deferred tax asset not recognised	9,941	4,192
Total tax expense	66,646	38,607
Income tax recognised directly in equity		
Current tax	(3,759)	219
Deferred tax	(702)	747
Tax (benefit)/expense in equity	(4,461)	966

B6. 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.

2022	Opening balance $'000	Charge to comprehensive income $'000	Charge to equity $'000	Closing balance $'000
Gross deferred tax assets				
Patents	515	(404)	–	111
Provisions and accrued expenses	49,809	(27,574)	–	22,235
Tax losses	254	(61)	–	193
Property, plant and equipment	–	29	–	29
Employee share scheme	323	706	83	1,112
Other	3,131	(1,080)	–	2,051
	54,032	(28,384)	83	25,731
Gross deferred tax liabilities				
Property, plant and equipment	(931)	931	–	–
Net deferred tax	53,101	(27,453)	83	25,731
Charge to profit or loss		(28,072)		
Charge to other comprehensive income		619		
		(27,453)		

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

Net deferred tax balances recognised in the financial statements	2022 $'000	2021 $'000
Net deferred tax assets	25,731	53,101
Net deferred tax liabilities	–	–
Net deferred tax	25,731	53,101

B6. Income taxes (continued)

Tax losses

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

	2022 $'000	2021 $'000
United States of America	85,918	57,567
New Zealand	190,624	–
Australia	–	844
Total	276,542	58,411

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 AUD.

Imputation and franking credits available within the Group, and ultimately available to the shareholders of the Company as at year end:

	2022 $'000	2021 $'000
Imputation credits	49,939	52,731
Franking credits	457,715	422,760

Recognition and measurement

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

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

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

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

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

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

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

Key estimates and judgements

Recovery of deferred tax assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

OPERATING ASSETS AND LIABILITIES

C. OPERATING ASSETS AND LIABILITIES

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

C1. Trade and other receivables

	2022 $'000	2021 $'000
Trade receivables from contracts with customers	67,411	47,838
Allowance for expected credit losses	(125)	(107)
Goods and services tax	9,711	11,390
Other receivables	6,513	6,163
	83,510	65,284

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

Recognition and measurement

Trade receivables from contracts with customers are recognised initially at their transaction price. Other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less any lifetime expected credit losses.

C2. Inventories

	2022 $'000	2021 $'000
Raw materials	17,974	16,309
Finished goods	119,505	89,579
Goods in transit	2,565	6,316
Total inventories at the lower of cost and net realisable value	140,044	112,204

At year end $12,227,000 (2021: $108,578,000) was recognised as an expense in cost of sales for inventories written down or written off, with $4,838,000 (2021: $Nil) relating to MVM inventory.

The inventory balance at 30 June 2022 includes $36,863,000 of inventory held by MVM (30 June 2021: $Nil).

Recognition and measurement

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

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

Key estimates and judgements

Recovery of inventory

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

OPERATING ASSETS AND LIABILITIES

C3. Trade and other payables

Trade and other payables – current

	2022 $'000	2021 $'000
Trade payables	83,107	40,986
Rebates and promotional allowances	99,771	70,127
Accrued charges	164,797	137,257
Employee entitlements	28,407	17,926
	376,082	266,296

Trade and other payables – non-current

	2022 $'000	2021 $'000
Employee entitlements	416	511

Recognition and measurement

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

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

Employee entitlements

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

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

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

C4. Property, plant and equipment

2022	Land $'000	Buildings $'000	Office and computer $'000	Furniture and fittings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Carrying amount 1 July 2021	–	–	936	814	4,010	11,402	17,162
Acquisition of subsidiary (Note E2)	8,763	51,162	2,247	–	–	166,741	228,913
Additions	–	197	327	51	394	3,970	4,939
Depreciation	–	(1,176)	(1,202)	(176)	(1,028)	(7,505)	(11,087)
Net foreign currency exchange differences	–	–	52	44	165	359	620
Carrying amount 30 June 2022	8,763	50,183	2,360	733	3,541	174,967	240,547
Cost	8,763	51,359	4,698	1,281	6,023	191,313	263,437
Accumulated depreciation	–	(1,176)	(2,338)	(548)	(2,482)	(16,346)	(22,890)
Carrying amount 30 June 2022	8,763	50,183	2,360	733	3,541	174,967	240,547

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

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

Buildings	20-90 years
Office and computer equipment	2-25 years
Furniture and fittings	5-10 years
Leasehold improvements	2-10 years
Plant and equipment	2-50 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.

OPERATING ASSETS AND LIABILITIES

C5. Investment property

In FY21 the Group acquired the manufacturing facilities of the Kyvalley Dairy Group (Kyvalley), the Group's long-term fresh milk supplier in Victoria. Kyvalley continues to operate the facility under a long-term operating lease and a long-term supply agreement. Under the agreement the Group will also undertake a future expansion and upgrade of the facility, subsidised by increased rent.

The purchase and upgrade of the Kyabram site is a strategic investment to ensure quality of products and processing capacity. The related long-term product supply agreement entered into alongside the investment provides ongoing supply from Kyvalley's contracted A1 protein free milk pool.

2022	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Total $'000
Carrying amount 1 July 2021	293	5,166	10,291	864	16,614
Additions	–	–	553	518	1,071
Transfers	192	(192)	–	–	–
Depreciation	–	(528)	(1,912)	–	(2,440)
Net foreign currency exchange differences	13	122	245	38	418
Carrying amount 30 June 2022	498	4,568	9,177	1,420	15,663
Cost	498	5,246	11,688	1,420	18,852
Accumulated depreciation	–	(678)	(2,511)	–	(3,189)
Carrying amount 30 June 2022	498	4,568	9,177	1,420	15,663

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

C5. Investment property (continued)

Profit arising from investment property

	2022 $'000	2021 $'000
Rental income	1,088	804

Future minimum rentals receivable under operating lease

	2022 $'000	2021 $'000
Not longer than 1 year	1,132	1,075
Longer than 1 year and not longer than 5 years	4,529	4,301
Longer than 5 years	16,797	16,043
Total undiscounted lease payments to be received	22,458	21,419

Measurement of fair value

The investment property was purchased in September 2020. The Group has not engaged an independent valuer for the current period and a fair value of $15,800,000 at reporting date has been determined by the Directors based on a capitalisation of rent valuation approach based on a 7% rate of return. Directors consider that this calculation represents a reasonable approximation of fair value as at 30 June 2022.

Recognition and measurement

Investment property

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

Depreciation is calculated on a straight-line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Land is not depreciated. The following estimated useful lives are used in the calculation of depreciation:

Buildings	4-40 years
Plant and equipment	3-25 years

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

Work in progress expenditure is capitalised only when the Group can demonstrate the potential for the asset to generate future economic benefits on completion; and the ability to measure reliably the expenditure attributable to the asset during its development. Depreciation commences when the asset is available for use.

