The a2 Milk Company™

Annual Report
2014–15

Year in numbers:

39%
global revenue growth

Over **40K**
certified True a2™ cows around the world

#2
a2 Platinum® (Aus) has 2nd highest selling sku in leading supermarket chain in June 2015

11
independent scientific studies published about beta casein proteins and their derivatives

445%
sales growth of a2 Platinum® infant formula globally

28%
of pregnant women in Australia drink a2 Milk™[1]

1:4
Americans have issues when digesting regular milk with only a small proportion attributed to lactose intolerance[2]

85%
of Chinese people who have trouble drinking regular milk were able to enjoy drinking a2 Milk™ brand without any side effects[3]

We are the 1 and only brand
of cows' milk that is all A2 and completely free of the A1 protein in Australia, NZ, UK, US and China amongst other markets

Over **60K**
visitors to our T-mall virtual store in China in the first 4 weeks of trading

4
new patent applications filed in FY15

5x more calcium than most unfortified soy milk

8x more protein than most unfortified almond milk

Over **1.5 million**
Google searches for "a2" and associated words globally in FY15

Over **130K**
facebook fans around the world

[1] EY Sweeney Brand Health Study, Infant Formula, 2014, sample size of 510 (with 165 respondents pregnant at the time of the study)

[2] "Lactose Intolerance – Opportunity to Grow Volume for Dairy through Dispelling Myths and Meeting Consumer Needs", 2010, prepared by Dairy Research Institute and Innovation Centre for US Dairy (Rosemont, IL)

[3] AC Nielsen China a2 Milk Study, 2014, sample size of 450

Contents

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”

Chairman’s letter

I am delighted to be writing to you as your new chairman following the retirement of Cliff Cook from the role after successfully leading The a2 Milk Company for more than 11 years. On behalf of all shareholders I would like to take this opportunity to thank Cliff and your other recent retiring directors, David Mair and Perry Gunner, for their significant contribution to the success of the business over many years.

I am pleased to be able to report that the business overall continues in good health. The company has delivered another year of exceptional underlying growth in our core Australian business and there are improving signs of traction in our developing international markets. The strategic plan is focused on diversifying the breadth and range of the business both to capture significant new opportunities and to provide greater long term resilience for the company as a whole. This has been demonstrated through a number of significant initiatives in the last 12 months. These initiatives combine with the underlying operational performance to further strengthen the foundation of the business now and into the future.

Specifically there are four key developments which I would like to highlight.

Firstly, our core Australian operation is continuing to provide the base and importantly the cash flow to underwrite our international expansion. Encouragingly, despite many years of strong growth, the last twelve months have seen our Australian business accelerate ahead even faster with an increase in revenues of 40% to over $140 million. This performance gives confidence in the future opportunities that still lie ahead for this outstanding business.

Secondly, we have continued to develop our overseas operations in the last year with a launch into the giant US liquid milk market in the fourth quarter, a major repositioning of our business in the UK and a restructuring of our China operations to better control and manage the commercial elements of our business in this significant market. These initiatives are designed both to access larger attractive markets for the company over time, and also importantly to broaden our business base thus making the company’s future more secure.

Thirdly, our move to aggressively develop an infant formula business is a key growth driver within our strategic plan. The exceptional performance of a2 Platinum® infant formula in Australia, combined with increasing traction of the brand in China, has enabled us to build an infant formula business of over $40 million revenue in approximately eighteen months. This now accounts for 27% of total revenue. The current market place indicators give us real confidence of an even stronger year of growth ahead.

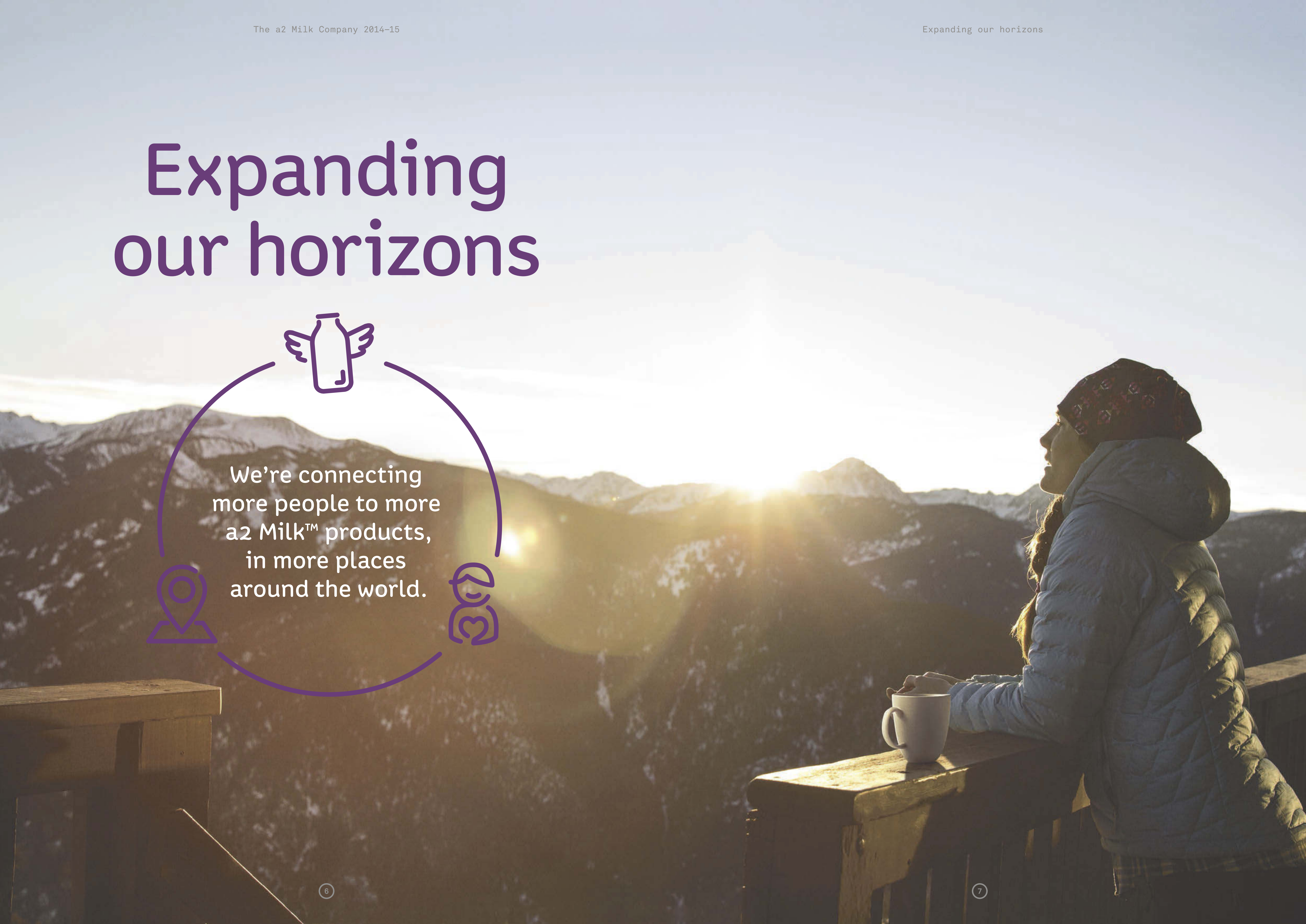
Finally, our company made the important move to dual-list on the Australian Securities Exchange (ASX) at the end of March 2015. This move, also part of our overall diversification strategy, better aligns the shareholder register with our business base. It also gives the company access to a wider shareholder pool and, critically, to deeper capital markets which will be important in the future. The move has been well received by our current shareholders and has already resulted in the Australian register now accounting for nearly 40% of shares on issue.

As part of the move to list on the ASX, we also restructured your board and we remain committed to considering the appointment of at least one further director in the future. Any appointment will be designed to ensure that the board best reflects the base and breadth of the business going forward.

I would like to take this opportunity to thank all our staff who have worked so hard over the last twelve months to deliver yet another record result for the business. I personally believe that The a2 Milk Company is on the cusp of converting our recent investments into business platforms, both at home and abroad, which will generate significant growing returns for the long term.

David Hearn
Chairman
16 September 2015

Expanding our horizons



We're connecting more people to more a2 Milk™ products, in more places around the world.

Breaking new ground, creating new products

Key

$ Financial Year 2014–2015 Revenue

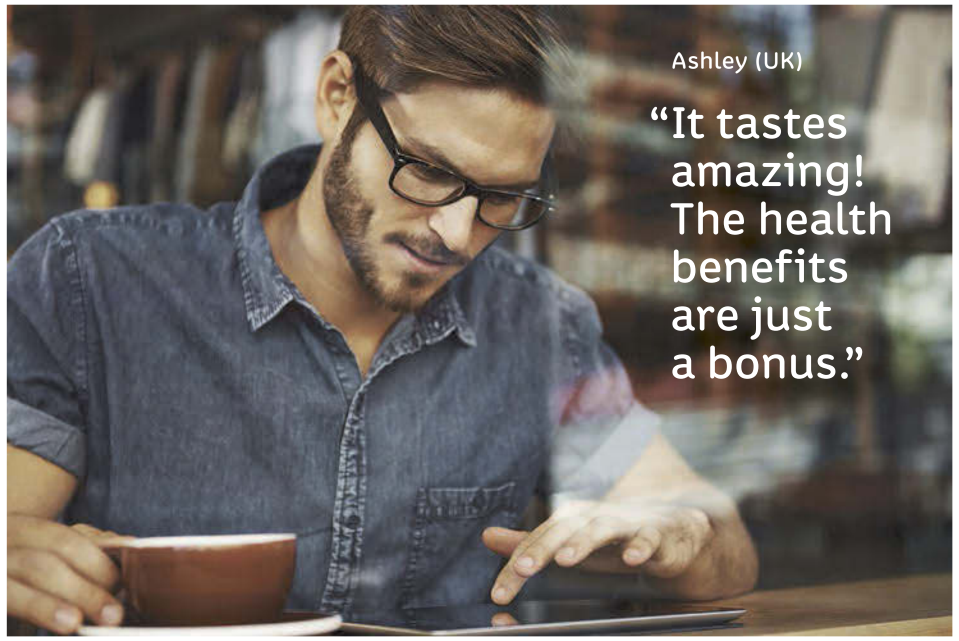
% Growth year on year

Countries in which a2MC branded products are available

Building a global community

Martha (USA)

"This milk is fabulous! Milk became a digestive problem for me 2 yrs ago. a2 is NO PROBLEM and tastes delicious. It is great to have this good source of protein back on the menu. THANK YOU for bringing this to the USA!!!!!!"



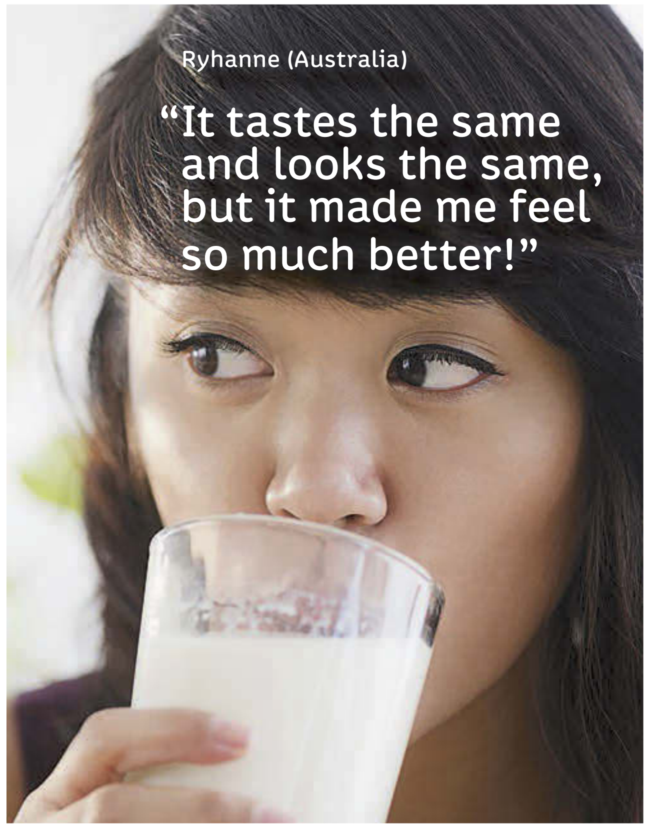
Ms Yu (China)

"My baby used to suffer from a skin rash, the doctor recommended a2 Platinum because of the A2 protein, the same as what is in breastmilk. My baby tried it and felt better."

We're bringing milk back to more people around the world.

Fiona (Australia)

"Thank you, thank you, thank you and I feel good we are all having something not modified but a milk which is the same as our grandparents used to drink, proper milk. Thank you again."



Building a passionate and committed community of global farmers and processors

DAN RICE

Prairieland Dairies

Nebraska, USA

"I'm delighted to be part of what promises to be a hugely exciting and successful business opportunity."

"There are millions of Americans looking for a2 Milk because it's a natural solution for their milk problems. As soon as I met The a2 Milk Company, I knew they were the right company with the right product for the US market and I'm delighted to be part of what promises to be a hugely exciting and successful business opportunity for both The a2 Milk Company and the broader US dairy industry."

PAUL BEAUMONT
(3rd generation dairy farmer shown with wife Leah and daughter Evelyn)

Beaumont Farm

Dorrigo, NSW, Australia

"I'm loving it, life is good."

"Getting back into dairy with The a2 Milk Company after a 6 year break was a great opportunity for my family. Without an a2 Milk herd, we weren't needed by the dairy industry. I'm loving it, life is good."

NEALE SADDLER

Bridge Farms

Shropshire, UK

"It is good to have a feeling of optimism in the a2 Milk product."

"In the current climate of depressed milk prices in a volatile market it is good to have a feeling of optimism in the a2 Milk product, a product that brings all of the dairy goodness and health benefits to a proportion of consumers that would otherwise be unable to benefit and at the same time be confident that The a2 Milk Company currently pay a premium for the milk."

PETER MULCAHY

Kyvalley Farms

Kyabram, Victoria, Australia

"All the goodness and taste of fresh milk without the downsides."

"My brother and I became a2 Milk farmers back in 2001 because I found that my daughter had issues drinking regular milk, yet could enjoy a2 Milk. Over the years we have found that lots of Australians are the same and that by producing a2 Milk we're helping many more people, like my daughter, enjoy all the goodness and taste of fresh milk without the downsides."

OUR NUMBERS ARE GROWING:

- There are now over 40,000 certified True a2™ cows across 77 small and large farms in Australia, New Zealand, United Kingdom and the United States of America
- We work with approximately 14 quality certified processing sites across our markets
- We now have capabilities and experience in producing a wide range of products including fresh milk, UHT, ESL, condensed and powdered milk alongside cream, ice cream and nutritional powdered products

Synlait Milk powder processing plant, Canterbury, New Zealand

CEO's report

- Total revenue of $155.109 million, an increase of 40% over the prior corresponding period (pcp)
- Net loss after tax of $2.091 million after absorbing costs associated with the ASX listing and employee share scheme expenses (non-cash), both non-deductible for tax
- Group operating EBITDA[1] of $4.810 million before non-recurring costs, representing a 35% increase on pcp. Result reflects record operating performance in Australia and New Zealand (ANZ), complemented by investments in growth markets in the rest of the world and corporate costs to support the growth strategy
- Substantial growth in sales of a2 Platinum® infant formula across ANZ and China with total revenue of $41.671 million, up 445% on pcp
- Increased liquid milk market share in Australia with fresh milk sales up 10% in AUD over the pcp
- International business growth continued with the launch of the a2 Milk™ brand in the USA and successful repositioning into the specialty milk segment in the UK

[1]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. A reconciliation of EBITDA to net profit after tax is shown on p 51

Consistent and above expectation performance in Australia continues to provide a platform for the Company's strategic growth initiatives

Overview

The Group[2] performed ahead of plan in FY15 with the Group's growth initiatives continuing to progress positively. The ANZ business continued to perform very strongly with growth in both revenue and operating earnings which was supported by a broader portfolio of products. The Group achieved exceptional growth in a2 Platinum® infant formula across both ANZ and China and, as a result, this product is emerging as a significant growth driver for the Group. Further highlights were the launch of a2 Milk™ in the State of California, USA from April 2015 and the repositioning of fresh milk into the specialty milk segment in the UK.