Rental income

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

OPERATING ASSETS AND LIABILITIES

C6. Intangible assets

2022	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Goodwill $'000	Total $'000
Carrying amount 1 July 2021	806	3,812	2,347	–	8,172	15,137
Acquisition of subsidiary (Note E2)	–	–	943	–	94,078	95,021
Additions	118	93	18	–	–	229
Amortisation	(40)	–	(1,237)	–	–	(1,277)
Net foreign currency exchange differences	(1)	–	(5)	–	218	212
Carrying amount 30 June 2022	883	3,905	2,066	–	102,468	109,322
Cost	1,527	3,905	4,954	–	102,468	112,854
Accumulated amortisation and impairment	(644)	–	(2,888)	–	–	(3,532)
Carrying amount 30 June 2022	883	3,905	2,066	–	102,468	109,322

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

Trademarks are allocated to the following cash generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand $304,000 (2021: $283,000); China and Other Asia $3,436,000 (2021: $3,376,000); USA $165,000 (2021: $153,000).

During the year the total value of research and development costs expensed was $4,389,000 (2021: $2,506,000).

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.
The costs of configuring or customising a supplier's application software in a Cloud Computing Software as a Service agreement are expensed as incurred.

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.

C6. Intangible assets (continued)

Recognition and measurement (continued)

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 for internal management purposes as follows:

	2022 $'000	2021 $'000
Australia and New Zealand	50,738	8,172
China	51,730	–
	102,468	8,172

The movement in goodwill is attributable to the acquisition of Mataura Valley Milk Limited. Refer Note E2.

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

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.

C6. Intangible assets (continued)

Annual impairment testing as at 30 June 2022

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

As at 30 June 2022, the recoverable amount of the Group's CGUs exceeds their carrying amounts. The directors believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of these CGUs to be less than their carrying values. Based on this assessment, no impairment write downs are considered necessary.

Key assumptions

Gross margins

Gross margins are based on budgeted margins for FY23, 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 (pre-tax): 9.7% (2021: 7.6%)

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.

Revenue growth

Revenue projections have been constructed with reference to the FY23 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% (2021: 2.0%) has been used for future cash flow growth beyond the forecast period.

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

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)

C7. Other financial assets

	2022 $'000	2021 $'000
Listed investment at fair value	135,260	157,803

The listed investment is a 19.8% holding in shares in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on NZX and the ASX) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the year (2021: $nil).

Shareholding in Synlait Milk Limited

Movements in the period

	Shares '000	Cost $'000	Share price at report date	Market Value $'000	Mark to market $'000
Balance 30 Jun 2020	35,575	248,940	$7.10	252,580	3,640
Placement	7,778	39,841			
Balance 30 Jun 2021	43,353	288,781	$3.64	157,803	(130,978)
Balance 30 Jun 2022	43,353	288,781	$3.12	135,260	(153,521)
Fair value loss in period				(22,543)	

A fair value loss of $22,543,000 (2021: loss $134,618,000) was recognised in other comprehensive income for the year.

Recognition and measurement

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

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

C8. Other financial liabilities

	2022 $'000	2021 $'000
Current		
Foreign currency forward contracts	16,999	–
Non-current		
Foreign currency forward contracts	872	–

Recognition and measurement

Foreign currency forward contracts are stated at fair value, calculated by reference to current forward exchange rates for contracts with similar profiles, adjusted to reflect the credit risk of the various counterparties.

Key estimates and judgements

Fair value measurement of foreign currency forward contracts

The fair value of foreign currency forward contracts is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of these financial instruments.

D. CAPITAL AND FINANCIAL RISK MANAGEMENT

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

D1. Capital management

The Group's objective when managing its capital is to safeguard the Group's ability to continue as a going concern and to continue to generate value for stakeholders. The Group is not subject to externally imposed capital requirements, and currently has no debt, other than loans and borrowings specific to Mataura Valley Milk Limited (Refer Note D8).

The Group's capital structure may be modified by payment of dividends to shareholders, returning capital to shareholders, or issuing new shares. The Board regularly assesses its capital position in order to deliver the optimum structure to drive shareholder returns in line with the Company's strategy and capital allocation framework.

The Board regularly assesses the Group's balance sheet position when considering how to deliver the optimum structure to enhance shareholder value in line with the Company's strategy and capital allocation framework. This framework prioritises investment in growth initiatives and maintaining balance sheet flexibility ahead of capital returns to shareholders. Where there is capital which is surplus to achieving these priorities the Board makes a disciplined assessment of the potential to return funds to shareholders.

D2. Financial risk management

Financial risk management objectives

Exposure to credit risk, market risk (including currency risk, commodity price risk, interest rate 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 centralised treasury department (Group Treasury) provides treasury services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages liquidity. The Group's corporate function monitors 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 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.

	2022 $'000	2021 $'000
Maximum exposures to credit risk at balance date:		
Cash and term deposits (counterparty risk)	887,308	875,150
Trade receivables (customer credit risk)	67,411	47,838
	954,719	922,988

D2. Financial risk management (continued)

Credit risk management (continued)

Counterparty risk

At balance date, the Group's bank accounts were held with banks with acceptable credit ratings determined by recognised credit agencies, including National Australia Bank, ANZ Bank, Westpac, ASB Bank, Bank of New Zealand, HSBC Bank, and JP Morgan Chase Bank.

Counterparties to derivative financial instruments are large banks with which the Group has existing banking relationships, with acceptable credit ratings determined by recognised credit agencies.

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 on credit are to major retailers and other significant customers with established credit worthiness and minimum levels of default. Other sales are made cash on delivery.

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

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

There are significant concentrations of business within the Group. In 2022, 23% of sales with credit terms were to three customers (2021: 22% of sales to three customers). There is no history of default for these customers.

The allowance for expected credit losses is recognised based on an assessment of lifetime expected credit losses.

Ageing of trade receivables at reporting date

	2022 $'000	2021 $'000
Not past due	48,009	40,420
Past due up to 90 days	16,612	6,082
Past due 91 to 180 days	2,339	442
Past due 181 days to one year	449	600
More than one year	2	294
	67,411	47,838
Allowance for expected credit losses	(125)	(107)
	67,286	47,731

The average credit period on sales is 15 days (2021: 17 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2022 $'000	2021 $'000
Balance at beginning of year	107	99
Amount charged to the statement of comprehensive income	30	17
Provisions reversed	(12)	(9)
Balance at end of year	125	107

CAPITAL AND FINANCIAL RISK MANAGEMENT

D2. Financial risk management (continued)

Market risk management

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, and to interest rate risk. Prices charged by manufacturers (including pricing of whole and skim milk powders) are subject to movements in commodity milk pricing. The Group's holding of a listed investment also exposes it to equity price risk.

Market risk exposures are monitored by management on an ongoing basis and there has been no change during the year to the Group's exposure to market risks or the way it manages and measures risk other than the adoption of foreign currency hedging in the period.

Interest risk management

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. These risks are not hedged.

Bank borrowings are primarily from New Zealand banks, in New Zealand dollars, at New Zealand market rates.

Fixed and variable rate exposure

	2022 $'000	2021 $'000
Fixed rate instruments		
Financial assets	525,663	300,000
Financial liabilities	(63,206)	–
	462,457	300,000
Variable rate instruments		
Financial assets	30,000	30,000
Financial liabilities	(30,000)	–
	–	30,000

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and does not employ derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. A change in interest rates at the reporting date would not affect profit or loss for the Group.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rate at the reporting date would have increased (decreased) equity and profit or loss by $325,000/($325,000). This analysis assumes all other variables remain the same.

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 USA, and China; and the resultant movements in the currencies of those countries against the NZ dollar. The Group did not hedge this risk in prior periods.

The Group commenced hedging a portion of this risk in the period using derivative financial instruments such as foreign currency forward contracts, designated as cash flow hedges, to hedge certain highly probable foreign currency transactions. These contracts are executed by Group Treasury in accordance with the Group's treasury risk policy.

The Group may also transfer cash balances from time-to-time between currencies to reduce exposure or to match underlying liabilities.

Hedging currency risk

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they were actually highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges which hedge exposure to variability in cash flows of a highly probable forecasted transaction are recognised directly in other comprehensive income and accumulated in the hedging reserve. The ineffective portion is recognised in profit or loss within other expenses. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs or until cash flows arising from the transaction are received. The amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss. If the forecast transaction is no longer going to occur the item is transferred to profit or loss when hedging is discontinued.

The gross value to be received or paid and the weighted average contracted exchange rates for foreign currency forward contracts outstanding at year end are as follows:

			Notional amount NZ dollars		Weighted average exchange rate	
	Carrying amount 2022 $'000	Term	2022 $'000	2021 $'000	2022	2021
AU Dollar						
Buy NZ dollar/sell AU dollar	(110)	One year or less	66,632	–	0.9005	–
US Dollar						
Buy NZ dollar/sell US dollar	17,109	One year or less	266,570	–	0.6640	–
Buy NZ dollar/sell US dollar	872	More than one year, less than two years	40,950	–	0.6349	–

The carrying amount of foreign currency forward contracts is recognised in Other financial liabilities (Refer Note C8).

The foreign currency forward contracts are considered to be highly effective hedges. There was no significant cash flow hedge ineffectiveness in the current year.

D2. Financial risk management (continued)

Foreign currency risk management (continued)

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 unhedged 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.

2022	Net exposure on reporting date $'000	Impact on pre-tax profit or (loss) $'000	$'000
Movement on exchange rate	–	+10%	-10%
AU Dollar	(2,169)	(241)	197
US Dollar	65,188	7,243	(5,926)
Chinese Yuan Renminbi	(142,135)	(15,793)	12,921

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

As the unhedged 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	
	2022	2021	2022	2021
AU Dollar	0.9379	0.9308	0.9058	0.9301
US Dollar	0.6813	0.6965	0.6248	0.7034
Chinese Yuan Renminbi	4.3958	4.6079	4.1860	4.5426

Equity price risk

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

The Group monitors this risk exposure by comparing the movement in the quoted share price of this long-term investment against movements in the S&P/NZX 50 index over the same period.

As at 30 June 2022, the exposure to the listed investment at FVOCI was $135,260,000 (2021: $157,803,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of $13,526,000 (2021: $15,780,000) 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.

Loans and borrowings within the Group are specific to the operations of Mataura Valley Milk Limited (Refer Note D8). No other entities within the Group have borrowings (2021: Nil).

D2. Financial risk management (continued)

Contractual maturities of financial liabilities

The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements are set out below. No interest is payable on trade and other payables.

		Contractual cash flows					
2022	**Carrying amounts $'000**	**Total $'000**	**6 months or less $'000**	**6 to 12 months $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**More than 5 years $'000**
Non-derivative financial liabilities							
Secured bank loans	57,000	59,377	27,662	538	1,088	30,089	–
Unsecured loan from MVM's non-controlling shareholder	50,000	55,834	–	13,794	–	–	42,040
Lease liabilities	17,352	19,249	2,075	1,603	2,578	7,116	5,877
Trade and other payables – excluding employee entitlements	347,675	347,675	347,675	–	–	–	–
Derivative financial liabilities							
FX hedging contracts							
Carrying amount at fair value	17,871						
Outflow		392,023	159,206	190,996	41,821	–	–
Inflow		(374,152)	(148,752)	(184,450)	(40,950)	–	–
	489,898	500,006	387,866	22,481	4,537	37,205	47,917

2021							
Non-derivative financial liabilities							
Lease liabilities	16,498	19,129	2,185	1,989	3,010	5,217	6,728
Trade and other payables – excluding employee entitlements	248,370	248,370	248,370	–	–	–	–
	264,868	267,499	250,555	1,989	3,010	5,217	6,728

Change in liabilities arising from financing activities

	30 June 2021 $'000	**Acquisition of subsidiary $'000**	**Cash flow $'000**	**30 June 2022 $'000**
Secured bank loans	–	30,000	27,000	57,000
Unsecured loan from MVM's non-controlling shareholder	–	50,000	–	50,000
	–	80,000	27,000	107,000

D2. Financial risk management (continued)

Carrying amounts versus fair value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		2022		2021	
	Hierarchy level	Carrying amount $'000	Fair Value $'000	Carrying amount $'000	Fair Value $'000
Cash and term deposits		887,308	887,308	875,150	875,150
Trade and other receivables		83,510	83,510	65,284	65,284
Foreign currency forward contracts	2	(17,871)	(17,871)	–	–
Listed investment	1	135,260	135,260	157,803	157,803
Secured bank loans	2	(57,000)	(57,000)	–	–
Unsecured loan from MVM's non-controlling shareholder	2	(50,000)	(50,000)	–	–
Trade and other payables – excluding employee entitlements		(347,675)	(347,675)	(248,370)	(248,370)
		633,532	633,532	849,867	849,867

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).

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.

Estimation of fair value

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

- Listed investment – closing share price on NZX
- Foreign currency forward contracts – calculated by reference to current forward exchange rates for contracts with similar maturity profiles, adjusted to reflect the credit risk of the various counterparties
- Loans and borrowings – present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; and
- Cash and term deposits, trade and other receivables and payables – carrying amount approximates fair value.

D3. Cash and term deposits

	2022 $'000	2021 $'000
Cash at banks and on hand	331,646	531,469
Short-term deposits	105,662	343,681
Cash and short-term deposits	437,308	875,150
Other current term deposits	450,000	–
Cash and term deposits	887,308	875,150

Cash at banks and on hand includes AUD 84,460,000 (2021: AUD 80,404,000), USD 52,495,000 (2021: USD 67,743,000), and RMB 229,639,000 (2021: RMB 278,312,000).

Bank balances and cash comprise cash held by the Group. Cash and short-term deposits earn interest at fixed and floating rates based on daily bank deposit rates. The carrying value of cash assets and term deposits approximates their fair value.

Other current term deposits comprise term deposits with a maturity greater than three months and less than twelve months, having an average maturity of nine months and a weighted average interest rate of 3.22% per annum.

Term deposits are presented as cash equivalents in the statement of cash flows if they have a maturity of three months or less and are readily convertible to known amounts of cash with no significant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2022 $'000	2021 $'000
Cash at banks and on hand	331,646	531,469
Short-term deposits	105,662	343,681
Cash and short-term deposits	437,308	875,150

D4. Cash flow information

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

	2022 $'000	2021 $'000
Net profit for the year	114,741	80,658
Adjustments for non-cash items:		
Depreciation and amortisation	18,929	7,453
Loss on disposal	–	84
Gain on termination of lease	–	(9)
Gift shares satisfied by issue of Treasury shares	92	–
Share-based payments	11,609	1,835
Net foreign exchange (gain)/loss	(8,787)	3,766
Income tax on hedges	3,759	–
Deferred tax	27,453	(25,824)
Changes in working capital:		
Trade and other receivables	(3,562)	5,416
Prepayments	(20,852)	28,517
Inventories	(19,679)	35,128
Trade and other payables	94,993	(15,819)
Customer contract liabilities	(25,489)	973
Income tax receivable	10,593	(16,435)
Income tax payable	–	(16,328)
Net cash inflow from operating activities	203,800	89,415

D5. Share capital

	2022		2021	
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	743,410,790	149,121	739,830,151	146,933
Movements in the period:				
Exercise of options	–	–	3,200,000	2,016
Vesting of performance rights	–	–	320,000	–
Vesting of time–based rights	201,636	–	38,820	–
Gift shares	29,778	–	7,144	–
Share match programme	6,038	45	14,675	191
Vesting of matching share rights	8,286	–	–	–
Share issue costs	–	(9)	–	(19)
	245,738	36	3,580,639	2,188
Balance at end of year	743,656,528	149,157	743,410,790	149,121

Vesting of time-based rights: Shares issued to participating employees continuing in employment to a vesting date in the period.