The full year result included:

- EBITDA before inter-company charges[3] for the ANZ operations of $30.006 million, an increase of 60% on the pcp
- EBITDA before inter-company charges for China and other Asia totalling ($3.103) million
- EBITDA before inter-company charges for UK and USA totalling ($12.062) million
- Employee share scheme expenses (non-cash) of $1.083 million
- Non-recurring ASX listing costs of $1.681 million
- Corporate and other costs before inter-company charges of $10.032 million
- Income tax charge of $3.372 million[4]
- Basic earnings per share (EPS) of (0.33¢); and diluted EPS of (0.32¢)

Cash on hand at year end was $6.092 million with cash outflow during the year primarily reflecting investment in working capital to fund growth in the ANZ business and infant formula. The Board continues to monitor market developments with a view to maintaining an appropriate and conservative capital structure.

During the year the Company continued the process of Board renewal. Mr Perry Gunner resigned as a director at the General Meeting in November, 2014. Mr Cliff Cook, Chairman and Director since 2004, retired after 11 years with the Company, and Mr David Mair, a Director since 2008, stepped down after seven years. The Company has expressed its appreciation for the substantial contribution made by those now retired directors, in particular Mr Cook who was a driving force as Chairman from 2004. Mr David Hearn replaced Mr Cook as Chairman, and Ms Julia Hoare was appointed Deputy Chairman.

On 31 March 2015, the Company was admitted to the Official List of the Australian Securities Exchange (ASX), which allowed for broader investor participation alongside the existing NZX Main Board listing. The Company has been pleased to see an additional ~1,900[5] investors added since admission to the ASX, representing ~40% of shares on issue.

On the basis of the FY15 performance, and assuming current trading conditions and trends in infant formula are sustained, the Company is forecasting strong growth in both revenue and operating earnings in FY16. Group revenue is forecast to increase to $267 million in FY16 (a 72% increase over the pcp) and Group operating EBITDA to $12 million (a ~150% increase over the pcp before non-recurring items).

[2]The a2 Milk Company Limited ("Company" or "a2MC") and its subsidiaries (together the "Group")

[3]Inter-company charges include royalties, licence fees and management fees payable to the Parent, and marketing and herd testing costs payable by the Parent

[4]The high income tax charge represents non-deductible expenses largely related to the ASX listing and the Company's employee share scheme; and international losses not fully tax effected

[5]As at 10 September 2015

CEO's report (cont'd)

Strategic Agenda

The Company continues to execute on its strategy of growing and broadening the ANZ business and developing international growth opportunities in the rest of the world. This strategy is resulting in an expansion of the product portfolio across an increasingly global distribution framework.

Infant formula is emerging as a significant and meaningful growth driver for the Group. This was demonstrated in FY15 with revenue of NZ$41.7 million across ANZ and China, now accounting for 27% of total business turnover within two years of launch. The majority of sales occurred within the Australian grocery and pharmacy channels, although the Company believes a proportion may relate to products which were on-sold into China, as is the case with other premium infant formula brands sold in domestic markets.

To foster further growth in infant formula, the Company is broadening the portfolio and distribution of the a2 Platinum® brand. This includes launching new infant formula based products and expanding distribution routes into China by combining cross border and e-commerce platforms with the existing Mother Baby channel to maximise consumer accessibility in the region. Furthermore, the Company is considering a product launch in the UK in the short to medium term.

The Company has commented previously on its intention to broaden the product portfolio in Australia. New offerings are underway, with the introduction of a2 Milk™ whole milk powder in June 2015. This is expected to have a broader distribution rollout throughout FY16. In addition the Australian business recently launched a2 Ice Cream™ in August 2015. The Company is optimistic about the growth prospects for these new products in Australia and potentially in other markets over time.

The Company also expanded the a2 Milk™ brand into new markets during FY15. The China business began selling a2 Milk™ fresh milk sourced from Australia in August 2014 and will launch a2 Milk™ whole milk powder through e-commerce and cross border distribution channels during FY16.

With the initial launch of a2 Milk™ into the California market in the USA underway, the Company is looking to extend distribution into additional states over the next 12 months.

Having successfully repositioned the UK a2 Milk™ brand within the premium specialty milk segment, the Company is focussed on broadening the product portfolio with the potential introduction of UHT milk and a2 Platinum® infant formula.

Furthermore, the Company is investigating further opportunities in relation to dairy and infant formula products, including the sale of liquid milk in New Zealand.

ANZ

The ANZ business continued to deliver very strong revenue and earnings growth on the prior year, with FY15 returning a record result for the region. Total gross revenue in AUD across all product categories increased by 45% on the pcp to $148.4 million, and Operating EBITDA before intercompany charges totalled NZ$30.0 million. This result reflects the continued strong performance of fresh milk combined with the exceptional growth of a2 Platinum® infant formula.

Australian fresh milk sales continued to achieve solid growth of 10% in AUD on the pcp, notwithstanding increased competitor activity. This is a pleasing growth rate driven by growing consumer awareness of the benefits of the product, and the breadth of distribution in the retail trade. Importantly, during FY15, gross sales for Australian fresh milk exceeded AU$100 million for the first time – a significant achievement for the business. Grocery channel market share now approximates 9.3% (Australian Grocery Weighted Scan MAT as at 30 June 2015) for fresh milk in Australia.

The business experienced a marginal decline in fresh milk gross margin, driven by increased farm-gate raw milk prices. However, the majority of cost increases were offset by efficiency gains at its Smeaton Grange processing facility. The business continues to focus on achieving processing efficiencies with the objective of maintaining attractive gross margins.

As indicated, sales of a2 Platinum® infant formula in Australia exceeded expectations in the year. a2 Platinum® has recently been the fastest growing infant formula

CEO's report (cont'd)

brand in the Australian market with an estimated 12% grocery market share for the 13 weeks ending 11 August 2015 by value, notwithstanding only achieving ranging in a second major retailer from November 2014. This rapid growth in demand led to stock shortages, which impacted total sales and market share for the year. In addition, and in response to the growing demand for a2 Platinum® infant formula, the Company extended the existing range of three variants to include a fourth product in July 2015.

Further revenue growth was achieved from new products including a full year's revenue from a2 Cream™ and the launch of a2 Milk™ whole milk powder in limited release within one major retailer in June 2015. The Company experienced a positive initial consumer response to the launch of whole milk powder, and is optimistic about future growth prospects for this product.

In response to the increasing demand for infant formula and whole milk powder products, the business has been active in securing new long term milk supply contracts in New Zealand, with annual milk supply doubling to over 100 million litres.

On the basis of the strong performance in FY15, and assuming current trading conditions and trends in infant formula are sustained, the Company is forecasting further significant growth in revenue and EBITDA for FY16.

China

As previously advised, the growth of a2 Platinum® infant formula within China was impacted by changes in access arrangements for manufacturers and brand owners from ANZ into China during calendar 2014. The Company's manufacturing partner Synlait Milk achieved the new form of registration in late September 2014 and shipments of a2 Platinum® infant formula to China recommenced from December. The Company continued to invest in marketing activity and sales support for distributors during FY15 in order to build a solid foundation for future growth.

In November 2014, the Company announced changes to its supply and distribution arrangements with China State Farm Holding Shanghai Company (CSF). Under the revised arrangements, CSF has become the exclusive import agent and government relations partner for a2 Platinum®. The Company has now assumed direct responsibility for distribution of a2 Platinum® in China with an experienced local team of eight, based in Shanghai. a2 Platinum® was showcased at the annual Children Baby Mother Expo (CBME) in Shanghai in July 2015, attracting significant interest from local distributors. The network of local distributors has grown to 25 as at August 2015 with strength emerging across East and West China. As a direct result of these changes and the increased exposure of the a2 Platinum® brand on digital platforms in China, the Company remains very positive regarding the growth prospects in this market.

a2 Milk™ fresh milk sourced from Australia was launched in China in August 2014 in premium supermarkets, through consumer subscriptions and also with JD.com, China's largest online direct sales platform. Whilst the immediate direct sales impact of fresh milk and also UHT milk is modest, these initiatives will help establish the a2 Milk™ brand in China and broaden the trial base.

To take further advantage of the growing e-commerce and cross-border platforms, the Company also recently launched "The a2 Milk Company™" store on T-mall Global during July 2015 selling Australasian label a2 Platinum® infant formula direct to Chinese consumers. Within its first four weeks of operation there were approximately 60,000 unique visitors to the online store. It is anticipated that further e-commerce initiatives will follow.

CEO's report (cont'd)

UK

During FY15, the Company repositioned the a2 Milk™ brand in the UK into the premium specialty milk segment away from mainstream dairy. The strategy draws on the experiences in Australia and focuses on three key elements – building distribution in existing accounts; increasing awareness of the unique attributes of the product in a targeted manner; and enhancing price positioning through new packaging formats to improve margins.

The Company has been pleased with the acceptance across the retail trade for the new one litre pack format, with the product now represented in the majority of supermarket accounts in the UK. The pack transition and the associated pricing realignment have significantly improved unit gross margins. The introduction of the new format and shift in shelf location was dependent on the timing of retailer reviews and was completed during March 2015. New ranging in J Sainsbury stores commenced from November 2014 and Harrods from May 2015. In addition, the Company's existing retail partners Tesco, Waitrose, Ocado and Morrisons all progressively transitioned to the new pack format.

The phased execution timings resulted in second half sales momentum below expectation. Notwithstanding this, the Company is confident of achieving positive growth in FY16 in fresh milk. Importantly, the Company has now established a more solid brand platform for further product extensions.

The Company continues to be well supported by its supply partner Müller Wiseman Dairy, with packaged product consistently supplied to a high quality standard.

USA

The a2 Milk™ brand launched into the Southern California region during April 2015 and will commence its roll-out into Northern California from September. The Company has made solid progress in building retailer distribution and is on target to achieve approximately 65% of retail weighted distribution in Southern California by late August. Overall initial retailer acceptance has been high, with only one major retailer group presented to being yet to place an order. The focus has now turned to achieving similar distribution in Northern California.

After evaluating the early positive trends, the roll-out plans beyond California are now focussed on building distribution across a number of select national customers, which best align with the a2 Milk™ brand's healthy and natural positioning. Already the brand is being distributed on a nationwide basis by two of the largest natural food specialty chains in the USA, Sprouts Farmers Market and The Fresh Market. Discussions with additional national retailers are progressing.

In addition to expanding retail distribution with key customers, the Company has been building internal capabilities and infrastructure to support the roll-out plans. The Company has recently established national broker relationships with an emphasis on key customer representation, along with retail activation of the a2 Milk™ brand. The Company is also focussed on building awareness and educating consumers about the digestive benefits of a2 Milk™.

Pleasing progress has been made in establishing the product supply chain, including engagement with a growing group of local farmers that fit well with the Company's expansion plans. The Company has also established a strong local management team based in Boulder, Colorado.

While it is early in the launch, feedback from retailers and consumers is consistently favourable. Call centre and on-line interest continues to grow weekly, reflecting growing consumer awareness for, and interest in, the a2 Milk™ brand in the USA.

Intellectual property (IP) and other matters

The Company continues to enhance and extend the scope of its comprehensive IP portfolio and provide support for targeted research and development associated with the benefits of the A2 protein and the absence of A1 protein.

During the final quarter of FY15, the Company filed four new patent applications relating to health benefits, physical properties and testing methodologies for A1 protein free products. These have relevance for both liquid and powder products.

During the year, the Company initiated a Federal court action against the Australian Broadcasting Corporation for misleading and deceptive conduct in relation to The Checkout program. A first directions hearing took place in the Federal Court in mid July 2015 and the matter is proceeding according to a Court ordered timetable.

In addition to the publication of the first human digestion trial conducted by Curtin University (published in the European Journal of Clinical Nutrition in August 2014), further scientific progress has been made. A US based study published in Nutritional Biochemistry in October 2014 reports a parallel in the intolerance effects of the A1 protein and gluten within the human gut. Given the higher levels of dairy intolerance in China, the Company sponsored a human clinical study in this market during the year. The results lend further support around the digestive benefits of milk free of the A1 protein and has been submitted for publication.

The Company continues to make progress in developing and applying its brands consistently around the world across packaging, communication and digital assets. Further, a number of trade mark applications achieved registration during FY15 with a number of new filings being made across all markets.

Geoffrey Babidge
Managing Director and CEO
16 September 2015

Recent history

2012

Successfully completed capital raising and transferred listing from NZX Alternate Board to the NZX Main Board

A new, state-of-the-art milk processing facility is commissioned in Sydney, Australia

a2 Milk™ is launched into the UK under a joint venture agreement with Robert Wiseman Dairies (subsequently Müller Wiseman Dairies)

2013

a2 Platinum® infant formula is launched across China, Australia and New Zealand and total infant formula business gaining momentum

2014

Company name and subsidiary names become aligned to one new brand identity: The a2 Milk Company™

a2 Milk™ brand launches UHT and fresh milk into China and thickened cream in Australia

The a2 Milk Company takes full ownership of the UK joint venture from Müller Wiseman Dairies repositioning the brand into specialty milk and UK business momentum continues

Human digestion trial published in European Journal of Clinical Nutrition reporting a digestive difference between A1 and A2 beta casein protein and supporting previous studies

Three patent applications are filed relating to digestive and metabolic benefits of the A2 protein

2015

The a2 Milk™ brand launches into the California region in USA

a2 Milk™ brand in Australia extends into whole milk powder and ice cream whilst continuing to expand its value share within fresh milk and infant formula

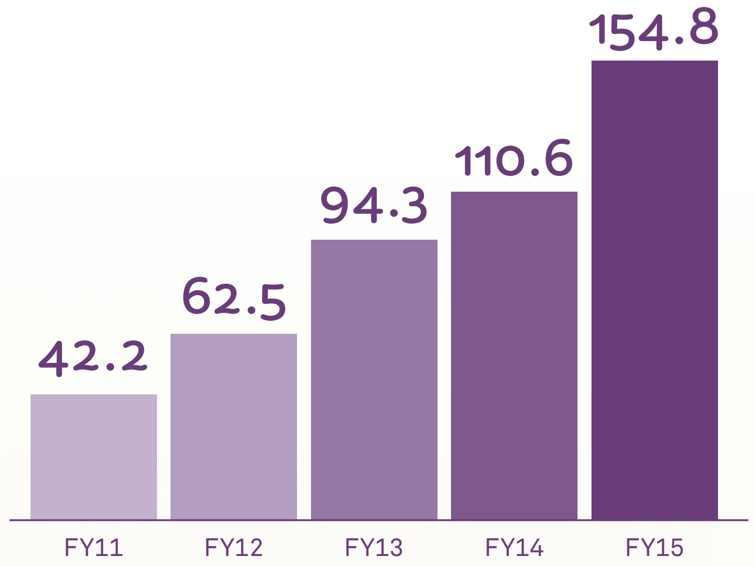
The a2 Milk Company T-mall global digital store opens in China and cross border selling commences on JD.com

Four patent applications are filed relating to health benefits, physical properties and testing methodologies for A1 protein free products

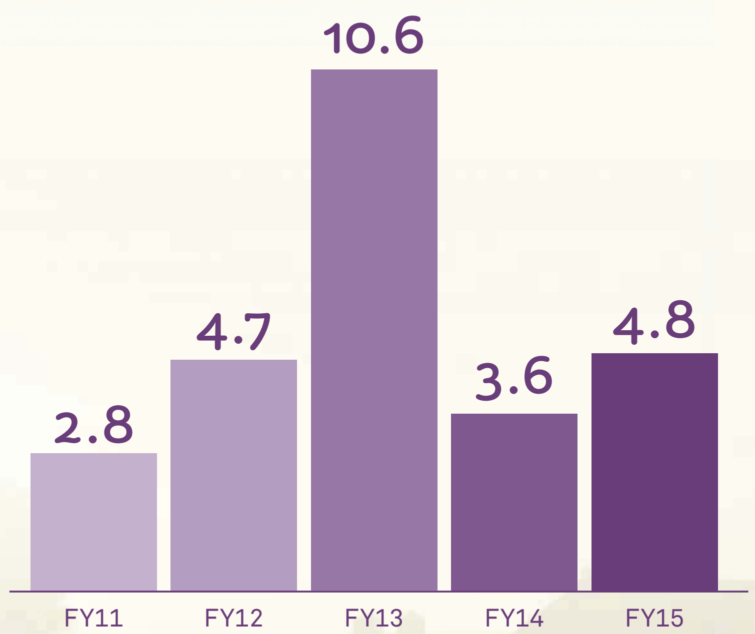
The a2 Milk Company Limited is dual listed and admitted to the Australian Securities Exchange (ASX)

Dates provided above are for the full calendar year.