Gift shares: Shares issued to employees not participating in the Company's Long-term Incentive plans. Each participating employee received Company shares to the value of approximately A$1,000.

Share match programme: Shares purchased by employees in the period from their after-tax pay. The Company will match the number of shares acquired and retained; subject to continuing employment to September 2022.

Vesting of matching shares: Shares vesting in September 2021 for employees participating in the FY20 share match programme who continued in employment to September 2021.

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

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

D6. Nature and purpose of reserves

Employee equity settled payments reserve

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

Fair value revaluation reserve

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

Foreign currency translation reserve

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

Treasury shares reserve

The treasury shares reserve comprises the cost, net of any tax effects, of the Company's shares purchased and held by the trustee of the a2MC Group Employee Share Trust to be available solely for participants in Group employee share plans. When treasury shares subsequently vest to employees under employee share plans, the carrying value of the vested shares is transferred to the employee equity settled payments reserve. During the year 2,200,000 Company shares were acquired by the Trust at an average price of $6.05 (2021: Nil shares acquired). As at 30 June 2022, the Trust held 2,372,842 of the Company's shares (2021: 362,823 shares).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss when the associated hedged transactions are recognised in profit or loss.

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

D7. Leases

Group as lessee

The Group has entered into leases for office and industrial premises, motor vehicles and equipment. There are no financial restrictions placed upon Group entities by entering into these leases. The Group has the option, under some leases, to lease the assets for additional terms. All lease contracts with options to renew contain market review clauses in the event that an option to renew is exercised.

Right-of-use assets

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

2022	Leased property $'000	Office and computer $'000	Plant and equipment $'000	Total $'000
Carrying amount 1 July 2021	15,039	101	162	15,302
Acquisition of subsidiary (Note E2)	88	17	537	642
Additions	3,308	24	289	3,621
Depreciation	(3,688)	(41)	(396)	(4,125)
Net foreign currency exchange differences	587	1	2	590
Carrying amount 30 June 2022	15,334	102	594	16,030
Cost	23,684	188	1,297	25,169
Accumulated depreciation	(8,350)	(86)	(703)	(9,139)
Carrying amount 30 June 2022	15,334	102	594	16,030

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

Lease liabilities

Carrying amounts of lease liabilities and movements during the period:

	2022 $'000	2021 $'000
Balance at beginning of the year	16,498	16,843
Acquisition of subsidiary (Note E2)	642	–
Additions	3,621	3,040
Gain on termination of lease	–	(9)
Accretion of interest	592	699
Payments	(4,681)	(3,929)
Net foreign currency exchange differences	680	(146)
Balance at end of the year	17,352	16,498
Current	3,128	3,648
Non-current	14,224	12,850
	17,352	16,498

D7. Leases (continued)

Amounts recognised in profit or loss

	2022 $'000	2021 $'000
Depreciation expense – right-of-use assets	4,125	3,802
Interest expense – lease liabilities	592	699
Expenses relating to short-term leases (included in Other expenses)	461	567
Expenses relating to low-value assets (included in Other expenses)	5	5
Total amount recognised in profit or loss	5,183	5,073

Cash flows for leases

	2022 $'000	2021 $'000
Total cash outflows:		
Lease interest	592	699
Payment of lease principal	4,089	3,230
	4,681	3,929
Non-cash additions to right-of-use assets and lease liabilities	3,621	3,040

Recognition and measurement

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

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

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

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

Key estimates and judgements

Determination of the lease term

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

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

Group as lessor

Refer Note C5: Investment property.

D8. Loans and borrowings

	2022 $'000	2021 $'000
Current		
Secured:		
Bank loans	27,000	–
Unsecured:		
Loan from MVM's non-controlling shareholder	13,794	–
	40,794	
Non-current		
Secured:		
Bank loan	30,000	–
Unsecured:		
Loan from MVM's non-controlling shareholder	36,206	–
	66,206	–

All of the loans and borrowings are specific to Mataura Valley Milk Limited (MVM) and are interest bearing.

The bank loans are secured against MVM's property at Pease Street, Gore, New Zealand, and are subject to compliance with financial covenants requiring the maintenance of specified financial ratios, related solely to MVM. All borrowing covenant ratios and limits have been complied with during the financial year.

The non-current bank loan matures in July 2024. The interest rate applicable as at 30 June 2022 was 3.62%.

The average interest rate applicable at 30 June 2022 for the current bank loans was 3.08%.

Finance facilities available to MVM:

- Total bank debt facilities of $75 million, of which $57 million was drawn as at 30 June 2022.
- A performance guarantee facility of $10 million, of which $6.2 million was drawn as at 30 June 2022.

The unsecured subordinated loans are provided by MVM's non-controlling shareholder. The non-current loan has an initial term through to FY27, to be repaid thereafter at a time to be agreed by the shareholder lenders. The interest rate applicable as at 30 June 2022 was 2.56% and is deferred and capitalised into the loan balance.

Other Group entities have access to bank guarantee facilities totalling $1,656,000 of which $870,000 was drawn as at 30 June 2022.

Recognition and measurement

Interest bearing loans and borrowings are initially recognised at fair value at transaction date, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

D9. Capital expenditure commitments

	2022 $'000	2021 $'000
Contracted but not yet provided for and payable		
Property plant and equipment	5,575	–

D10. Contingent liabilities

On 6 October 2021, The a2 Milk Company Limited ('the Company') announced that group proceedings had been filed in the Supreme Court of Victoria by Slater & Gordon Lawyers, which named the Company as the defendant. The proceeding relates to the period from 19 August 2020 to 9 May 2021 (Relevant Period) and makes allegations that the Company engaged in misleading and deceptive conduct and breached its disclosure obligations by failing to disclose certain information to the market. The claim filed by Slater & Gordon Lawyers is said to be brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the Australian Securities Exchange (ASX) or NZX Main Board (NZSX) between 19 August 2020 and 9 May 2021 (inclusive).

On 24 November 2021, the Company was served with a representative proceeding filed in the Supreme Court of Victoria by Shine Lawyers, which names the Company as the defendant. The proceeding makes allegations which are broadly similar to those advanced by the class action proceeding filed by Slater & Gordon Lawyers on 5 October 2021. The claim filed by Shine Lawyers is said to be brought on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZSX: (1) prior to 19 August 2020, and retained those shares until a date after 28 September 2020; or (2) during the Relevant Period.