Sales
FY11 – FY15 (NZ$ million)



EBITDA before non-recurring items
FY11 – FY15 (NZ$ million)

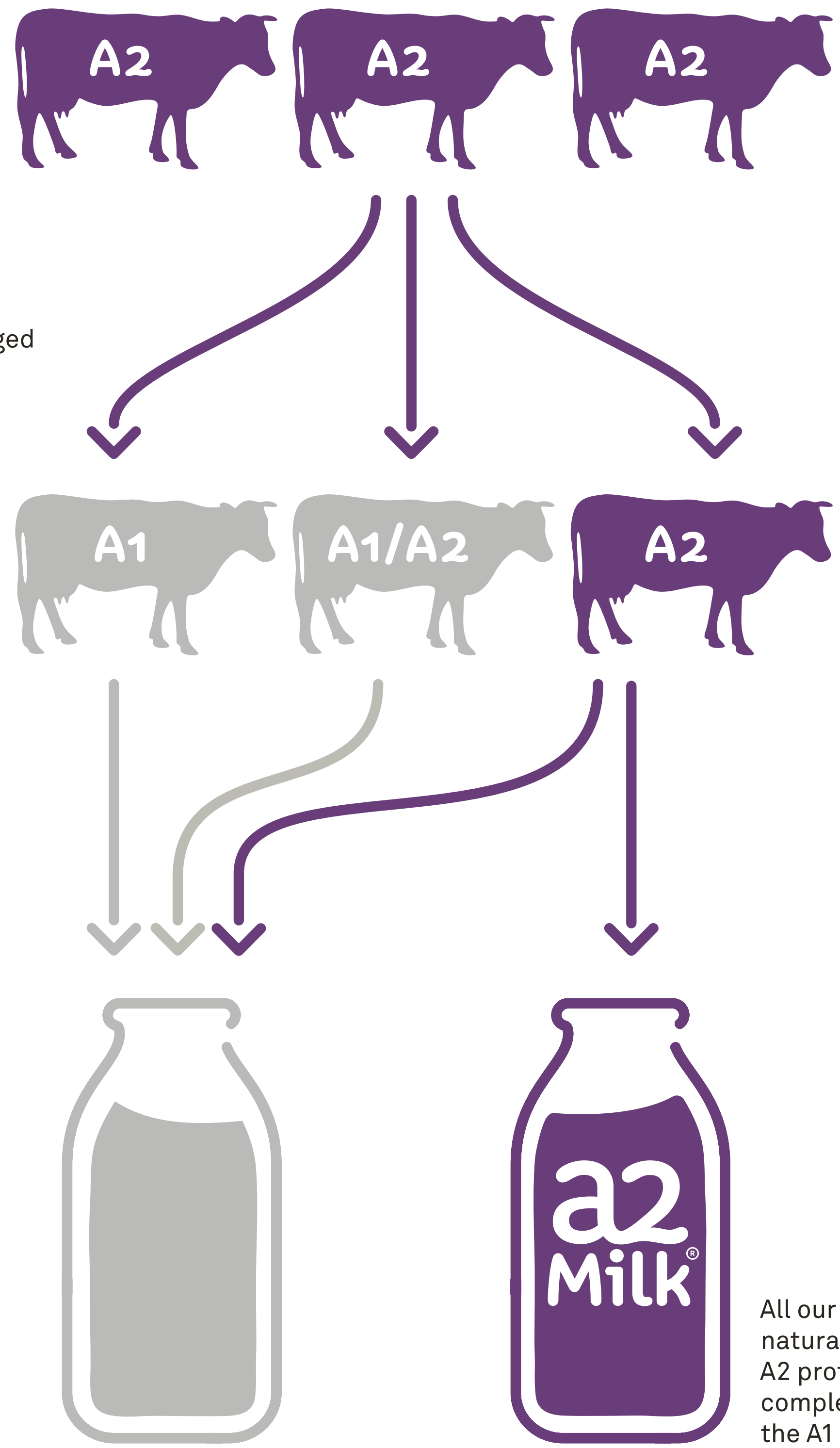


What is the a2 Milk™ difference?

Originally all cows produced milk containing only the A2 type of beta casein protein

Following domestication the A1 protein type emerged through genetic mutation

~70% of cows today produce milk containing the A1 protein type



Today, regular milk contains a mix of A1 and A2 protein types

All our milk products naturally contain the A2 protein and are completely free from the A1 protein type

We're pioneers at heart

Our company was founded on a profound discovery, unique intellectual property and a growing belief of the effect different milk proteins have on human health. To this day we continue to have a long term commitment to increasing science backed evidence and pioneering new thinking, new products and new markets

We're for transforming peoples' lives

We're passionate about the unique and meaningful difference we make to peoples' lives who may otherwise restrict or avoid dairy

We simplify the complex

We create simple, relevant and credible ways to educate people about the unique benefits of the A2 protein whether they are consumers, health care professionals or opinion leaders from around the world

Governance & disclosures

Contents

Director profiles

David Hearn

Chairman & Executive Director

Master of Arts

Director since February 2014

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

In addition to his a2MC directorship, David is also a Director of Lovat Partners Limited, Robin Partington & Partners Limited, and Committed Capital Limited. David resides in the United Kingdom.

Julia Hoare

Deputy Chairman & Non-Executive Director

Bachelor of Commerce, FCA, MInstD

Director since November 2013

Julia has been Deputy Chairman of the Company since 30 March 2015. Julia is also Chairman of both the Nomination Committee and the Audit and Risk Management Committee. Prior to joining the Board, Julia had extensive chartered accounting experience in Australia, the UK and New Zealand and was a partner with PwC New Zealand for 20 years.

In addition to her Company directorship, Julia is a Director of New Zealand Post Limited, Watercare Services Limited, AWF Madison Group Limited and Port of Tauranga Limited (appointed 20 August 2015).

Julia is also a member of the New Zealand External Reporting Advisory Panel (XRAP), a body designed to support the standard setting process of the New Zealand External Reporting Board (XRB), and the New Zealand Institute of Directors National Council. Julia resides in New Zealand.

Geoffrey Babidge

Managing Director & Chief Executive Officer (CEO)

Bachelor of Economics

Director since September 2010

Geoffrey has over 25 years senior management experience working in the Australian FMCG industry. Prior to his appointment as CEO of the Company in 2010, Geoffrey held senior executive roles with a number of companies in Australia including Freedom Foods Group Limited, Bunge Defiance and National Foods.

Prior to these roles he was a practicing chartered accountant and Partner at Price Waterhouse. Geoffrey resides in Australia.

Richard Le Grice

Non-Executive Director

Bachelor of Laws

Director since February 2007

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

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

Melvyn Miles

Non-Executive Director

Bachelor of Science (Hons)

Director since July 2010

Melvyn has over 30 years Australian and international senior executive experience in the FMCG industry, and has held Vice President roles in Carlton & United Breweries and Foster's Group and General Manager roles in Visy Industries and Amcor.

Melvyn is a member of both the Audit and Risk Management Committee and the Remuneration Committee. Melvyn resides in Australia.

Executive team

Geoffrey Babidge *Managing Director & Chief Executive Officer (CEO)* *Bachelor of Economics*	See the Directors' profiles above for details of Geoffrey's qualifications and experience.
Craig Louttit *Chief Financial Officer & Company Secretary* *Bachelor of Commerce,CA*	Craig joined the Group in April 2014 from ASX listed public company UGL Limited where, since 2007, he had held senior finance roles including as General Manager Finance, Transport and Technology Systems, and Group Financial Controller. Prior to this he held senior finance roles with EMI Group PLC from 1999 in London, UK. Craig is a member of the Institute of Chartered Accountants in Australia.
Susan Massasso *Chief Marketing Officer* *Bachelor of Commerce (Accounting/Marketing)*	Susan has over 18 years' experience in the FMCG industry. She joined the Group in September 2013 as Chief Marketing Officer with oversight of marketing and brand development across all markets. Susan has held several senior leadership positions across the Campbell Arnott's business including most recently Asia Pacific Regional Marketing Director. Prior to this she held a number of commercial roles including Marketing Director Arnott's ANZ, Marketing Director Campbell's ANZ and General Manager Campbell's ANZ. Prior to this Susan spent a number of years at Unilever where she held a number of marketing, consumer insight and logistics roles. Susan attended the University of Sydney under scholarship from accounting firm Price Waterhouse where she also gained undergraduate employment throughout her degree.
Dr Andrew Clarke *Chief Scientific Officer* *Bachelor of Science (Hons), Master of Science, PhD*	Andrew joined the Group in 2003. Andrew has over 15 years' experience in private sector pharmaceutical research and agricultural biotechnology. He received a PhD in Biochemistry and Molecular Biology from the University of Auckland. In his role as Chief Scientific Officer, Andrew oversees all aspects of the Group's science-based activities including research and development, scientific communications and the expansion of intellectual property.
Simon Hennessy *General Manager, International Development* *Bachelor of Science (Chemistry), Graduate Diploma, Corporate Finance*	Simon joined the Group in 2007 as the Business Unit Manager for the Australian joint venture with Freedom Foods. In 2010 Simon took on the responsibilities for Group operations and development of new markets. Simon has over 25 years' experience in manufacturing operations, sales and marketing, after an early career in research and development and quality management.

Executive team

Shareef Khan *General Manager, Operations* *Bachelor of Science, CSCP, APICS*	Shareef joined the Group in June 2012. He has over 13 years' senior management experience as a qualified supply chain professional. He is experienced across a number of industries, some of which include FMCG, infant nutrition, office products and construction.
Peter Nathan *Chief Executive, Australia & New Zealand* *Bachelor of Business (Marketing)*	Peter joined the Group in 2008 and in 2010 took on the role of Chief Executive of the Australia and New Zealand region. During his time with the Company, Peter has led the successful re-launch of a2MC branded milk in the Australian market. He has over 20 years' experience working in the FMCG industry, as evidenced by his previous senior marketing and sales roles for Gillette and Colgate Palmolive in Australia and Asia as well as his involvement with Freedom Foods Group Limited as General Manager.
Scott Wotherspoon *Chief Executive, UK and China* *Bachelor of Arts (Hons) (Law)*	Scott joined the Group in January 2014 assuming the role of Chief Executive of the wholly owned subsidiary, The a2 Milk Company Limited (UK). More recently Scott's role has expanded to include responsibility for the China business. Prior to his appointment Scott held a number of senior roles including 15 years in marketing, sales and commercial roles both in Europe and Asia with the Unilever Group, CEO of a specialist beauty devices business and CEO of Plum Baby, a private equity backed food business in the UK which was recently acquired by Campbell's Soup Company. Scott has also received a degree from Cambridge University.
Jeffrey O'Neill *Chief Executive, USA* *Bachelor of Business Administration (Hons)*	Jeffrey joined the Group in April 2015, assuming the role of Chief Executive of the USA region. Jeffrey has an extensive senior leadership background with over 30 years' experience in brand marketing, sales and strategic planning in Canada and the United States. Jeff's prior roles include President and CEO for Pepsi-Cola Canada, President and CEO for Priszm/YUM brands Canada and more recently President and CEO for The Einstein Noah Restaurant Group, a publically traded restaurant chain with over 800 restaurants throughout the USA.

Corporate governance framework

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

The Board of a2MC is committed to ensuring that the Company maintains the highest standards of corporate governance. Through the establishment of the corporate governance framework, the Board seeks to ensure that its Directors, officers and employees fulfil their functions responsibly, whilst protecting and enhancing the interests of shareholders.

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

- the NZX Listing Rules and the NZX Corporate Governance Best Practice Code (NZX Code);
- the Financial Markets Authority's Corporate Governance in New Zealand: Principles and Guidelines[2]; and
- the ASX Listing Rules and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (ASX Principles).

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

For the year ended 30 June 2015, a2MC considers that its corporate governance framework materially aligns with the NZX Code, except where noted below:

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

From the time a2MC was admitted to the ASX[3], being 31 March 2015, to 30 June 2015, a2MC considers that its corporate governance framework adheres to the ASX Principles, except where noted below, and provides the reason(s) for not following those ASX Principles[4]:

ASX Recommendation 2.4 A majority of the board should be independent Directors	The Company has five Directors and only two were considered independent for ASX purposes as at 30 June 2015. The Board believes that the current mix of Directors is appropriate for the Company's business and circumstances and is in the best interests of shareholders as a whole. Further, the Board believes that, the Board as a whole is not hindered in its ability to exercise independent view and judgement. The Chair of each Board sub-committee is an independent Director. The Board is mindful of the recommendation that a majority of the Board should be independent Directors. Accordingly, the Board is looking to increase the number of independent Directors on the Board and is considering appointing an additional independent Director with appropriate skills and experience.

[2]December 2014

[3]The Company was admitted to the Official List of the ASX on 31 March 2015 (refer page 34 for further details)

[4]The ASX Corporate Governance Council has instilled an "if not, why not" approach with regard to reporting the Company's compliance with its recommendations

Corporate governance framework cont.

ASX recommendation 2.5 The chair of the board should be an independent Director and, in particular, should not be the same person as the CEO	The Chairman of the Board is David Hearn. Mr Hearn is not considered an independent Director for ASX purposes because of his limited executive role with the Group. Mr Hearn does not have any conflicts of interest with the Company and the Board is confident that Mr Hearn is capable of exercising independent view and judgement in exercising his role as Chairman. Further, the Board believes that the significant skills and experience gained in other businesses that Mr Hearn will bring to the role of Chairman outweighs any perceived lack of independence. The Board is mindful of the recommendation that the Chairman be an independent Director and will continue to review Mr Hearn's performance in that capacity in the context of prevailing circumstances and needs of the Company. The roles of Chairman and Chief Executive Officer are not exercised by the same individual. The role of Chief Executive Officer is held by Geoffrey Babidge.
ASX recommendation 7.3(b) If a Company does not have an internal audit function, the Company should disclose that fact, and the processes the Company employs for evaluating and continually improving the effectiveness of its risk management and internal control processes	Due to the Company's current size and business circumstances, the Company does not have an internal audit function. The Company will appoint an internal auditor if, and when, the Company considers this necessary. Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control processes.
ASX recommendation 8.1(a)(1) The board should have a remuneration committee which has at least three members, a majority of whom are independent Directors	The Remuneration Committee consists of Richard Le Grice, Melvyn Miles and David Hearn. Whilst a majority of the members of the Committee were non-executive, the majority were not independent Directors for ASX purposes as David Hearn and Melvyn Miles are not considered independent Directors as at 30 June 2015 for the reasons outlined on page 33. The Board believes that the members of the Committee as a whole are not hindered in their ability to exercise independent view and judgement. Further, the Board believes the Committee maintains its independence as the Remuneration Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration. The Remuneration Committee is chaired by Richard Le Grice, who is an independent Director for ASX purposes.

This Corporate Governance statement is current as at 30 June 2015 and has been approved by the Board

The board cont.

THE BOARD

Role of the Board and delegation of authority

The Board is responsible for the overall governance of the Company. Issues of substance affecting the Company are considered by the Board, with advice from external advisers as required. Each Director must bring an independent view and judgment to the Board and must 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.

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

The Board delegates certain functions to its three Board Committees (Audit and Risk Management Committee, Remuneration Committee and Nomination Committee). The role of each of these Committees is outlined on pages 36 to 37.

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

Role of senior executives

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

Role of Chairman

The Chairman's role is set out in clause 6 of the Board Charter and includes to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Chief Executive Officer. The Board supports the separation of the role of the Chairman (Mr David Hearn) and Chief Executive Officer (Mr Geoffrey Babidge) in accordance with the requirements of the NZX Code and the ASX Principles. The ASX Principles recommend that the Chairman should be an independent Director. Mr David Hearn is not considered an independent Director for the reasons outlined on page 33. However, the Board is confident that Mr David Hearn is capable of exercising independent view and judgement in exercising his role as Chairman.

Role of Company Secretary

The Company Secretary, Craig Louttit, is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each Director is able to communicate directly with the Company Secretary and vice versa. The role of the Company Secretary is outlined in clause 15 of the Board Charter.

Board size and structure

At 30 June 2015, the Board was comprised of five Directors (three non-executive Directors and two executive Directors). The a2MC constitution currently requires a minimum of four Directors and provides for a maximum of eight, of which at least two must be New Zealand residents in order to comply with the Companies Act 1993. The Directors' profiles can be found on page 27.

The Nomination Committee has considered and is satisfied that the composition of the Board reflects an appropriate range of skills and experience for a2MC to effectively discharge its responsibilities. Director's skills, experience, expertise and the term of office held by each Director at the date of this Annual Report is set out in the "Director Profiles" section of this Annual Report.

Nomination Committee

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

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

Director independence

The Board Charter provides that it is intended that, the Board should, where practicable, comprise a majority of independent Directors.

Director independence is initially assessed upon each Director's appointment and reviewed each year, or as required when a new personal interest or conflict of interest is disclosed. For this purpose, each Director is required to bring an independent view and judgment to the Board and to declare all actual or potential conflicts of interest on an ongoing basis. Any issue concerning a Director's ability to properly act as a Director must be discussed at a Board meeting as soon as practicable, and a Director may not participate in discussions or resolutions pertaining to any matter in which the Director has a material personal interest.

In determining the independence of its Directors, the Board takes into account the guidance for independence which are set out in Principle 2 of the ASX Principles, the NZX Listing Rules and the NZX Code. Under those rules and recommendations, Directors are considered to be independent if they are a non-executive Director and do not have any direct or indirect interest or relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company and security holders generally.

As at 30 June 2015, the Board considered that Richard Le Grice and Julia Hoare were independent Directors.

As at 30 June 2015, the Board considered that David Hearn, Geoffrey Babidge and Melvyn Miles were not independent Directors for the following reason(s):

- Chairman and Executive Director, David Hearn, was not considered to be independent because of his executive role in relation to the Group's business in the Northern Hemisphere. Mr Hearn brings a strong skill set in executive management, sales and marketing and strategy development in fast moving consumer goods in international markets. The Company believes that Mr Hearn's extensive experience in the industry and in business generally is invaluable and outweigh any perceived lack of independence
- CEO, Geoffrey Babidge, was not considered to be independent because of his executive role with the Company. Mr Babidge was appointed to the Board in 2010 and has over 25 years senior management experience in the industry
- Non-executive Director, Melvyn Miles, was not considered to be independent because he was also a Director of a substantial shareholder of the Company, Freedom Foods Group Limited[5]. Mr Miles was appointed to the Board in 2010 and has over 30 years domestic and international senior executive experience in the industry. Mr Miles brings extensive experience and in-depth knowledge of the industry to the Company and the Board considers that the interests of shareholders are best met by the continued contribution of Mr Miles

Whilst, the Board did not as at 30 June 2015 comply with the ASX Principle that a majority of the Board should be independent Directors, the Board considers it has an appropriate mix of skills, experience and independence to ensure that the Company is governed in a manner that ensures that the best interests of shareholders as a whole are represented. The Board is also confident that proper processes are in place to manage any actual or potential conflicts of interest. The Board Charter outlines the Board's policy on conflicts of interest.

Nominations, appointments and ongoing education

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

The primary objectives of the Nomination Committee are to ensure that a formal and transparent process for the nomination and appointment of Directors exists, to recommend Director appointments to the Board and to regularly review the composition of the Board to ensure the right composition of Directors is maintained.

[5] Melvyn Miles resigned as Director of Freedom Foods Group Limited, effective 14 August 2015

The board cont.

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

- the candidate's experience as a Director
- their skills, expertise and competencies;
- the extent to which those skills complement the skills of existing Directors
- their degree of independence; and
- their ability to devote sufficient time to the Directorship

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

The Company will provide information to shareholders about Directors seeking re-election at a general meeting to enable them to make an informed decision on whether or not to re-elect the Director, including their relevant qualifications and experience and the skills they bring to the Board; details of any other material Directorships currently held by the candidate; the term of office already served by the Director; whether the Director is considered to be independent; and a recommendation by the Board in respect of the re-election of the Director.

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

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

To ensure ongoing education, Directors are regularly informed of developments that affect a2MC's industry and business environment, as well as company and legal issues that impact the Directors themselves. Directors receive comprehensive board papers and briefing information before Board meetings and have unrestricted access to management and any additional information they consider necessary to perform their roles as Directors effectively.

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

Board renewal

On 18 November 2014, Perry Gunner retired as Deputy Chairman after over four years as a Director of the Company.

On 31 March 2015 the Company was admitted to the Official List of the ASX ("ASX Listing"). In conjunction with the ASX Listing, the Board brought into effect a number of changes consistent with the process of review and renewal of the Board, which the Company commenced during 2013. The following changes took place:

- Chairman, Clifford Cook, resigned as both Chairman and a Director of the Company. Mr Cook had been a Director and the Chairman of the Company since 2004 and was instrumental in leading the evolution of the Company since that time. Mr Cook advised that the decision to resign was made with careful consideration of the Company's leadership requirements for the future

  With the Company now well established and strongly positioned to pursue further growth in the UK, China and the USA, Mr Cook believed the Chairman should possess significant fast moving consumer goods skills, broad international experience consistent with the Company's target market strategies and be located closer to those markets. The remaining members of the Board concur with this approach, which is consistent with the ongoing process of Board renewal
- Director, David Mair, resigned as a Director of the Company. Mr Mair had been a Director since October 2008. He was an active Board member since this time including in his role as Chairman of the Remuneration Committee since FY11 and as the designated Non-executive Director assisting the Group's Asian growth initiatives. Mr Mair's decision to leave the Board is consistent with the process of Board renewal which commenced two years ago and is also a result of other professional commitments
- Deputy Chairman, David Hearn, assumed the role of Chairman of the Company. The Board believes Mr Hearn is well positioned to lead the Company through its next phase of growth and brings a strong skill set in international executive management, sales and marketing and strategy development particularly in the food and beverage sectors. Mr Hearn has worked in senior executive roles, including at CEO level, for a number of large international fast moving consumer goods businesses and has significant experience in this industry. In addition to his role as Chairman, Mr Hearn will further assist the Company through a defined executive role involving guidance and support of the Group's business, particularly in the United Kingdom and United States of America
- Director, Julia Hoare, assumed the role of Deputy Chairman of the Company. Ms Hoare, who is also Chair of the Audit & Risk Committee, and Chair of the Nomination Committee, is suitably experienced to support Mr Hearn in his role as Chairman. Having served as a senior finance professional at PwC, and more recently serving as Director on a number of public and private entities within New Zealand, Ms Hoare brings a wealth of experience in terms of financial management, strategy development and corporate governance

The Board will continue to consider appointing an additional independent non-executive Director with appropriate skills.

The length of service of each Director on the Board is disclosed on the 'Director Profiles' section on page 27.

Performance review of the Board and individual Directors

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

For the financial year ended 30 June 2015, a formal performance evaluation of the Board and individual Directors[6] was not undertaken. However, the Board informally evaluates performance regularly. The Company proposes to undertake a formal evaluation of the Board and individual Directors during 2016.

Performance review of senior executives

The Board, with the advice and assistance of the Nomination Committee, is responsible for annually reviewing the performance of the Chief Executive Officer and senior executives in accordance with the process established by the Nomination Committee. For the financial year ended 30 June 2015, a performance evaluation of the Chief Executive Officer and senior executives was undertaken in accordance with the process established by the Nomination Committee.

Indemnities and insurance

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

Director share ownership

All Directors and employees are required to comply with the Company's Insider Trading Policy in undertaking any trading in the Company's shares. The number of shares held by each Director and their dealings in the Company's securities during the financial year are disclosed on pages 45 and 46.

[6] Excludes CEO who received a performance review in his capacity as CEO of the Group

Board committees

The Board has three standing committees to facilitate and assist the Board in fulfilling its responsibilities. Other committees are established from time to time to examine specific issues as required by the Board.

Committee	Overview	Overview
Audit and Risk Management Committee	Responsible for monitoring and advising the Board on the Company's audit, risk management and regulatory compliance policies and procedures	Julia Hoare (Chairman)* Melvyn Miles** Richard Le Grice*
Nomination Committee	Responsible for advising the Board on the composition of the Board and its committees, reviewing the performance of the Board, its committees, the individual Directors and senior executives, ensuring the proper succession plans are in place and advising the Board in respect of the effectiveness of its corporate governance policies and developments in corporate governance	Julia Hoare (Chairman)* David Hearn** Richard Le Grice*
Remuneration Committee	Responsible for establishing the policies and practices of the Company regarding the remuneration of Directors and other senior executives and reviewing all components of the remuneration framework and associated performance	Richard Le Grice (Chairman)* Melvyn Miles** David Hearn**

*Independent Director as at 30 June 2015
** Non-independent Director as at 30 June 2015

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

The Committees make recommendations to the Board. They have no decision making power except where expressly provided by the Board. The relevant qualifications and experience of individual Committee members are set out in the Director profiles section on page 27. The number of times each Committee met and the attendance of individual members at each Committee meeting is set out on page 37.

With the advice and assistance of the Nomination Committee, the Board reviews the performance of the Committees against their relevant Charter and agreed goals and objectives on an annual basis. For the financial year ended 30 June 2015, a performance evaluation of the Board Committees was not undertaken. The Company proposes to undertake Committee evaluations during 2016.

1. Audit and Risk Management Committee

This committee comprises three non-executive Directors, two of whom were considered independent as at 30 June 2015. The Committee is chaired by Julia Hoare (independent Director). The Chief Executive Officer and the Chief Financial Officer attend as ex-officio members; and the external auditors attend by invitation of the Chairman. This Committee meets a minimum of four times each year. The Audit and Risk Management Committee Charter sets out the responsibilities of the Committee, including to:

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

The current composition of the Audit and Risk Management Committee is Julia Hoare (Chair), Melvyn Miles and Richard Le Grice.

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

2. Remuneration Committee

This committee comprises two non-executive Directors and one executive Director. The Committee is chaired by Richard Le Grice (independent Director).

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

- review the remuneration packages of the Chief Executive Officer and Senior Managers; and
- make recommendations to shareholders in relation to non-executive Director remuneration packages

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages. No Director is involved in Committee meetings at which his or her remuneration is being discussed. The current composition of the Remuneration Committee is Richard Le Grice (Chair), Melvyn Miles and David Hearn. The Company's remuneration policies for Directors and senior executives are set out on pages 40 to 43.

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

3. Nomination Committee

This Committee comprises three Directors, a majority of whom are independent. The Committee is chaired by Julia Hoare (independent Director). The Committee meets as required to advise the Board on the matters outlined in the Nomination Committee Charter, including to recommend new appointments to the Board. The current composition of the Nomination Committee is Julia Hoare (Chair), David Hearn and Richard Le Grice.

Every new Director appointment that is approved by the Board is considered and decided by the Board as a whole, taking into account the range of skills and experience a potential new Director may offer the Board and, his or her ability to fully commit the time needed to be effective as a Director of the Company.

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

Record of attendance at Board and committee meetings

There were nine Board meetings during the reporting period to 30 June 2015. Director attendance at Board and Committee meetings is set out below.

	Meetings of the Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee	Total
Mr Cliff Cook (Chairman, retired)[1]	7	–	–	1	8
Mr David Hearn (Chairman)[2]	8	–	2	1	11
Mr David Mair[3]	6	–	1	1	8
Mr Perry Gunner[4]	3	–	1	1	5
Ms Julia Hoare	9	4	–	2	15
Mr Geoffrey Babidge (CEO)	9	–	–	–	9
Mr Melvyn Miles	9	4	3	–	16
Mr Richard Le Grice	9	4	2	1	16

[1]Cliff Cook retired as Chairman on 30/03/2015; [2]David Hearn appointed to Chairman on 30/03/2015
[3]David Mair retired as Director on 30/03/2015; [4]Perry Gunner retired as Director on 18/11/2014

The board cont.

Board's role in risk oversight

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

Internal financial control

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

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

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

- Recommendations made by the external auditor and other independent advisers are critically evaluated and, where appropriate, applied; and
- The Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively

Risk management

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

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

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

Corporate governance policies

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

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

Code of ethics

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

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

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

Continuous disclosure policy

The Company has adopted a set of procedures and guidelines to ensure that it complies with its disclosure obligations in accordance with all applicable legal and regulatory requirements, including the NZX Listing Rules and the ASX Listing Rules. This is to ensure the Company discloses to the ASX and the NZX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. A copy of the Continuous Disclosure Policy is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance.

Risk management policy

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

The Company's risk management program comprises a series of processes, structures and guidelines which assist the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile. To achieve this, the Company has clearly defined the responsibility and authority of the Board to oversee and manage the risk management program, while conferring responsibility and authority on the Audit and Risk Management Committee to develop and maintain the risk management program in light of the day-to-day needs of the Company.

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

The Audit and Risk Management Committee is responsible for reviewing whether the Company has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board. For the reporting period to 30 June 2015, the Audit and Risk Management Committee is of the view that the Company does not have any material exposure to economic, environmental or social sustainability risks.

The Company, at least annually, evaluates the effectiveness of its risk management framework to ensure that its internal control systems and processes are monitored and updated on an ongoing basis. Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control process. A review of the Company's risk management framework has been conducted in the reporting period by the Audit and Risk Management Committee. No significant changes to the framework or policy were identified.

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

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

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

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

Shareholder communication policy

The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board, a copy of which is available on the Company's website at www.thea2milkcompany.com/about-us/corporate-governance. The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is timely, clear and accessible. The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at www.thea2milkcompany.com. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general Company information. The Company website also has a comprehensive corporate governance section for shareholders at www.thea2milkcompany.com/about-us/corporate-governance.

All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's external auditor.

The board cont.

Remuneration

Securities trading policy

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

Under New Zealand and Australian legislation, the insider trading laws operate to prohibit people in possession of non–public price sensitive information from dealing in securities or passing on the information to other people who may deal in securities. The a2MC policy is designed to protect Directors, employees and their associates, as well as the Company's shareholders against acts of insider trading that, either willingly or unknowingly, would disadvantage holders of the Company's securities.

The Policy employs the use of blackout periods to restrict Directors, senior executives, employees and their associates from trading during times where sensitive, non-public information may be held. In addition, the Company must be notified in advance of any proposed dealing in the Company's securities.

REMUNERATION

a2MC remuneration model

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

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

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

1. Fixed remuneration

The fixed remuneration model is informed and adjusted each year based on data from multiple independent remuneration specialists and sources. Employee's fixed remuneration is based on a matrix of an individual's skills and experience, their individual performance and their current level of remuneration relative to the market. Fixed remuneration is reviewed on an annual basis and, where appropriate, is adjusted based on consideration of individual performance and market remuneration movement. The Board reviews and approves all movements in fixed remuneration.

2. Variable remuneration

All incentive programs that provide the potential to receive payment over and above fixed remuneration are based on a framework whereby such payments are discretionary, are appropriate to the results delivered by the Group, and are based on a principle of reward for performance.

There are two forms of variable remuneration used by a2MC.

2.1 Short Term Incentive plan (STI)

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

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

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

Remuneration

2.2 Long-Term Incentive plan (LTI)

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

The LTI model has been established to:

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

Participation in the LTI plan is by invitation only, at the sole and absolute discretion of The Board. The Company may grant options and/or performance rights ("Awards") to eligible participants under the plan. Each Award granted represents a right to receive one fully paid share in the Company once the Award vests and is exercised by the relevant Participant. The number of Awards and the vesting conditions for Awards issued under the LTI Plan are determined by and at the sole discretion of The Board.

Further details on the Long-Term Incentive Plan can be found at Note 14.3.

For each Director the number of Awards granted during the financial year ended 30 June 2015 and the applicable period over which performance is measured is set out below.

	Grant date	Options granted	Exercise price	Date exercisable[6]	Expiry Date	Fair Value at Grant Date
David Hearn	30 Mar 2015	5,000,000	$0.63	30 Mar 16 – 30 Mar 20	30 Jun 2020	$503,000
Total		5,000,000				

[6]The options will vest in five equal tranches over five years commencing on the first anniversary of the date of grant

Managing executive performance

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

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

The objectives agreed between the Board and the CEO are discussed and cascaded to each member of the Executive Team, and captured in individual performance delivery documents and STI agreements. The CEO uses the performance delivery documents to facilitate individual conversations with each member of the Executive Team periodically throughout the performance period. The discussions provide a forum for regular feedback on progress and performance. They provide checkpoints for the CEO and Executive Team to determine whether there is a need to realign priorities in order to deliver on the agreed objectives, and identify what support may be needed to do so. The periodic performance discussions are documented and form the basis of the annual performance review that each individual undertakes with the CEO at the end of the performance period.

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

For the financial year ended 30 June 2015, each member of the Executive Team has had at least one periodic performance discussion with the CEO documented.