On 14 June 2022, the Supreme Court of Victoria approved the proposal to consolidate the proceedings filed by Slater & Gordon Lawyers and Shine Lawyers (the Australian Proceedings). The consolidated claim is brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the ASX or the NZSX: (1) during the Relevant Period; and (2) prior to 19 August 2020 and retained those shares until a date after 28 September 2020. The claim makes allegations under both Australian and New Zealand law.

On 18 May 2022, the Company announced that a representative proceeding had been filed in the High Court of New Zealand which names the Company as the defendant (the New Zealand Proceedings). The New Zealand Proceeding, filed by Thorn Law and funded by CHC Investment Fund III Pty Limited relates to the same period (19 August 2020 to 9 May 2021) and makes allegations under New Zealand law only which are substantially the same as those advanced in the Australian Proceedings. The claim is commenced on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZSX: (1) during the Relevant Period; and (2) prior to the Relevant Period and continued to hold some or all of those shares for part or all of the Relevant Period. The Company filed an interlocutory application for a stay of the New Zealand Proceedings under the *Trans-Tasman Proceedings Act 2010* (NZ) on 23 June 2022.

The Company considers that it has at all times complied with its disclosure obligations, denies any liability and will vigorously defend the proceedings. The Company is required to file its defence in the Australian Proceedings on 25 October 2022. The Company has not filed a defence in the New Zealand Proceeding and no orders will be made until after the determination of the stay application.

The claims of group members have not yet been and are not required to be quantified. Based on the current status of the Australian Proceedings and the New Zealand Proceedings, it is not practicable to provide: (a) an estimate of the financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; or (c) the possibility of any reimbursement.

On 24 August 2022, there was a hearing in the Supreme Court of Victoria in relation to whether that Court has jurisdiction to determine the claims advanced by New Zealand acquirers under New Zealand law. Judgment in the matter has been reserved. The New Zealand Proceedings are next listed in the High Court of New Zealand for hearing of the stay application on 28 November 2022 and 29 November 2022.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

GROUP STRUCTURE

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 2022 are as follows:

	Parties to Deed of Cross Guarantee (note E3)*	Principal place of business	Proportion of ownership interest 2022	2021
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%
Mataura Valley Milk Limited	–	New Zealand	75%	–
a2 Australian Investments Pty. Limited	✓	Australia	100%	100%
a2 Botany Pty Ltd	–	Australia	100%	100%
The a2 Milk Company (Australia) Pty Ltd	✓	Australia	100%	100%
a2 Exports Australia Pty Limited	✓	Australia	100%	100%
a2 Infant Nutrition Australia Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company (Nutrition) Pty Ltd	✓	Australia	100%	100%
a2MC Group Employee Share Trust	–	Australia	100%	100%
The a2 Milk Company Limited	–	UK	100%	100%
The a2 Milk Company LLC	–	USA	100%	100%
The a2 Milk Company	–	USA	100%	100%
The a2 Milk Company Limited	–	Canada	100%	100%
a2 Infant Nutrition (Shanghai) Co., Ltd	–	China	100%	100%
The a2 Milk Company (Singapore) Pte. Ltd	–	Singapore	100%	100%

* Each party to the Deed of Cross Guarantee is a member of the 'closed group' under the *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

\# a2 Infant Nutrition Limited is the subject of an ASIC declaration under section 601 CK(7) of the *Corporations Act 2001* (Cth, Australia), providing relief from the requirement to prepare and lodge an audited financial report in Australia.

Other than the acquisition of Mataura Valley Milk Limited on 30 July 2021 (Refer Note E2), there were no entities over which the Company gained or lost control during the year.

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

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

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in preparing the consolidated financial statements.

GROUP STRUCTURE

E2. Acquisition of subsidiary

Mataura Valley Milk Limited acquisition

On 30 July 2021, The a2 Milk Company Limited (a2MC) acquired a 75% controlling interest in Mataura Valley Milk Limited (MVM), a dairy nutrition business, located in Southland, New Zealand.

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

Fair value of identifiable assets and (liabilities) acquired

	Fair Value recognition on acquisition $'000
Cash and cash equivalents	54,760
Trade and other receivables	22,590
Inventories	8,161
Property, plant and equipment	228,913
Right-of-use assets	642
Intangible assets	943
Trade and other payables	(38,361)
Borrowings – external	(30,000)
Borrowings – shareholder loans	(156,694)
Lease liabilities	(642)
Net identifiable assets acquired	90,312
Less: non-controlling interests	(22,578)
a2MC's share of net identifiable assets	67,734

Accounting policy for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. For the non-controlling interests in MVM the Group has elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Total cash outflow and goodwill on consolidation

	$'000
Net identifiable assets acquired	67,734
Loan payable to a2MC in net assets acquired	106,694
	174,428
Goodwill	94,078
Total cash outflow	268,506

Goodwill comprises the value of expected strategic synergies arising from the acquisition including access to manufacturing margins and the ability to provide capability for product development and supply, based on this recently constructed world-class nutritional products manufacturing facility with an established workforce, and access to a growing A1 protein free milk pool. It is not deductible for tax purposes.

Goodwill is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Total goodwill of $94,078,000 has been allocated to the following CGUs: Australia and New Zealand: $42,348,000; China $51,730,000.

For the eleven months ended 30 June 2022 MVM contributed revenue of $104,350,000 and an after-tax loss of $31,530,000 to the Group's results. If the acquisition had occurred on 1 July 2021 management estimate that, for FY22, consolidated revenue would have been greater by $11,866,000 and consolidated profit would have been less by $5,610,000. In determining these amounts management has assumed that the financing arrangements applicable from 30 July 2021 applied as if the acquisition had occurred on 1 July 2021.

The net outflow of cash on acquisition of $213,746,000 consisted of the total cash outflow of $268,506,000, less cash balances acquired of $54,760,000.

E2. Acquisition of subsidiary (continued)

Mataura Valley Milk Limited acquisition (continued)

Acquisition-related costs

No acquisition related costs were paid in the period. Total acquisition-related costs of $10,376,000 were incurred in the year ended 30 June 2021 and included in Other expenses in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

Recognition and measurement

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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

E3. Deed of cross guarantee

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

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

A consolidated statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are parties to the Deed of Cross Guarantee (each party being a member of the closed group as listed in Note E1), after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2022 are set out as follows:

Consolidated statement of comprehensive income and retained earnings for the year ended 30 June 2022

	2022 $'000	2021 $'000
Revenue	1,273,571	1,147,020
Expenses	(1,058,365)	(1,036,347)
Finance income (net)	8,140	3,554
Profit before tax	223,346	114,227
Income tax expense	(59,291)	(33,598)
Profit after tax	164,055	80,629
Other comprehensive income	(654)	1,254
Total comprehensive income for the year	163,401	81,883
Retained earnings at beginning of the year	1,048,914	968,285
Transfers to and from reserves	654	(1,254)
Retained earnings at end of year	1,212,969	1,048,914

GROUP STRUCTURE

E3. Deed of cross guarantee (continued)