Remuneration

Directors' fees

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

	12-months ended 30 June 2015 $
Cliff Cook (Chairman, retired)[7]	97,500
David Hearn (Chairman)[8]	57,346
David Mair[9]	60,000
Perry Gunner[10]	26,252
Julia Hoare	101,250
Melvyn Miles [11]	73,047
Richard Le Grice	73,750
	489,145

Remuneration of the CEO

The Company has entered into an executive services agreement with Geoffrey Babidge in respect of his employment as CEO of the Company. Geoffrey receives an annual base salary of AUD 525,300 and has the opportunity to receive 30% of his annual remuneration in the form of a short term incentive, subject to the achievement of performance objectives determined by the Chairman of the Company and the Chairman of the Remuneration Committee of the Board. At 30 June 2015 Geoffrey held 11 million partly paid shares which were issued to him under the long term incentive scheme described in Note 14. Geoffrey's employment commenced in 2010 and continues until 31 December 2015, after which his employment will automatically extend for successive 12 month terms unless the Company serves him with notice to terminate.

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

Fixed Remuneration	525,300
Short-Term Incentive (related to the year ended 30 June 2014)	51,000
Total remuneration received	AUD 576,300

[7]Cliff Cook retired as Chairman on 30/03/2015
[8]David Hearn appointed to Chairman on 30/03/2015. Director fees are in addition to, and separate from, consultancy fees paid to Lovat Partners Limited, an entity controlled by David Hearn, for services rendered during the year. Refer Note 22 Related Party Transactions for details of consultancy fees paid during the year, and page 41 Long Term Incentive plan (LTI) for options granted
[9]David Mair retired as Director on 30/03/2015
[10]Perry Gunner retired as Director on 18/11/2014
[11]Director fees are in addition to, and separate from, consultancy fees paid to Melvyn Miles for services rendered during the year. Refer Note 22 Related Party Transactions for details of consultancy fees paid during the year

Remuneration

Remuneration of the CEO cont.

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

	Grant date	Shares issued	Exercise price	Vesting date	Expiry date	Fair value at grant date NZD
Geoffrey Babidge	25 Aug 2010	6,000,000	$0.10	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	$233,542
Geoffrey Babidge	29 Oct 2013	5,000,000	$0.64	29 Oct 2018	1 Dec 2050	$1,235,000
Total		11,000,000				

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

Employee remuneration range

The following table shows the number of employees and former employees of the Company and its subsidiaries (not being Directors or former Directors, except for the CEO) who, in their capacity as employees, received remuneration and other benefits valued at or in excess of $100,000 during the year to 30 June 2015.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration range $ (Gross)	Number of employees in the year ended 30 June 2015 (Based on actual payments)
$110,000 – $119,999	2
$120,000 – $129,999	3
$140,000 – $149,999	3
$150,000 – $159,999	2
$160,000 – $169,999	2
$170,000 – $179,999	1
$200,000 – $209,999	1
$220,000 –$229,999	2
$230,000 – $239,999	2
$270,000 – $279,999	1
$330,000 – $339,999	1
$350,000 – $359,999	1
$390,000 – $399,999	1
$410,000 – $419,999	1
$420,000 – $429,999	1
$470,000 – $479,999	1
$620,000 – $629,999	1
Total	26

Diversity

DIVERSITY

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

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

1. Board's responsibility

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

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

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

2. Setting objectives

Given that the Company's Diversity Policy was only adopted recently, no measurable objectives were set for the reporting period ended 30 June 2015. The Board will set measureable objectives during 2016.

3. Gender representation across the Group

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

	As at 30 June 2015				As at 30 June 2014			
	Male	Percentage male (%)	Female	Percentage female (%)	Male	Percentage male (%)	Female	Percentage female (%)
Directors[12]	4	80%	1	20%	7	87%	1	13%
Senior Executives[13]	8	89%	1	11%	7	87%	1	13%
Remaining Staff	40	50%	40	50%	28	49%	29	51%
Total	52	55%	42	45%	42	58%	31	42%

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

[12]Includes executive Directors: David Hearn (Chairman) and Geoffrey Babidge (CEO)
[13]Senior Executives are defined as those directly reporting to the CEO

Disclosures

DISCLOSURES

1. Substantial product holders

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the fully paid ordinary shares of the Company as at 30 June 2015 (such disclosure being required pursuant to Subpart 5 of Part 5 of the Financial Markets Conduct Act 2013) and as at 27 August 2015 (such disclosure being required pursuant to ASX Listing Rule 4.10.4):

	As at 30 June 2015		As at 27 August 2015	
	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
Arrovest Pty Limited[15]	126,397,884	19.15	126,397,884	19.15
Freedom Foods Group Limited	117,699,229	17.83	117,699,229	17.83
Mountain Road Investments Limited	57,558,701	8.72	57,558,701	8.72
Milford Asset Management Limited	59,912,297	9.08	42,792,872	6.48
Perpetual Limited and subsidiaries	(Was not a substantial product holder)		49,502,632	7.50
First NZ Capital Group Limited	33,324,572	5.05	33,324,572	5.05

The total number of voting shares on issue as at 30 June 2015 and as at 27 August 2015 was 660,066,979 consisting of 633,326,979 fully paid shares (27 August 2015: 639,326,979) and 26,740,000 partly paid shares (27 August 2015: 20,740,000).

2. Directors' relevant interests & share dealings

Directors and a former Director reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2014 to 30 June 2015:

Name of director/ former director	Registered holder	Nature of relevant interest	Acquired/ (sold) No's	Class of financial product	Date	Consideration paid/ (received)
David Mair	Public Trust Forte Nominees Limited	Non beneficial	107,400	Fully paid ordinary shares	29 Jul 2014	$67,662
David Mair	Public Trust Forte Nominees Limited	Non beneficial	35,131	Fully paid ordinary shares	30 Jul 2014	$22,133
David Mair	Public Trust Forte Nominees Limited	Non beneficial	180,000	Fully paid ordinary shares	6 Aug 2014	$117,000
David Mair	Public Trust Forte Nominees Limited	Non beneficial	500,000	Fully paid ordinary shares	26 Aug 2014	$315,000
David Mair	Public Trust Forte Nominees Limited	Non beneficial	300,000	Fully paid ordinary shares	15 Sep 2014	$180,000
Richard Le Grice	Richard Le Grice	Beneficial	(100,000)	Fully paid ordinary shares	15 Sep 2014	($61,460)
David Mair	Public Trust Forte Nominees Limited	Non beneficial	300,000	Fully paid ordinary shares	25 Feb 2015	$159,000
David Hearn[17]	Lovat Partners Limited	Beneficial	5,000,000	Unlisted options	30 Mar 2015	–
David Mair	Public Trust Forte Nominees Limited	Non beneficial	200,000	Fully paid ordinary shares	30 Apr 2015	$100,000
David Mair	Public Trust Forte Nominees Limited	Non beneficial	500,000	Fully paid ordinary shares	29 May 2015	$242,500
David Mair	Public Trust Forte Nominees Limited	Non beneficial	(250,000)	Fully paid ordinary shares	24 Jun 2015	($189,175)

[15]According to Arrovest Pty Limited's substantial product holder notice dated 9 June 2015, Arrovest Pty Limited is deemed to have a relevant interest in the ordinary shares of the Company as a result of holding 20% or more of the voting products in Freedom Foods Group Limited
[17]Shares were issued as part of the Long Term Incentive Plan (refer note 14.3)

Disclosures cont.

2. Directors' relevant interests & share dealings cont.

Directors held the following relevant interests in the financial products of the Company as at 30 June 2015:

Name of director	Registered holder	Nature of relevant interest	Balance held No's	Class of financial product	Date
Geoffrey Babidge	GCAA Investments Pty Ltd	Beneficial	11,000,000	Fully paid ordinary shares	30 June 2015
David Hearn	Lovat Partners Limited	Beneficial	5,000,000	Fully paid ordinary shares	30 June 2015

3. Twenty largest fully paid equity security holders

The names of the 20 largest holders of equity securities as at 27 August 2015 are listed below:

	No's	%
Freedom Foods Group Limited	117,699,229	17.83
Mountain Road Investments Limited	57,558,701	8.72
National Nominees New Zealand Limited	44,098,638	6.68
J P Morgan Chase Bank	25,532,849	3.87
RBC Investor Services Australia Nominees Pty Limited	23,497,398	3.56
Tea Custodians Limited	19,802,156	3.00
UBS Nominees Pty Ltd	19,085,174	2.89
Accident Compensation Corporation	18,898,312	2.86
Citibank Nominees (NZ) Limited	18,249,063	2.76
Cogent Nominees Limited	12,731,722	1.93
BNP Paribas Nominees NZ Limited	12,131,530	1.84
Premier Nominees Limited	11,000,221	1.67
HSBC Custody Nominees (Australia) Limited	10,931,859	1.66
New Zealand Superannuation Fund Nominees Limited	9,747,844	1.48
J P Morgan Nominees Australia Limited	8,603,037	1.30
HSBC Nominees (New Zealand) Limited	8,092,428	1.23
Ulrike Mclachlan	7,035,163	1.07
National Nominees Limited	7,025,740	1.06
Gregory Paul Hinton	7,000,000	1.06
Pershing Australia Nominees Pty Ltd	6,946,910	1.05
	445,667,974	67.52

Disclosures cont.

4. Spread of security holders as at 27 August 2015:

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	%	Numbers
1–1,000	373	0.05	290,352
1,001–5,000	1,698	0.83	5,311,468
5,001–10,000	1,169	1.51	9,663,099
10,001–50,000	1,540	5.68	36,284,059
50,001–100,000	254	3.08	19,680,188
100,001–500,000	177	5.83	37,272,865
500,001–1,000,000	13	1.42	9,076,046
1,000,001 shares or more	32	81.6	521,748,902
	5,256	100.00	639,326,979[18]

b) Partly paid ordinary shareholders

Size of Shareholding	Number of holders	%	Numbers
1,000,001 shares or more	6	100.00	20,740,000
	6	100.00	20,740,000

As at 27 August 2015, the number of holders holding less than a marketable parcel[19] of the Company's fully paid ordinary shares, based on the closing market price, was 134.

5. Credit rating status

Not applicable.

6. Changes in directors

During the accounting period, the following changes took place:

- Perry Gunner resigned as Deputy Chairman and Director of the Company with effect from 18 November 2014
- Cliff Cook resigned as both Chairman and a Director of the Company with effect from 30 March 2015
- David Mair resigned as a Director of the Company with effect from 30 March 2015
- David Hearn was appointed Deputy Chairman on 18 November 2014, and as Chairman of the Company with effect from 30 March 2015
- Julia Hoare was appointed as Deputy Chairman of the Company with effect from 30 March 2015

7. NZX trading halt

On 10 March 2015, NZX halted trading in the Company's ordinary shares for less than two hours pending an announcement in relation to its infant formula products.

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

[18] The total number of fully paid shares as at 27 August 2015 includes the conversion of 6,000,000 partly paid shares on 24 July 2015, details of which can be found in Note 25 Subsequent Events

[19] For the purposes of this disclosure, a marketable parcel is defined as a parcel of shares with a market value of less than AUD 500

Disclosures cont.

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 2015 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
- Directors' relevant interests and share dealings as outlined on page 45 and 46

Please refer to Note 22.3 Transactions with Related Parties for consultancy arrangements entered into with David Hearn and Melvyn Miles.

8.2 Other positions held

As at 30 June 2015, Directors held the following positions with the following entities:

Name of director	Entity	Position
David Hearn	Lovat Partners Limited	Director/Shareholder
	Robin Partington & Partners Limited	Director
	Committed Capital Limited	Director/Shareholder
Melvyn Miles	Freedom Foods Group Ltd	Director/Shareholder
	Brewtique Pty Ltd	Director/Shareholder
Richard Le Grice	Mesjas Limited	Director/Shareholder
	Colorite Engraving Limited	Director
	Maxtil Limited	Director
	Multi Vision Technologies Limited	Director
	NZ Saw Limited	Director/Shareholder
	Thode Knife & Saw Limited	Director/Shareholder
	RGM Trustee Limited	Director
	The Gravitas Group Limited	Director/Shareholder
	Tapme Media Limited	Director/Shareholder
	7Bomb Limited	Director/Shareholder
	Energi Advertising Limited	Director
Julia Hoare	New Zealand Post Limited	Director
	Watercare Services Limited	Director
	AWF Madison Group Limited	Director

8.3 Sub-committees

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

Audit & Risk	Remuneration	Nomination
Julia Hoare (Chair)	Richard Le Grice (Chair)	Julia Hoare (Chair)
Melvyn Miles	Melvyn Miles	David Hearn
Richard Le Grice	David Hearn	Richard Le Grice

Disclosures cont.

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

8.4 Directors of subsidiary companies

Subsidiary	Directors
A2 Exports Limited	Geoffrey Babidge Craig Louttit
A2 Australian Investments Pty Limited	Geoffrey Babidge Craig Louttit
A2 Botany Pty Limited	Geoffrey Babidge Craig Louttit
The a2 Milk Company (Australia) Pty Limited	Geoffrey Babidge Peter Nathan
A2 Infant Nutrition Limited	Geoffrey Babidge Simon Hennessy
A2 Holdings UK Limited	Geoffrey Babidge Craig Louttit
A2 Infant Nutrition Australia Pty Limited	Geoffrey Babidge Simon Hennessy Peter Nathan
A2 Exports Australia Pty Limited	Geoffrey Babidge Craig Louttit
The a2 Milk Company (New Zealand) Limited	Geoffrey Babidge Peter Nathan
The a2 Milk Company Limited (Canada)	Geoffrey Babidge Craig Louttit
The a2 Milk Company Limited (UK)	David Hearn William Keane Geoffrey Babidge Scott Wotherspoon
The a2 Milk Company Limited (USA)	Geoff Babidge Melvyn Miles David Hearn

8.5.Use of company information

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

Disclosures cont.

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) 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 in accordance with the New Zealand Takeovers Code, a partial takeover offer in accordance with the New Zealand Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more shares in the Company.

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

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

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

10. Disclosure following admission to ASX

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

11. Donations

The Company made donations of cash and inventories totalling NZD 196,462 during the year ended 30 June 2015 (2014: NZD 150,991), primarily related to donations of inventory to charitable organisations.

Disclosures cont.

12. Reconciliation of EBITDA to profit after tax:

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.

	2015 $'000	2014 $'000
EBITDA before non-recurring items	4,810	3,566
Share of associate earnings	–	(1,361)
Non-recurring items[20]	(1,681)	–
Interest income	150	455
Interest expense	(49)	(40)
Depreciation/amortisation	(1,949)	(1,900)
Income tax income/(expense)	(3,372)	(710)
Net Profit After Tax (NPAT)	(2,091)	10

13. Summaries of the material terms of the following agreements

13.1 Lease of Smeaton Grange Premises and Option to Purchase the Site

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

[20]Non-recurring items in 2015 relate to costs associated with the ASX listing process during the period

Disclosures cont.

13. Summaries of the material terms of the following agreements cont.

13.2 Leppington Pastoral Milk Supply Agreement

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

Term and renewal

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

Quality assurance

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

Volume

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

Price

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

Intellectual property

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

Termination

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

Indemnity

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

Financial statements

Contents

Directors' approval of the financial statements

For the year ended 30 June 2015

The Directors of The a2 Milk Company Limited are pleased to present to shareholders the consolidated financial statements for The a2 Milk Company Limited ("Company" or "a2MC") and its subsidiaries (together the "Group") for the year ended 30 June 2015.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 30 June 2015 and the results of its operations and cash flows for the period ended on that date.

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

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

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

These financial statements are prepared on a going concern basis.

Signed on behalf of the Board by:

David Hearn
Chairman
16 September 2015

Geoffrey Babidge
Managing Director and Chief Executive Officer

Ernst & Young
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Building a better working world

Independent Auditors report

To the Shareholders of The a2 Milk Company Limited

Report on the Financial Statements

We have audited the group financial statements of The a2 Milk Company Limited and its subsidiaries ("the Group") on pages 56 to 107, which comprise the statement of financial position of the Group as at 30 June 2015, and the statement of comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, the 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.

Opinion

In our opinion, the financial statements on pages 56 to 107:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the Group as at 30 June 2015 and the financial performance and cash flows of the Group for the year then ended.

Ernst & Young
16 September 2015
Sydney, Australia

Consolidated statement of comprehensive income

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Continuing operations			
Sales		154,803	110,621
Cost of sales		(100,387)	(70,802)
Gross margin		54,416	39,819
Interest income		150	455
Other revenue	3.1	306	224
Administrative expenses	3.2	(15,369)	(11,753)
Finance costs	3.3	(130)	(81)
Marketing expenses		(10,253)	(9,706)
Occupancy expenses		(495)	(456)
Other expenses	3.4	(27,344)	(16,421)
Profit before tax and share of loss from an associate		1,281	2,081
Share of net loss of an associate accounted for using the equity method	21.3	–	(1,361)
Profit before tax		1,281	720
Income tax expense	4.1	(3,372)	(710)
(LOSS)/PROFIT AFTER TAX FOR THE YEAR		(2,091)	10
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss:			
Foreign currency translation gain/(loss)	4.2 & 17	954	(4,497)
TOTAL COMPREHENSIVE LOSS		(1,137)	(4,487)
Earnings/(Loss) per share			
Basic (cents per share)	13.1	(0.33)	–
Diluted (cents per share)	13.2	(0.32)	–

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Equity at beginning of year		58,644	59,930
Total comprehensive loss for the year		(1,137)	(4,487)
		57,507	55,443
TRANSACTIONS WITH OWNERS			
Issue of ordinary shares	12	39	2,011
Employee equity settled payments reserve	15	1,083	1,190
Equity at end of year		58,629	58,644
EQUITY COMPRISES:			
Share capital			
Balance at beginning of year		86,264	84,253
Issue of ordinary shares		39	2,011
Balance at end of year	12	86,303	86,264
Retained earnings/(deficit)			
Balance at beginning of year		(23,974)	(23,984)
Net surplus/(deficit) for the period including associate/joint venture surplus/(losses)		(2,091)	10
Balance at end of year	16	(26,065)	(23,974)
Foreign currency translation reserve			
Balance at beginning of year		(6,665)	(2,168)
Movements during the period		954	(4,497)
Balance at end of year	17	(5,711)	(6,665)
Employee equity settled payments reserve			
Balance at beginning of year		3,019	1,829
Movements during the period		1,083	1,190
Balance at end of year	15	4,102	3,019
EQUITY AT END OF YEAR		58,629	58,644

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Current assets			
Cash & short term deposits	5	6,092	15,979
Trade and other receivables	6	39,944	27,358
Prepayments		9,651	1,992
Inventories	7	4,846	5,583
Current tax assets		–	225
Total current assets		60,533	51,137
Non-current assets			
Property, plant & equipment	8	9,301	9,163
Goodwill	10	10,993	10,587
Other intangible assets	11	6,230	4,194
Deferred tax asset	4.4	1,810	1,562
Total non-current assets		28,334	25,506
TOTAL ASSETS		88,867	76,643
LIABILITIES			
Current liabilities			
Accounts payable	9.1	28,357	17,875
Current tax liabilities		595	–
Total current liabilities		28,952	17,875
Non-current liabilities			
Accounts payable	9.2	189	124
Deferred tax liability	4.4	1,097	–
Total non-current liabilities		1,286	124
TOTAL LIABILITIES		30,238	17,999
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	12	86,303	86,264
Retained earnings/(deficit)	16	(26,065)	(23,974)
Foreign currency translation reserve	17	(5,711)	(6,665)
Employee equity settled payments reserve	15	4,102	3,019
Total equity		58,629	58,644
TOTAL LIABILITIES & EQUITY		88,867	76,643

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		144,708	107,446
Interest received		150	403
Other income		306	224
Tax refunds		–	756
Payments to suppliers & employees		(150,633)	(106,699)
Interest paid		(49)	(40)
Taxes paid		(2,548)	(1,655)
Net cash (outflow)/inflow from operating activities	27	(8,066)	435
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant & equipment	8	(995)	(871)
Investment in other intangible assets	11	(2,632)	(2,042)
Investment in The a2 Milk Company Limited (UK)	21.2	–	(4,574)
Net cash outflow from investing activities		(3,627)	(7,487)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of equity shares		39	2,011
Net cash inflow from financing activities		39	2,011
Net increase/(decrease) in cash & short term deposits		(11,654)	(5,041)
Cash & short term deposits at the beginning of the year		15,979	20,187
Effect of exchange rate changes on cash		1,767	(605)
Cash acquired with The a2 Milk Company Limited (UK)		–	1,438
Cash and short term deposits at the end of the year		6,092	15,979
COMPRISED OF:			
Cash & short term deposits	5	6,092	15,979

The accompanying notes form part of these financial statements.

Notes

to the financial statements

Contents

1. Corporate information and
2. Summary of significant accounting policies

1. CORPORATE INFORMATION

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

The principal activity of the Company is the commercialisation of a2MC branded milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of A1 protein free milk products. The Company sources and supplies a2MC branded milk in Australia through its 100% owned subsidiary The a2 Milk Company (Australia) Pty Limited, in the UK through its 100% owned subsidiary The a2 Milk Company Limited (UK), and in the USA through its 100% owned subsidiary The a2 Milk Company Limited (USA). The Company supplies a2MC branded infant nutrition through its 100% owned subsidiaries A2 Infant Nutrition Limited and A2 Infant Nutrition Australia Pty Limited.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2.2 Statement of compliance

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

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

2. Summary of significant accounting policies cont.

2.3 Changes in accounting policies and disclosures

(i) Standards and interpretations in issue and adopted during the year

Reference	Summary	Application to the group
NZ IFRS 2: Share Based Payments	Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (previously part of the definition of 'vesting condition')	The basis of accounting for the Group has not changed as a result of the adoption of this Standard
NZ IFRS 8: Operating Segments	There are two key amendments to this standard: (i) an entity is required to disclose the judgements made by management in applying the aggregation criteria to operating segments; and (ii) clarification has been given with regard to the reporting of segment assets and liabilities, whereby reporting on these amounts is only applicable if they are regularly provided to the chief operating decision maker	For the period ending 30 June 2015, the Group has applied the aggregation allowances for the combination of the USA and UK operating segments into a single reporting segment. As a result, the judgements applied in determining this application have been disclosed as part of the Note 26 Operating Segment Information
Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	The amendments to NZ IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" financial assets and financial liabilities. The definition of "legally enforceable right" now must not be contingent on a future event, and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all counterparties	The basis of accounting for the Group has not changed as a result of the adoption of this Standard
Amendments to NZ IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to NZ IAS 36 remove the requirement introduced by NZ IFRS 13 to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives Additionally, the amendments require disclosure of: (i) additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal (ii) information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendments harmonises disclosure requirements between value in use and fair value less costs of disposal	The basis of accounting for the Group has not changed as a result of the adoption of this Standard

2. Summary of significant accounting policies cont.

2.3 Changes in accounting policies and disclosures cont.

(ii) Standards and interpretations in issue not yet adopted

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

Reference	Summary	Application to the group	Date of application
NZ IFRS 15: Revenue from Contracts with Customers	NZ IFRS 15 supersedes a number of existing revenue standards, including the current guiding revenue standard for the Group, being NZ IAS 18 Revenue. The new standard establishes principles for revenue recognition that focus on the achievement of performance obligations, such that revenue is recognised in line with the pattern of transfer of control	The Group is yet to assess the full impact of this standard, however the following observations are noted: (i) The standard is unlikely to materially change the way the Group recognises revenue for the milk and milk-based products it sells; (ii) Consideration will need to be given to the way revenue is booked in relation to licence fees, royalties, or other revenues generated from the use of the Group's Intellectual Property (IP); and (iii) It is likely that additional disclosures will be required including the disaggregation of total revenue; information about performance obligations; movements in contract receivables and payables; and key judgements and estimates employed	1 July 2017 for application in the financial year ended 30 June 2018 (unless adopted sooner)

2. Summary of significant accounting policies cont.

2.3 Changes in accounting policies and disclosures cont.

(ii) Standards and Interpretations in Issue not yet adopted

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

Reference	Summary	Application to the group	Date of application
NZ IFRS 9 (2014): Financial Instruments	This version of the standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9 The amendments to the previous standard are comprehensive, however the key changes relevant (or potentially relevant) to the Group are as follows: (i) The number of categories of financial assets has been reduced from four to two. The two revised categories are (a) assets held at fair value; and (b) assets held at amortised cost; (ii) There is an option for investments in equity instruments which are not held for trading and where fair value changes are booked to Other Comprehensive Income (OCI), to avoid impairment testing; and also the recycling of gains/losses through profit or loss on derecognition; (iii) Where the fair value option has been used for financial liabilities, the change in fair value related to credit risk are presented in OCI, with the remaining change presented in profit or loss, unless this creates an accounting mismatch; and (iv) New hedge accounting requirements relating to effectiveness testing, treatment of hedging costs, risk components and disclosures	NZ IFRS 9 was issued on 4 September 2014 by the New Zealand Accounting Standards Board. The Group is yet to assess the full impact of this standard. However, a full and thorough assessment will be performed in due course	1 July 2018 for application in the financial year ended 30 June 2019 (unless adopted sooner)

2. Summary of significant accounting policies cont.

2.4 Critical accounting judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.5 Key sources of estimation uncertainty

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

Key sources of estimation uncertainty include:

- Assessment of impairment of goodwill (refer Note 2.12 and Note 10)
- Assessment of impairment of intangible assets (refer Note 2.12 and Note 11)
- Capitalisation of intangible assets (refer Note 2.11)
- Estimation of fair value of share based payments (refer Notes 14.2 & 14.4)
- Assessment of recognition of deferred tax on temporary differences and tax losses (refer Note 4)

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

2.6 Basis of consolidation

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

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

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

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Investments in subsidiaries are recorded at cost less any impairment in the parent Company's financial statements.

2.7 Business combinations

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

2. Summary of significant accounting policies cont.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

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

2.8 Investments in associates & joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Gains or losses on the investment are recognised in other comprehensive income.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Investments in associates are recorded at cost less any impairment in the parent Company's financial statements.

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the Group's share of the results of the joint venture entity is recognised in the statement of comprehensive income, and the investment is presented as a non-current asset on the face of the statement of financial position.

At each reporting date, the Group reviews investments in associates or joint ventures for impairment.

2.9 Property, plant & equipment

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

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

Plant and equipment
10–15 years

Furniture and fittings
5–10 years

Office and computer equipment
3–10 years

Lease improvements
6–10 years

The carrying value of an item of property, plant and equipment is derecognised either upon disposal or when no future economic benefits are expected from the asset. Any gain or loss arising from the de-recognition (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.

2. Summary of significant accounting policies cont.

2.10 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition.

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

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

2.11 Intangible assets

Intellectual property

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

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

Project development costs

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

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

Following the initial recognition of the project development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

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

2.12 Impairment of tangible and intangible assets including goodwill

Further disclosures relating to the impairment of non-financial assets can be found in the following notes:

- Property, Plant & Equipment — Note 8
- Goodwill — Note 10
- Intangible Assets — Note 11

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

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

2. Summary of significant accounting policies cont.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-financial assets requiring additional focus:

Goodwill

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

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

Intangible assets

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

2.13 Share-based payment transactions

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

Equity-settled transactions

This is applicable to the following:

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes option pricing and Binomial option pricing model, further details of which are given in Notes 14.2 and 14.4.

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

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

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

2. Summary of significant accounting policies cont.

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

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

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

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

There is a dilution effect on earnings per share (EPS) from the offer of unsettled equity instruments. This is reflected in diluted earnings per share (refer note 13).

Cash-settled transactions

The Group had no cash-settled transactions outstanding as at 30 June 2015.

2.14 Revenue recognition

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

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods. Revenue is recognised net of trade discounts and volume rebates.

Interest revenue

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

Royalties

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

Management fees

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

Other income

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

2.15 Operating segments

The Group has adopted NZ IFRS-8 Operating Segments with effect from 1 January 2009. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

Information regarding the Group's reportable segments is presented in Note 26.

2.16 Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred, unless they are directly attributable to qualifying assets in which case they are capitalised.

2.17 Taxation

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

2. Summary of significant accounting policies cont.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited in other comprehensive income, in which case the tax is also recognised in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date for recoverability. Deferred tax assets are reduced when it is no longer probable that sufficient taxable profits will be available in the future to utilise the asset. Likewise, unrecognised tax assets (not booked to balance sheet) are reassessed at each reporting date, and recognised, to the extent that future taxable profits are deemed likely to allow the asset to be recovered.

2.18 Goods & services tax (GST)

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

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

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

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

2.19 Inventories

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

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2. Summary of significant accounting policies cont.

2.20 Financial assets

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss (FVTPL);
- held-to-maturity investments;
- loans and receivables; and
- Available for sale (AFS) assets

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Loans & receivables

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

Impairment of financial assets

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

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

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

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

2.21 Financial liabilities

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

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

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

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

2.22 Employee benefits

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

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

2. Summary of significant accounting policies cont.

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.

2.23 Provisions

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

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

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

2.24 Leases

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

Group as a lessee

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

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

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

2.25 Foreign currency

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in New Zealand dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. The Group uses the direct method of consolidation.

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

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

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

2. Summary of significant accounting policies cont.

2.26 Statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents include cash at bank and in hand and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

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

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

2.27 Trade & other payables

Trade and other payables are carried at amortised cost due to their short term nature and they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 48 days of recognition.

2.28 Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for options that can be exercised at less than the current market price.

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

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

This is divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for options that can be exercised at less than the current market price. More detail is contained in Note 13.

2.29 Cash and cash equivalents

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

Notes to the financial statements

For the year ended 30 June 2015

	2015 $'000	2014 $'000
3. REVENUE & EXPENSES		
3.1 Other revenue		
Royalties	192	140
Other	114	84
	306	224

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

	2015 $'000	2014 $'000
3.2 Administrative expenses		
Board meeting costs	68	38
Employee equity compensation	1,083	1,190
Salary and wage costs	10,177	7,564
Travel costs	2,121	1,592
Other administrative expenses	1,920	1,369
	15,369	11,753
3.3 Finance costs		
Interest expense	49	40
Other finance costs	81	41
	130	81
3.4 Other expenses		
Audit fees	291	186
Bad and doubtful debts	–	12
Consultancy, accounting & secretarial fees	4,693	2,359
Directors' fees and expenses	489	352
Freight	9,283	7,942
Foreign exchange (gain)/loss	(831)	597
Legal expenses	1,739	1,199
Loss on disposal, plant & equipment	17	–
Patents, trademarks and international development	384	253
Costs associated with ASX listing	1,681	–
Depreciation & amortisation	1,949	1,900
Promotion & merchandising	4,235	164
Other operating expenses	3,414	1,457
	27,344	16,421

Notes to the financial statements

For the year ended 30 June 2015

	2015 $'000	2014 $'000
4. INCOME TAXES		
4.1 Income tax recognised in profit or loss		
Current tax expense	2,962	1,522
Prior period adjustment to tax expense – current tax	299	(917)
Deferred tax expense/(income) relating to the origination and reversal of timing differences and tax losses	(1,295)	(810)
Prior period adjustment to tax expense – deferred tax timing differences	(701)	560
Tax losses utilised (previously not recognised)	(19)	(195)
Effect on deferred tax balances due to the change in UK income tax rate from 20.75% to 20%	148	80
Unutilised foreign tax credits forfeited	30	40
Deferred tax asset not recognised	1,948	430
Total tax expense	3,372	710

The prima facie income tax on pre-tax accounting profit from operations reconciles to:

	2015 $'000	2014 $'000
Profit from operations	1,281	2,081
Income tax expense calculated at 28% (2014: 28%)	359	583
Difference in UK (20.75%), Australian (30%), and USA income tax rate (40.75%)	215	115
Non-deductible expenses	917	14
Tax losses utilised (previously not recognised)	(19)	(195)
Prior period adjustment to tax expense	(403)	(357)
Effect on deferred tax balances due to the change in UK income tax rate from 20.75% to 20%	148	80
Tax expense relating to Australian branch	177	–
Unutilised foreign tax credits forfeited	30	40
Deferred tax asset not recognised	1,948	430
Total tax expense	3,372	710

Notes to the financial statements

For the year ended 30 June 2015

	2015 $'000	2014 $'000
4.2 Income tax recognised in other comprehensive income		
The tax charge relating to components of other comprehensive income is as follows:		
Foreign currency translation reserve before tax	1,881	(4,497)
Tax charge relating to foreign currency translation reserve (FCTR)	(927)	–
Movement in foreign currency translation reserve after tax	954	(4,497)

4.3 Tax losses

The Group has estimated tax losses of $20,929,000 not recognised at balance date (2014: $12,388,000) which comprises $16,163,000 relating to the United Kingdom (2014: $9,378,000), $3,373,000 (2014: $1,211,000) relating to the United States of America and $1,393,000 (2014: $1,799,000) relating to Australia. These are subject to confirmation by the HM Revenue & Customs, the Internal Revenue Service and the Australian Tax Office and subject to meeting the requirements of the income tax legislation in each jurisdiction.