Consolidated statement of financial position as at 30 June 2022

	2022 $'000	2021 $'000
Assets		
Current assets		
Cash and short-term deposits	797,296	801,412
Trade and other receivables	153,906	124,918
Prepayments	49,229	26,531
Inventories	95,678	109,156
Income tax receivable	12,648	22,419
Total current assets	1,108,757	1,084,436
Non-current assets		
Property, plant and equipment	15,802	15,279
Right-of-use assets	12,460	10,902
Investment property	15,663	16,614
Intangible assets	14,441	14,961
Other financial assets	565,047	291,901
Deferred tax assets	18,424	46,422
Total non-current assets	641,837	396,079
Total assets	1,750,594	1,480,515
Liabilities		
Current liabilities		
Trade and other payables	336,473	240,988
Customer contract liabilities	2,514	4,746
Lease liabilities	832	1,910
Other financial liabilities	12,553	–
Total current liabilities	352,372	247,644
Non-current liabilities		
Trade and other payables	416	511
Other financial liabilities	872	–
Lease liabilities	12,517	9,611
Total non-current liabilities	13,805	10,122
Total liabilities	366,177	257,766
Net assets	1,384,417	1,222,749
Equity		
Share capital	149,157	149,121
Retained earnings	1,212,969	1,048,914
Reserves	22,291	24,714
Total equity	1,384,417	1,222,749

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

OTHER DISCLOSURES

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:

	2022 $'000	2021 $'000
Short-term employee benefits	6,802	8,438
Other long-term benefits	1	40
Termination payments	–	926
Share-based payments	6,358	1,210
	13,161	10,614

Other than non-executive directors, key management personnel in FY22 include the following senior executives:

Managing Director and CEO

Chief Financial Officer (to 17 May 2022)

Interim Chief Financial Officer (from 17 May 2022)

Chief Executive, Greater China

Transactions with key management personnel and their related parties

During the year there were no related party transactions with key management personnel or their related parties (2021: $nil).

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 2022 and 2021 financial years.

OTHER DISCLOSURES

F2. Share-based payments

Long-term incentives (LTI)

The LTI plan is designed to retain and motivate senior management to achieve the Group's long-term strategic goals by providing rewards that align the interests of management with shareholders.

During the year the Board authorised the issue of 4,355,314 performance rights to senior management under the LTI plan.

The issue of performance rights under the LTI plan was temporarily deferred in FY21. To accommodate the deferral of the LTI programme in FY21, the performance rights issued in the period are in two tranches, with differing performance periods and performance hurdles as set out below.

The performance rights vest subject to:

- Continuing employment; and
- Achieving the following performance hurdles over the performance periods:

			Revenue CAGR hurdles		
Performance rights grants:	**Performance period**	**EPS CAGR**	**50% vest**	**85% vest**	**100% vest**
Tranche 1 (FY21 plan)					
1,955,113 rights	2 years to 30 June 2023	20%	7.5%	10%	12.5%
Tranche 2 (FY22 plan)					
2,400,201 rights	3 years to 30 June 2024	20%	6%	8%	10%

Both the minimum EPS CAGR (compound annual growth in diluted earnings per share) and minimum Revenue CAGR (compound annual growth in normalised sales) must be achieved for any vesting of performance rights. The minimum vesting proportion is 50%; thereafter, vesting is on a straight-line basis.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and subject to adjustment to remove the impact of such items as the Board may determine, including, without limitation, adjustments made to exclude the impact of unusual or one-off items, discontinued operations, and acquisitions and disposals.

No amount is payable upon vesting of the performance rights and conversion to shares. Each exercised right is an entitlement to one fully paid ordinary share in the Company.

Fair value of performance rights

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

Fair value of performance rights granted during the period and assumptions	**Performance rights**	
	Tranche 1	**Tranche 2**
Grant date	22 Oct 21	22 Oct 21
Fair value at measurement date	$7.18	$7.18
Share price at grant date	$7.18	$7.18
Performance rights life	1.8 yrs	2.8 yrs

F2. Share-based payments (continued)

Performance rights granted in previous years

In FY20 performance rights were issued in two tranches, with differing performance periods and performance hurdles as set out below. Performance rights granted to employees in China in FY21 are subject to the Tranche 2 performance hurdles.

The performance rights vest subject to:

- Continuing employment.
- Minimum performance hurdles of both:
  - A minimum diluted earnings per share (EPS) compound annual growth rate (CAGR) increase of 15% over the performance period (EPS CAGR); and
  - A minimum normalised sales CAGR increase of 15% over the performance period (Revenue CAGR).
- Tranche 1 grants had two-year performance hurdles to 30 June 2021, and Tranche 2 grants have three-year performance hurdles to 30 June 2022.
- No awards will vest if EPS CAGR or Revenue CAGR is less than 15% over the respective performance periods.
- 50% of the awards will vest if EPS CAGR and Revenue CAGR of 15% is achieved, up to a maximum of 100% of the award vesting if Revenue CAGR of either 22% or more for the two-year performance hurdle, or 25% or more for the three-year performance hurdle is achieved.

The Tranche 1 awards did not vest.

The average fair value of the Tranche 2 awards at grant date was $13.69.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and subject to adjustment to remove the impact of such items as the Board may determine, including, without limitation, adjustments made to exclude the impact of unusual or one-off items, discontinued operations, and acquisitions and disposals.

Time-based rights granted in previous years

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

Number of time-based rights granted	Grant dates	Vesting dates	Fair value
103,409	19-Nov-19	22-Aug-22	$14.00
2,455	10-Mar-21	15-Dec-22	$9.70
155,641	5-Feb-21	8-Feb-23	$11.00
261,505			

LTI outstanding as at 30 June 2022

	Number	Grant Dates	Vesting Dates	Expiry Dates
Performance rights – FY20 grants Tranche 2	466,539	Various	21-Aug-22	21-Aug-22
Performance rights – FY22 grants	4,223,525	22-Oct-21	21-Aug-23 & 21-Aug-24	21-Aug-23 & 21-Aug-24
	4,690,064			
Time-based rights – FY20 grants	103,409	19-Nov-19	23-Aug-22	23-Aug-22
Time-based rights – FY21 grants	158,096	5-Feb-21 & 10-Mar-21	15-Dec-22 & 8-Feb-23	15-Dec-22 & 8-Feb-23
	261,505			
Matching share rights – FY21 plan	14,704	n/a	30-Sep-22	30-Sep-22

F2. Share-based payments (continued)

	Number 2022	Number 2021
Performance rights movements:		
Outstanding at the beginning of the year	881,060	1,483,874
Forfeited during the period	(546,310)	(125,080)
Granted during the period	4,355,314	139,566
Vested during the period	–	(617,300)
Outstanding at the end of the year	4,690,064	881,060

The weighted average remaining contractual life of performance rights is 1.5 years (2021: 0.8 years)

	Number 2022	Number 2021
Time-based rights movements:		
Outstanding at the beginning of the year	685,336	300,768
Forfeited during the period	(3,080)	–
Granted during the period	–	537,696
Vested during the period	(420,751)	(153,128)
Outstanding at the end of the year	261,505	685,336

The weighted average remaining contractual life of time-based rights is 0.4 years (2021: 0.8 years)

Other employee equity schemes

In the period, employees not participating in the LTI plan participated in the following schemes:

- Gift offer: employees received Company shares to the value of approximately A$1,000 each.
- FY21 Share Match Programme: employees who undertook to purchase Company shares for a minimum value of A$200 to a maximum value of A$2,000 up to 30 September 2021 from their after-tax pay will receive matching shares from the Company equal to the number of shares acquired and retained under the scheme, subject to continuing employment up to September 2022. There was no Share Match Programme offered in FY22.

Amounts recognised in the consolidated statement of comprehensive income

During the year ended 30 June 2022, a $11,609,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2021: $1,835,000).