4.4 Deferred tax balances

Deferred tax assets are only recognised in the financial statements to the extent that it is probable that sufficient taxable profits will be available. The Group has a net deferred tax asset of $1,810,000 (2014: $1,562,000), and a net deferred tax liability of $1,097,000 (2014: $nil).

2015	Opening Balance $'000	Charged to income $'000	Closing Balance $'000
Gross deferred tax assets			
Intellectual property	469	(277)	192
Provisions	563	462	1,025
Tax losses	1,008	3	1,011
	2,040	188	2,228
Gross deferred tax liabilities			
Property, plant & equipment	(478)	(299)	(777)
Unrealised foreign exchange gains recognised in FCTR (Note 4.2)	–	(738)	(738)
	(478)	(1,037)	(1,515)
Net deferred tax			713

Notes to the financial statements

For the year ended 30 June 2015

4.4 Deferred tax balances cont.

2014	Opening Balance $'000	Charged to income $'000	Closing Balance $'000
Gross deferred tax assets			
Intellectual property	1,322	(853)	469
Provisions	594	(31)	563
Tax losses	–	1,008	1,008
	1,916	124	2,040
Gross deferred tax liabilities			
Property, plant & equipment	(288)	(190)	(478)
	(288)	(190)	(478)
Net deferred tax			1,562

	2015 $'000	2014 $'000
Net deferred tax balances recognised in the financial statements		
Net deferred tax assets	1,810	1,562
Net deferred tax liabilities	(1,097)	–
Net deferred tax	713	1,562

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

	2015 $'000	2014 $'000
4.5 Imputation credit account balances		
Balance at beginning of the year	314	230
Provisional tax paid/payable	196	640
Accrual	474	(556)
Balance at end of the year	984	314

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

Notes to the financial statements

For the year ended 30 June 2015

4.6 Franking credit account balances

	2015 $'000	2014 $'000
Balance at beginning of the year	2,035	860
Income tax paid/payable	1,747	1,325
Impact of foreign exchange movement	103	(77)
Accrual	426	(73)
Balance at end of the year	4,311	2,035

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

5. CASH & CASH EQUIVALENTS

	2015 $'000	2014 $'000
Cash at banks and on hand	6,092	15,979
Balance at end of the year	6,092	15,979

Bank balances and cash comprise cash held by the Group. Interest is earned at floating rates based on daily bank deposit rates. No short-term deposits were held during the year, or in the prior year. The carrying value of cash assets approximates their fair value.

Cash on hand includes AUD 3,741,000 (2014: AUD 10,939,000), GBP 127,000 (2014: GBP 20,000), USD 730,000 (2014: USD 3,582,000) and EUR 2,500 (2014: EUR 3,000).

The Group had available an AUD 3,000,000 debtor finance facility, which was undrawn as at 30 June 2015.

6. TRADE & OTHER RECEIVABLES

	2015 $'000	2014 $'000
Trade receivables	36,189	24,811
Allowance for doubtful debts	(48)	(46)
Other receivables	3,803	2,593
Balance at end of the year	39,944	27,358

The average credit period on sales is 72 days (2014: 78 days). No interest is charged on trade receivables outstanding.

Included in the Group's accounts receivable balance are debtors with a carrying amount of $1,025,448 (2014: $394,000) which are past due at the reporting date but not considered doubtful. These relate to a number of accounts of which there is no recent history of default. The Group has not provided for these debtors as there has not been a significant change in credit quality and the amounts are still considered recoverable. The ageing of the debtors that are past due but not impaired are predominantly 30 days or more beyond the due date of commercial trading terms.

Notes to the financial statements

For the year ended 30 June 2015

6.1 Movement in allowance for doubtful debts

	2015 $'000	2014 $'000
Balance at beginning of year	46	38
Amount charged to the statement of comprehensive income	–	12
Net foreign currency exchange differences	2	(4)
Balance at end of year	48	46

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

7. INVENTORIES

	2015 $'000	2014 $'000
Raw materials	627	486
Finished goods	4,219	5,097
Total inventories at the lower of cost and net realisable value	4,846	5,583

Notes to the financial statements

For the year ended 30 June 2015

8. PROPERTY, PLANT & EQUIPMENT

2015

	Office & computer $'000	Furniture & fittings $'000	Lease improve ments $'000	Plant & equipment $'000	Capital WIP $'000	Total property, plant & equipment $'000
Cost 1 July 2014	383	92	18	10,550	394	11,437
Acquisition through business combination						
Additions	231	5	50	510	199	995
Transfers	62	58	–	78	(305)	(107)
Disposals	(73)	–	–	(167)	–	(240)
Net foreign currency exchange differences	45	7	2	533	15	602
Cost 30 June 2015	648	162	70	11,504	303	12,687
Accumulated depreciation & impairment charges 1 July 2014	(192)	(27)	(11)	(2,044)	–	(2,274)
Depreciation expense	(159)	(10)	(25)	(980)	–	(1,174)
Accumulated depreciation reversed on disposal	42	–	–	167	–	209
Net foreign currency exchange differences	(17)	(2)	(2)	(126)	–	(147)
Accumulated depreciation and impairment charges 30 June 2015	(326)	(39)	(38)	(2,983)	–	(3,386)
Book Value 30 June 2015	322	123	32	8,521	303	9,301

2014

	Office & computer $'000	Furniture & fittings $'000	Lease improve ments $'000	Plant & equipment $'000	Capital WIP $'000	Total property, plant & equipment $'000
Cost 1 July 2013	273	104	22	12,350	121	12,870
Acquisition through business combination	32	–	–	–	–	32
Additions	130	4	–	441	296	871
Net foreign currency exchange differences	(52)	(16)	(4)	(2,241)	(23)	(2,336)
Cost 30 June 2014	383	92	18	10,550	394	11,437
Accumulated depreciation & impairment charges 1 July 2013	(151)	(21)	(10)	(1,279)	–	(1,461)
Depreciation expense	(69)	(9)	(3)	(983)	–	(1,064)
Net foreign currency exchange differences	28	3	2	218	–	251
Accumulated depreciation and impairment charges 30 June 2014	(192)	(27)	(11)	(2,044)	–	(2,274)
Book Value 30 June 2014	191	65	7	8,506	394	9,163

Notes to the financial statements

For the year ended 30 June 2015

9. ACCOUNTS PAYABLE

9.1 Accounts payable – current

	2015 $'000	2014 $'000
Trade creditors	15,178	8,391
Accruals	10,447	7,160
Employee entitlements	1,301	1,167
Withholding tax payable	1,431	1,157
	28,357	17,875

The average credit period on purchases is 53 days (2014: 48 days). No interest was charged on trade creditors outstanding.

9.2 Accounts payable – non current

	2015 $'000	2014 $'000
Employee entitlements	189	124
	189	124

10. GOODWILL

	2015 $'000	2014 $'000
Cost		
Balance at beginning of the year	10,587	9,370
Acquisition of The a2 Milk Company Limited (UK)	–	2,061
Effects of foreign currency exchange differences	406	(844)
Balance at end of the year	10,993	10,587
Carrying amount		
At beginning of the year	10,587	9,370
At end of the year	10,993	10,587

Notes to the financial statements

For the year ended 30 June 2015

10. GOODWILL CONT.

Annual test for impairment

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

Goodwill has been allocated for impairment testing purposes at the level of its respective cash generating unit, which is also an operating segment (refer to Note 26).

	Australia & New Zealand $'000	UK $'000	USA $'000	Total $'000
Goodwill allocated to CGU's	8,585	2,061	347	10,993

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

Key assumptions

- Discount rate (pre-tax) range: 10.0% to 11.0%
- Terminal growth rate 2.0%

Sensitivity to change in assumptions

The calculation of value in use for the above operating segments is most sensitive to the following assumptions:

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

Gross margins – Gross margins are based on budgeted margins for FY16, and conservative estimates for future years, which have been adjusted where appropriate to account for expected future trading conditions. Consideration has been given to the growth profile of each business when forecasting future margin returns.

Discount rates – Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets being assessed. Segment-specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. Noting that the Group had no debt at 30 June 2015, the cost of debt is based on the capital structure that could be expected from a similar market participant.

Revenue growth – Revenue projections have been constructed with reference to the FY16 budget and 5-year strategic plan (set in financial year 2014), and adjusted for recent performance trends across the particular regions (where necessary). A conservative approach has been adopted by the Company to reduce the risk of inflating estimated recoverable values.

Terminal growth rate – A terminal growth rate of 2.0% per annum has been used as the base assumption for future cash flow growth beyond the 5 year forecast period. This is a conservative rate when compared to annual growth rates during the forecast period. The terminal value (being the total value of expected cash flows beyond the forecast period) is discounted to present values using the discount rate specific to each CGU.

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

Notes to the financial statements

For the year ended 30 June 2015

11. OTHER INTANGIBLE ASSETS

2015	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Total $'000
Cost					
Balance at the beginning of the year	346	526	763	3,511	5,146
Additions	44	387	39	2,162	2,632
Transfers	–	–	107	–	107
Net foreign currency exchange differences	–	–	40	55	95
Balance at the end of the year	390	913	949	5,728	7,980
Amortisation					
At beginning of year	(80)	–	(164)	(708)	(952)
Current year change	(31)	–	(251)	(493)	(775)
Net foreign currency exchange differences	–	–	(15)	(8)	(23)
At end of year	(111)	–	(430)	(1,209)	(1,750)
Carrying amount					
At beginning of year	266	526	599	2,803	4,194
At end of year	279	913	519	4,519	6,230

2014	Patents $'000	Trademarks $'000	Software $'000	Project development $'000	Total $'000
Cost					
Balance at the beginning of the year	296	379	176	2,316	3,167
Additions	50	147	533	1,312	2,042
Transfers	–	–	86	(86)	–
Net foreign currency exchange differences	–	–	(32)	(31)	(63)
Balance at the end of the year	346	526	763	3,511	5,146
Amortisation					
At beginning of year	(49)	–	(82)	–	(131)
Current year change	(31)	–	(95)	(710)	(836)
Net foreign currency exchange differences	–	–	13	2	15
At end of year	(80)	–	(164)	(708)	(952)
Carrying amount					
At beginning of year	247	379	94	2,316	3,036
At end of year	266	526	599	2,803	4,194

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

Notes to the financial statements

For the year ended 30 June 2015

	2015 $'000	2014 $'000
12. SHARE CAPITAL		
a) Share capital		
Balance at beginning of the year	86,264	84,253
Ordinary shares: Partly paid shares fully paid	39	2,011
Balance at end of the year	86,303	86,264

	2015 No.	2014 No.
b) Number of ordinary shares on issue		
i) Fully paid ordinary shares		
Balance at beginning of the year	633,066,979	615,165,990
Shares issued	260,000	17,900,989
Balance at end of the year	633,326,979	633,066,979
ii) Partly paid ordinary shares		
Balance at beginning of the year	27,000,000	30,000,989
Shares fully paid	(260,000)	(17,500,989)
Shares issued	–	14,500,000
Balance at end of the year	26,740,000	27,000,000
Total ordinary shares on issue	660,066,979	660,066,979

During the year ended 30 June 2015, 260,000 partly paid ordinary shares became fully paid (2014: 17,500,989).

During the year ended 30 June 2015, no additional partly paid ordinary shares were issued by the Company.

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

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

Notes to the financial statements

For the year ended 30 June 2015

	2015 Cents per share	2014 Cents per share
13. EARNINGS PER SHARE		
13.1 Basic earnings/(loss) per share		
From continuing operations	(0.33)	–
Total basic earnings per share	(0.33)	–

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

	2015 $'000	2014 $'000
Net surplus/(deficit):		
From continuing operations	(2,091)	10
	(2,091)	10
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of basic earnings per share	633,337	626,324

	2015 Cents per share	2014 Cents per share
13.2 Diluted earnings/(loss) per share		
From continuing operation	(0.32)	–
Total diluted earnings per share	(0.32)	–

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

	2015 $'000	2014 $'000
Net surplus/(deficit):		
From continuing operations	(2,091)	10
	(2,091)	10
	No.	No.
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share	633,337	626,324
Effect of dilution due to partly paid ordinary shares ('000)	9,736	27,897
Weighted average number of ordinary shares ('000) for the purpose of diluted earnings per share	643,073	654,221

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS

14.1 Partly paid shares

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

a) Restrictions on transfer

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

b) Issue price

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

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

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

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

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

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

The purchasers have an unconditional right to put the partly paid shares to the Company prior to settlement date and receive a full refund of any monies paid.

c) Rights

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

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

14.1 Partly paid shares cont.

d) Summary of partly paid share series

The following share-based payment arrangements were in existence as at 30 June 2015:

Partly paid shares series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
(1) Partly paid shares – Tranche IV	6,000,000	25 Aug 2010	1 Sep 2011 – 1 Sep 2015	25 Aug 2015	$0.10	$233,542
(2) Partly paid shares – Tranche VI	3,000,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$151,358
(3) Partly paid shares – Tranche VII	3,240,000	28 Mar 2011	28 Mar 2016	28 Mar 2016	$0.15	$163,466
(4) Partly paid shares – Tranche VIII	2,500,000	9 Jul 2013	9 Jul 2018	9 Jul 2018	$0.55	$457,250
(5) Partly paid shares – Tranche IX	2,000,000	15 Jul 2013	15 Jul 2018	15 Jul 2018	$0.55	$565,600
(6) Partly paid shares – Tranche X	5,000,000	29 Oct 2013	29 Oct 2018	1 Dec 2050	$0.64	$1,235,000
(7) Partly paid shares – Tranche XI	5,000,000	9 Apr 2014	9 Apr 2019	9 Apr 2019	$0.72	$1,284,250

e) Issues during the period

During the year, nil partly paid shares were issued to key management personnel (the purchasers) under partly paid share plans (2014: 14,500,000). As at 30 June 2015, purchasers had paid $115,058 for tranches IV to XI (2014: $115,448). This payment has been recognised as a financial liability until such time as vesting conditions are met.

f) Shares exercised/forfeited during the period

During the year, 260,000 partly paid shares were exercised and fully paid to the issue price (2014: 11,500,000). These partly paid shares were fully paid to $0.15 per share (2014: 9,000,000 were fully paid to $0.10 and 2,500,000 were fully paid to $0.15).

No partly paid shares lapsed during the year ended 30 June 2015 (2014: Nil).

g) Shares expired during the period

No partly paid shares expired during the year ended 30 June 2015 (2014: Nil).

h) Weighted average remaining contractual life

The weighted average remaining contractual life of the partly paid shares at 30 June 2015 is 8.05 years (2014: 8.98 years).

i) Weighted average exercise price

The weighted average exercise price of the partly paid shares outstanding as at 30 June 2015 is $0.404 (2014: $0.402).

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

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

a) Valuation methodology

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

The fair value at grant date has been updated to reflect vesting conditions which were varied during the period for Tranches X and XI.

b) Input assumptions

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

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

c) Early exercise

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

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

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

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

d) Volatility

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

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

e) Other factors

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

f) Amounts recognised in financial statements

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

Period ended	30 June 2015		30 June 2014	
	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000
(1) Partly paid shares – Tranche II	–	–	–	–
(2) Partly paid shares – Tranche III	–	–	–	–
(3) Partly paid shares – Tranche IV	47	47	114	114
(4) Partly paid shares – Tranche V	–	–	–	–
(5) Partly paid shares – Tranche VI	30	30	30	30
(6) Partly paid shares – Tranche VII	35	35	35	35
(7) Partly paid shares – Tranche VIII	(153)	(153)	610	610
(8) Partly paid shares – Tranche IX	113	113	109	109
(9) Partly paid shares – Tranche X	514	514	155	155
(10) Partly paid shares – Tranche XI	444	444	137	137
Total	1,030	1,030	1,190	1,190

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

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

14.3 Long term incentive plan

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

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

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

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

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

a) Maximum Awards allocation

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

b) Awards rights and terms

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

A Participant who holds an Award is not entitled to:

i) vote at or attend a meeting of the Shareholders unless, and until the Awards are exercised, the Participant holds fully paid ordinary shares of the Company

ii) receive any dividends declared by the Company in respect of such Awards

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

Notes to the financial statements

For the year ended 30 June 2015

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

14.3 Long term incentive plan cont.

c) Conditions for vesting and exercise

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

d) Restrictions on transfer

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

e) Summary of Awards

The following Awards were in existence as at 30 June 2015:

LTIP Awards	Number	Grant date	Vesting date[21]	Expiry date	Exercise price	Fair value at grant date
(1) Share Options – Tranche 1	5,000,000	30 Mar 2015	30 Mar 2016 – 30 Mar 2020	30 Jun 2020	$0.63	$503,000

f) Options issued during the period

During the year 5,000,000 options were issued to Plan Participants (2014: nil).