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 settled payments 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:	2022 $'000	2021 $'000
Fees to Ernst & Young (Australia):		
Fees for auditing the statutory financial statements of the parent covering the Group and auditing the statutory financial statements of any controlled entities	1,586	1,285
Fees for other assurance and agreed-upon-procedures services	118	75
Fees for other services:		
Market research[1]	240	220
Total fees to Ernst & Young (Australia)	1,944	1,580
Fees to other overseas member firms of Ernst & Young:		
Total fees to other overseas member firms of Ernst & Young for local statutory audits	109	125
	2,053	1,705

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

F4. Subsequent events

On 27 August 2022, the Board of Directors resolved that the Company intends to undertake a capital return to shareholders of up to $150 million through an on-market share buyback. 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

COMPANY DISCLOSURES

1. SUBSTANTIAL PRODUCT HOLDERS

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

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the ordinary shares of the Company as at 30 June 2022 (such disclosure being required by the Financial Markets Conduct Act 2013 (NZ)) and as at 1 August 2022 (such disclosure being required by the ASX Listing Rules):

	As at 30 June 2022		As at 1 August 2022	
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**
PERPETUAL LIMITED and subsidiaries	45,389,774	6.10	45,389,774	6.10

The total number of voting shares on issue as at 30 June 2022 was 743,656,528 and the total number of voting shares on issue as at 1 August 2022 was 743,656,528.

2. VOTING RIGHTS

During the period 1 July 2021 to 30 June 2022, each fully paid ordinary share of the Company gave the holder the right to cast one vote per shareholder on a show of hands and one vote per share on a poll on any resolution. All votes cast at shareholder meetings are by way of poll.

3. TWENTY LARGEST FULLY PAID EQUITY SECURITY HOLDERS

The names of the 20 largest holders of ordinary shares in the Company as at 1 August 2022 are listed below:

Rank	Investor name	Number of shares	% Issued capital
1	HSBC Custody Nominees (Australia) Limited	95,352,557	12.82
2	J P Morgan Nominees Australia Pty Limited	42,606,730	5.73
3	Citicorp Nominees Pty Limited	37,586,912	5.05
4	HSBC Nominees (New Zealand) Limited*	27,839,798	3.74
5	Tea Custodians Limited*	24,379,403	3.28
6	Citibank Nominees (Nz) Ltd*	23,240,973	3.13
7	JPMorgan Chase Bank*	21,431,535	2.88
8	HSBC Nominees (New Zealand) Limited*	20,651,873	2.78
9	Bnp Paribas Nominees NZ Limited Bpss40*	19,868,096	2.67
10	Accident Compensation Corporation*	19,629,611	2.64
11	New Zealand Depository Nominee	15,844,934	2.13
12	New Zealand Superannuation Fund Nominees Limited*	14,050,721	1.89
13	Bnp Paribas Noms Pty Ltd	13,063,286	1.76
14	National Nominees Limited	11,033,224	1.48
15	Premier Nominees Limited*	9,395,719	1.26
16	Custodial Services Limited	7,637,117	1.03
17	JBWERE (Nz) Nominees Limited	6,855,810	0.92
18	Public Trust*	5,811,578	0.78
19	National Nominees New Zealand Limited*	5,645,682	0.76
20	Cogent Nominees Limited*	5,374,499	0.72
	Total	427,300,058	57.45

* These shares are held through New Zealand Central Securities Depository Limited (NZCSD), a depository system which allows electronic trading of securities to members.

4. SPREAD OF SECURITY HOLDERS AS AT 1 AUGUST 2022 AND NUMBER OF HOLDERS

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	Number of shares	%
1 – 1,000	62,279	22,567,119	3.04
1,001 – 5,000	25,683	62,646,799	8.42
5,001 – 10,000	5,026	37,459,232	5.04
10,001 – 100,000	3,562	84,265,498	11.33
100,001 shares or more	210	536,717,880	72.17
	96,760	743,656,528	100.00

As at 1 August 2022, and based on the closing market price on that date, the number of holders with 220 or less ordinary shares (being less than a minimum holding of NZ$1,000 under the NZX Listing Rules) was 27,863 and the number of holders with 110 or less ordinary shares (being less than a marketable parcel of A$500 under the ASX Listing Rules) was 16,872.

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

Size of Shareholding	Number of holders	Number of rights	%
1 – 5,000	–	–	–
5,001 – 10,000	7	54,237	1.16
10,001 – 100,000	36	1,648,794	35.15
100,001 performance rights or more	9	2,987,033	63.69
	52	4,690,064	100.00

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

Size of Shareholding	Number of holders	Number of rights	%
1 – 5,000	1	2,455	0.94
5,001 – 10,000	–	–	–
10,001 – 100,000	–	–	–
100,001 performance rights or more	2	259,050	99.06
	3	261,505	100.00

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

Size of Shareholding	Number of holders	Number of rights	%
0 – 1,000	104	14,704	100.00
	104	14,704	100.00

5. DIRECTORS' RELEVANT INTERESTS AND SHARE DEALINGS

Directors of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2021 to 30 June 2022:

Registered holder	Beneficial/ Non-beneficial	Acquired/ (Disposed)	Class of financial product	Date	Consideration paid/(received) NZD
David Bortolussi					
DMZSK Pty Ltd	Beneficial	969,483	Performance rights	22 October 2021	N/A
DMZSK Pty Ltd	Beneficial	(155,642)	Time-based rights	21 February 2022	N/A
DMZSK Pty Ltd[1]	Beneficial	155,642	Ordinary shares	21 February 2022	N/A

Directors of the Company as at 30 June 2022 held the following relevant interests in the financial products of the Company as at that date:

Registered holder	Beneficial/ Non-beneficial	Balance held No.	Class of financial product
David Hearn			
David Lovat Gordon Hearn	Beneficial	1,055,000	Ordinary shares
David Bortolussi			
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	155,642	Ordinary shares
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	969,483	Performance rights
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	155,641	Time-based rights
Julia Hoare			
Julia Cecile Hoare	Beneficial	50,000	Ordinary shares
Warwick Every-Burns			
Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Ordinary shares
Kathryn Every-Burns	Beneficial	25,000	Ordinary shares

1 Reflects the issue of ordinary shares to David Bortolussi following the vesting and automatic exercise of time-based rights.

6. CREDIT RATING STATUS

Not applicable.

7. NZX WAIVERS

There were no waivers granted and published by NZX following an application by the Company or relied upon by the Company during the reporting period ended 30 June 2022.

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 2022 as follows:

- The Company has arranged and paid for policies for directors' liability insurance which ensure that the directors are protected against liabilities and costs for acts or omissions by them in their capacity as directors of the Company and its subsidiaries.
- The Company has provided Deeds of Indemnity to all directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiaries.
- Directors' relevant interests and share dealings as outlined in section 5, above.
- Pip Greenwood's spouse owns an adviser entity which provides financial and transaction consulting services to a range of organisations, including from time to time participants in the dairy sector (other than the Company). While Ms Greenwood has no involvement in the entity, or its clients, she has disclosed that interest as the entity may from time to time consult to entities with which the Company may transact. The Company and Ms Greenwood have agreed a protocol whereby Ms Greenwood abstains from all Board discussions and decisions including the entity or its clients, and does not receive relevant Board papers, where this occurs.
- Julia Hoare is a director of Meridian Energy Limited, which is expected to supply electricity to MVM under a new power purchase agreement following completion of the project to convert MVM's current coal fired boiler to a high-pressure electric boiler. While Ms Hoare has no involvement in the matters which are the subject of discussion between Meridian and MVM, the Company and Ms Hoare have agreed a protocol whereby Ms Hoare abstains from all Board discussions and decisions involving the supply of electricity to MVM in connection with the boiler conversion project, and does not receive relevant Board papers or parts of any Board papers, where this occurs.

During the reporting period ended 30 June 2022, directors advised the Company of the following changes or additional entries in the Company's interests register:

Name of Director	Entity	Position
Julia Hoare	Chapter Zero New Zealand Steering Committee	Member
Julia Hoare	Sustainable Finance Forum, Leaders' Group	Ceased to be a member

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

8.2 Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2022.

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (Export) Limited	New Zealand	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
a2 Infant Nutrition Limited	New Zealand	David Bortolussi
a2 Holdings UK Limited	New Zealand	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
The a2 Milk Company (New Zealand) Limited	New Zealand	David Bortolussi Julia Hoare
Mataura Valley Milk Limited	New Zealand	David Bortolussi Shareef Khan Deyong Zhang Race Strauss (resigned 17 May 2022) Xue Tingwu (resigned 23 June 2022) Mark Sherwin (appointed 22 July 2022) Cao Siyuan (appointed 22 July 2022)
a2 Australian Investments Pty. Limited.	Australia	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
a2 Botany Pty Ltd	Australia	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
The a2 Milk Company (Australia) Pty Ltd	Australia	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
a2 Infant Nutrition Australia Pty Ltd	Australia	David Bortolussi
a2 Exports Australia Pty Limited	Australia	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
The a2 Milk Company (Nutrition) Pty Limited	Australia	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
The a2 Milk Company Limited	British Columbia, Canada	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
The a2 Milk Company Limited	Scotland, UK	David Hearn
The a2 Milk Company	Delaware, USA	David Hearn David Bortolussi
The a2 Milk Company LLC	Delaware, USA	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022)
a2 Infant Nutrition (Shanghai) Co., Ltd.	China	Xiao Li
The a2 Milk Company (Singapore) Pte. Ltd.	Singapore	David Bortolussi Mark Sherwin (appointed 6 June 2022) Race Strauss (resigned 16 May 2022) Shaun Singh

No employee of the Company appointed as a director of the Company or its subsidiaries receives remuneration or other benefits in their role as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed under Employee remuneration range in section 14.

8.3 Use of company information

The Board received no notices during the reporting period ended 30 June 2022 from directors requesting to use Company information received in their capacity as directors which would not have been otherwise available to them.

9. LIMITATIONS ON THE ACQUISITION OF SECURITIES

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

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

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

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

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

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

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

10. ON-MARKET BUY-BACK

On 27 August 2022, the Board of Directors resolved that the Company intends to undertake a capital return to shareholders of up to $150 million through an on-market share buyback.

11. ON-MARKET PURCHASES

During the reporting period ended 30 June 2022, 2,200,000 shares of the Company were purchased on market and held by the trustee of the a2MC Group Employee Share Trust to be available solely for participants in Group employee share plans.

12. DONATIONS

The Company and its subsidiaries have made donations of cash and products totalling $3,159,176 during the year ended 30 June 2022 (2021: $2,309,729).

13. DIRECTORS AND OFFICERS

For the purposes of NZX Listing Rule 3.8.1(c), the quantitative breakdown as to the gender composition of the Company's Directors and Officers as at 30 June 2022 and 30 June 2021 is as follows:

	At 30 June 2022	At 30 June 2021
Directors	6	6
Females	3	3
Males	3	3
Gender diverse	–	–
Officers	12	8
Females	3	1
Males	9	7
Gender diverse	–	–

14. EMPLOYEE REMUNERATION RANGE

The following table shows the number of employees and former employees of the Company and its subsidiaries (not being directors or former directors of the Company) who, in their capacity as employees, received remuneration and other benefits valued at or in excess of $100,000 during the year to 30 June 2022.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration Range $ (Gross)	Number of employees in the year ended 30 June 2022 (Based on actual payments)	Value of exercised options and rights included in remuneration range $
$100,000 – $109,999	31	–
$110,000 – $119,999	35	–
$120,000 – $129,999	18	–
$130,000 – $139,999	14	–
$140,000 – $149,999	8	–
$150,000 – $159,999	13	–
$160,000 – $169,999	10	–
$170,000 – $179,999	8	–
$180,000 – $189,999	5	–
$190,000 – $199,999	6	196,682
$200,000 – $209,999	8	–
$210,000 – $219,999	6	–
$220,000 – $229,999	9	–
$230,000 – $239,999	7	–
$240,000 – $249,999	7	–
$250,000 – $259,999	1	–
$260,000 – $269,999	3	–
$270,000 – $279,999	3	–
$280,000 – $289,999	1	–
$300,000 – $309,999	3	–
$310,000 – $319,999	1	–
$320,000 – $329,999	4	–
$340,000 – $349,999	1	–
$350,000 – $359,999	2	–
$360,000 – $369,999	1	–
$370,000 – $379,999	2	–
$390,000 – $399,999	1	–
$400,000 – $409,999	1	–
$420,000 – $429,999	2	–
$430,000 – $439,999	2	–
$440,000 – $449,999	1	–
$450,000 – $459,999	1	–
$460,000 – $469,999	1	–
$510,000 – $519,999	1	–
$530,000 – $539,999	1	–
$550,000 – $559,999	1	–
$560,000 – $569,999	2	92,132
$590,000 – $599,999	1	–
$600,000 – $609,999	1	32,345
$610,000 – $619,999	1	17,104
$620,000 – $629,999	1	–
$690,000 – $699,999	1	36,337
$770,000 – $779,999	1	–
$1,100,000 – $1,109,999	1	–
$1,190,000 – $1,199,999	1	44,853
$1,270,000 – $1,279,999	1	673,666
$1,710,000 – $1,719,999	1	650,443
Total	**231**	**1,743,562**

The table includes base salaries, short-term incentives, contributions paid to an individual's superannuation fund, or, if an individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme, and exercised options and rights. The table does not include amounts paid after 30 June 2022 relating to FY22, and long-term incentives that have been granted and have not yet vested or been exercised (as applicable).

15. PRINCIPAL ACTIVITIES

Other than the acquisition of Mataura Valley Milk Limited in July 2021, there were no significant changes to the nature of the business of the Company (or its subsidiaries) or to the classes of business in the which the Company (or its subsidiaries) had an interest during the year ended 30 June 2022.

16. RECONCILIATION OF EBITDA TO NET PROFIT AFTER TAX

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

	2022 $'000	2021 $'000
Group EBITDA	196,214	123,428
Depreciation and amortisation	(18,929)	(7,453)
EBIT	**177,285**	**115,975**
Interest income	6,569	3,989
Interest expense	(2,467)	(699)
Income tax expense	(66,646)	(38,607)
Net profit after tax	**114,741**	**80,658**
Attributable to:		
Owners of the Company	122,624	80,658
Non-controlling interests	(7,883)	–
	114,741	**80,658**

CORPORATE DIRECTORY

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

thea2milkcompany.com

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