14.4 Estimation of fair value of options at measurement date

a) Valuation methodology

The share options are valued using a Black Scholes pricing model. Employees holding these options can purchase the remaining balance of the shares at any point up until the expiry date (use the right to exercise the Option) and this is consistent with 'American' Options.

b) Input assumptions

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

LTIP Awards	Valuation date	Share price	Exercise price	Volatility	Time to expiry (years)	Expected dividends	Risk-free rate
(1) Share Options – Tranche 1	30 Mar 2015	$0.50	$0.63	30%	5.26	0%	3.20%

[21] The options will vest in five equal tranches over five years commencing on the first anniversary of the date of grant

14. EQUITY SETTLED SHARE-BASED PAYMENTS CONT.

14.4 Estimation of fair value of options at measurement date cont.

c) Exercise

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

d) Volatility

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

e) Amounts recognised in financial statements

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

Period ended	30 June 2015		30 June 2014	
	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000	Amount recognised as employee expense in profit or loss $'000	Amount recognised in other comprehensive income $'000
(1)) Share Options – Tranche 1	53	53	–	–
Total	53	53	–	–

	2015 $'000	2014 $'000
15. EMPLOYEE EQUITY SETTLED PAYMENTS RESERVE		
Balance at beginning of the year	3,019	1,829
Movements during the period	1,083	1,190
Balance at end of the year	4,102	3,019

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.

	2015 $'000	2014 $'000
16. RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the year	(23,974)	(23,984)
Net surplus/(deficit) for the period excluding associate/joint venture net profits/(losses)	(2,091)	1,371
Share of net profits/(loss) of associates and joint ventures accounted for using the equity method	–	(1,361)
	(2,091)	10
Balance at end of year	(26,065)	(23,974)

	2015 $'000	2014 $'000
17. FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at the beginning of the year	(6,665)	(2,168)
Arising on translation of foreign operations	954	(4,497)
Balance at end of the year	(5,711)	(6,665)

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

18. OPERATING & FINANCE LEASE COMMITMENTS

Operating leases relate to The a2 Milk Company Limited and The a2 Milk Company (Australia) Pty Limited. All operating lease contracts contain market review clauses in the event that the Company exercises its option to renew. The Company has an option to purchase some leased assets at the expiry of the relevant lease period.

18.1 Non-cancellable operating lease payments

	2015 $'000	2014 $'000
Not longer than 1 year	1,095	855
Longer than 1 year and not longer than 5 years	2,397	2,392
Longer than 5 years	893	1,369
	4,385	4,616

Notes to the financial statements

For the year ended 30 June 2015

18. OPERATING & FINANCE LEASE COMMITMENTS CONT.

18.2 Finance lease commitments

	2015 $'000	2014 $'000
Not longer than 1 year	26	–
Longer than 1 year and not longer than 5 years	13	–
Longer than 5 years	–	–
	39	–

19. INVESTMENT IN SUBSIDIARIES

19.1 Subsidiaries owned

Details of the Company's subsidiaries at 30 June 2015 are as follows:

Name of subsidiary	Place of ownership & operation	Proportion of ownership interest 2015	2014	Principal activity
A2 Exports Limited	New Zealand	100%	100%	Non active
A2 Holdings UK Limited	New Zealand	100%	100%	Holding company for the investment in The a2 Milk Company Limited (UK)
A2 Infant Nutrition Limited	New Zealand	100%	100%	Distribution and marketing of a2 Platinum® infant nutrition in New Zealand and China
A2 Australian Investments Pty Limited	Australia	100%	100%	Holding company for other Australian subsidiaries
A2 Botany Pty Limited	Australia	100%	100%	Collecting interest from related companies
The a2 Milk Company (Australia) Pty Limited	Australia	100%	100%	Distribution and marketing of a2MC branded milk and cream in Australia
A2 Exports Australia Pty Limited	Australia	100%	100%	Export of a2MC branded milk to China and marketing in China
A2 Infant Nutrition Australia Pty Limited	Australia	100%	100%	Distribution and marketing of a2 Platinum® infant formula in Australia
The a2 Milk Company Limited (UK)	UK	100%	50%	Distribution and marketing of a2MC branded milk in the UK
The a2 Milk Company LLC	USA	100%	100%	Non active
The a2 Milk Company	USA	100%	100%	Distribution and marketing of a2MC branded milk in the US
The a2 Milk Company (New Zealand) Limited	New Zealand	100%	100%	Non active
The a2 Milk Company Limited (Canada)	Canada	100%	0%	Non active

All subsidiaries have a balance date of 30 June except for The a2 Milk Company LLC which has a balance date of 31 December. The a2 Milk Company Limited (Canada) was incorporated on 8th April 2014. The a2 Milk Company Limited is incorporated in New Zealand and is the parent entity of the Group.

Notes to the financial statements

For the year ended 30 June 2015

20. ACQUISITION OF SUBSIDIARIES

20.1 Subsidiary acquired in prior year

During 2012 The a2 Milk Company Limited (UK) ("a2MC UK") was formed as a joint venture between A2 Holdings UK Limited ("A2H"), a subsidiary of the Group, and Müller Wiseman Dairies (MWD), formerly Robert Wiseman & Sons Limited, each holding a 50% interest.

On 1 January 2014 MWD sold their 50% interest to A2H, in the form of 2,000,000 ordinary shares in a2MC UK, for consideration of £1. This resulted in A2H owning a 100% interest in a2MC UK.

The acquisition of a2MC UK was made to provide for an expected increase in market activity, with the marketing and sales of a2™ fresh milk products being assumed by the Group and MWD to continue to process a2MC branded milk.

20.2 Assets acquired and liabilities assumed at the date of acquisition

Financial information in respect of the fair value of net assets acquired on acquisition of 50% of a2MC UK is as follows:

	(50% interest) $'000
Cash and cash equivalents	719
Trade and other receivables	895
Other financial assets	210
Inventories	2
Property, plant and equipment	16
Trade and other payables	(1,371)
Loan from A2H	(2,532)
Total identifiable net assets/(liabilities)	(2,061)

At the acquisition date no intangible asset qualified for separate recognition. There were no contingent liabilities identified.

The fair value of the financial assets acquired includes trade and other receivables with a fair value of $0.895 million. At the acquisition date all these receivables were expected to be collectible.

Goodwill of $2.061 million arose in the business combination because the amount paid for the remaining 50% shareholding exceeded the remaining 50% share of the net asset book value of a2MC UK. This reflects the expected synergies and economies of scale expected from combining the operations of the Group and a2MC UK and is a portion of the costs incurred to establish the business in the United Kingdom. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the Group's equity interest in a2MC UK held before the business combination was nil.

Notes to the financial statements

For the year ended 30 June 2015

21. INVESTMENTS IN ASSOCIATES/JOINT VENTURES

21.1 Interest in associates/joint ventures

During the 2014 financial year the Group purchased the remaining 50% interest in the joint venture, a2MC UK. The carrying value of the investment was derecognised at this point. The entity was a 100% owned subsidiary for the 2015 financial year.

21.2 Movements in the amount of the groups investment in associates/joint ventures

	2015 $'000	2014 $'000
Carrying value at beginning of year	–	377
Funds advanced/(repaid)	–	4,574
Share of net surplus/(deficit)	–	(1,361)
	–	3,590
Carrying value derecognised when associates/joint ventures became a Subsidiary	–	(3,590)
Carrying value at end of year	–	–
Represented by:		
Investment in associates/joint ventures	–	–
Non-current receivables in Associates/Joint Ventures	–	–
	–	–

21.3 Summarised Financial Information

The following summarises financial information relating to the Group's associates/joint ventures:

	2015 $'000	2014 $'000
Extract from the associate/joint venture's balance sheets:		
Total assets	–	–
Current liabilities	–	–
Net assets/(liabilities)	–	–
Share of associate/joint venture's net assets/(liabilities)	–	–
Extract from the associates/joint venture's income statements:		
The 2014 figures are to the date the joint venture became a subsidiary.		
Revenue	–	1,049
Net surplus/(deficit)	–	(2,722)
Share of associates/joint ventures surplus/(deficit)	–	(1,361)

Notes to the financial statements

For the year ended 30 June 2015

22. RELATED PARTY TRANSACTIONS

22.1 Ultimate parent

The a2 Milk Company Limited is the parent of the Group. The Group consists of The a2 Milk Company Limited and its subsidiaries.

22.2 Key management personnel

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

	2015 $'000	2014 $'000
Wages and salaries and other short-term employee benefits	4,160	3,419
Other long-term benefits	43	51
Share-based payments	1,083	1,190
	5,286	4,660

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

Key management personnel include the following employees of the Group:

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

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

Notes to the financial statements

For the year ended 30 June 2015

22. RELATED PARTY TRANSACTIONS CONT.

22.3 Transactions with related parties

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

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

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

Related party	Sales to related parties		Other transactions with related parties		Outstanding transactions with related parties	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Associate/Joint Venture:						
The a2 Milk Company Limited (UK) – expenses recharged for overseas travel and accommodation incurred by The a2 Milk Company Limited in relation to the business activities of The a2 Milk Company Limited (UK)	–	–	–	125	–	–
The a2 Milk Company Limited (UK) – interest received by A2 Holdings UK Limited	–	–	–	52	–	–
Other:						
The a2 Milk Company (USA) (2014 – A2 Holdings (UK) Limited) – consultancy fees paid to Melvyn Miles, a Director of the Company. The fees were charged at commercial rates	–	–	19	7	–	–
A2 Holdings (UK) Limited (2014 – The a2 Milk Company Limited (UK)) – consultancy fees paid to Lovat Partners Limited, an entity controlled by David Hearn, Chairman of the Company. The fees were charged at commercial rates.	–	–	79	41	–	41
The a2 Milk Company (Australia) Pty Limited entered into an agreement with Pactum Australia Pty Limited (a wholly owned subsidiary of Freedom Foods Group Limited) and Pactum Dairy Group (PDG), a joint venture between Freedom Foods Group Limited and Australian Consolidated Milk (ACM), for the processing and packaging of a2MC branded long life milk at Pactum Australia's facility at Taren Point in New South Wales and at Pactum Dairy Group's facility at Shepperton in Victoria. The amounts were charged at commercial rates.	–	–	310[22]	1,574	–	–

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

Notes to the financial statements

For the year ended 30 June 2015

23. COMMITMENTS FOR EXPENDITURE

23.1 Capital expenditure commitments

As at 30 June 2015, there were no capital expenditure commitments (2014: $nil).

24. CONTINGENT LIABILITY

As at 30 June 2015, there were no material contingent liabilities (2014: $nil).

25. SUBSEQUENT EVENTS

- As announced on 27 July 2015, 6 million partly paid shares belonging to GCAA Investments Pty Ltd were converted to fully paid ordinary shares in the Company
- As announced on 10 August 2015, the Board of Directors approved the issue of a total of 15 million options and 1.6 million performance rights representing rights to acquire ordinary shares in the Company to certain members of the Company's senior management team that report to the CEO
- On 20 August 2015, The a2 Milk Company (Australia) Pty Limited increased its debtor finance facility to AUD 10,000,000

26. OPERATING SEGMENT INFORMATION

The Group has adopted NZ IFRS-8 *Operating Segments*. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

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

- The *Australia and New Zealand segment* receives external revenue from milk, cream and infant formula sales, and royalty and licence fee income
- The *China and other Asia segment* receives external revenue from milk and infant formula sales. This segment is responsible for the infant formula supply chain to all markets
- The *United Kingdom and USA segment* receives external revenue from milk sales[23]
- The *Corporate and other segment* external revenue comprises external royalty and licence fee income. Corporate and other segment profit also includes:
  - internal royalty, licence fee and management fee income from subsidiaries; and
  - costs, such as marketing and herd testing costs, associated with development of intellectual property globally

[23] Prior to 1 January 2014 this segment comprised a share of joint venture profits and losses which related to The a2 Milk Company Limited's (a2MC's) 50% shareholding of the UK business. a2MC acquired the remaining 50% shareholding of this business on 1 January 2014, from which point the UK business was 100% consolidated in the financial results and therefore included in segment profit

Notes to the financial statements

For the year ended 30 June 2015

26. OPERATING SEGMENT INFORMATION CONT.

Change in segment categories from prior period

For the 2015 financial year, the Group reclassified its reporting segments in keeping with the way the chief operating decision maker reviews performance and manages the affairs of the Group. The following changes have been made from the prior year:

- The Australia and New Zealand (ANZ) business is now reported as a combined operating segment, reflecting the existing reporting and accountability framework through which the business is managed in this region;
- The USA segment has been combined with the UK segment by way of the aggregation allowances in NZ IFRS 8 Operating Segments. This is in keeping with the similarities in economic performance characteristics between the two segments;
- The Corporate and other segment now reflects the results of the Corporate function consistent with the way the chief operating decision maker reviews the performance of this function

Prior year comparatives have been adjusted for consistency to reflect the segments categories as outlined above.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Segment revenue[24]		Segment EBITDA[25]	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Continuing operations				
Australia and New Zealand	149,097	106,866	5,724	4,517
China and other Asia	4,044	2,745	1,774	(1,777)
UK and USA	1,929	1,108	(7,653)	(2,178)
Corporate and other	39	126	3,284	3,004
Segment revenue & EBITDA	155,109	110,845	3,129	3,566
Net Interest income			101	415
Share in associate/joint venture losses			–	(1,361)
Depreciation and amortisation			(1,949)	(1,900)
Income tax income/(expense)			(3,372)	(710)
Consolidated segment profit/(loss)			(2,091)	10

Over 67% of milk and infant formula sales come from three customers. (2014: over 86% from three customers)

[24]Represents sales and other revenue
[25]Segment EBITDA for 2015 includes non-recurring ASX listing costs of $1,681,000

Notes to the financial statements

For the year ended 30 June 2015

26. OPERATING SEGMENT INFORMATION CONT.

	Depreciation & amortisation		Additions to non-current assets	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australia and New Zealand	1,155	1,234	288	1,057
China and other Asia	393	–	4	–
UK and USA	172	8	2,680	–
Corporate and other	229	658	654	1,856
	1,949	1,900	3,626	2,913

	Assets		Liabilities	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australia and New Zealand	47,969	45,172	14,691	9,354
China and other Asia	18,372	10,355	8,522	4,356
UK and USA	6,412	1,922	3,818	1,717
Corporate and other	16,114	19,194	3,207	2,572
	88,867	76,643	30,238	17,999

Notes to the financial statements

For the year ended 30 June 2015

27. NOTES TO THE CASH FLOW STATEMENT

a. Reconciliation of net surplus/(deficit) after taxation with net cash flows from operating activities

	2015 $'000	2014 $'000
Net surplus/(deficit) for the year	(2,091)	10
Adjustments for non-cash items:		
Depreciation & amortisation expense	1,949	1,900
Loss on disposal	17	–
Expense recognised in profit & loss in respect of equity-settled share-based payments	1,083	1,190
Net foreign exchange gain	(1,732)	(1,448)
Share of loss of associates/joint ventures	–	1,361
Deferred tax	849	66
	75	3,079
Movements in working capital		
(Increase) in trade and other receivables	(12,586)	(1,193)
(Increase)/decrease in prepayments	(7,659)	827
Decrease/(increase) in inventories	737	(4,838)
Increase in accounts payable	10,482	2,742
Increase/(decrease) in current tax liabilities	820	(226)
	(8,131)	391
Plus/(less) items classified as investing and financing activities:		
Movement in non-current accounts payable	65	44
Net cash inflow (outflow) from operating activities	(8,066)	435

Notes to the financial statements

For the year ended 30 June 2015

28. FINANCIAL INSTRUMENTS

a. Financial risk management objectives

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

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

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

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

b. Capital risk management

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

The capital structure of the Group consists of cash and short term deposits, and equity attributable to equity holders of the parent comprising issued capital, retained earnings and reserves as disclosed in Notes 5, 12, 15, 16 and 17 respectively.

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

c. Categories of financial instruments

	2015 $'000	2014 $'000
Financial assets		
Trade and other receivables	39,944	27,358
Cash and short term deposits	6,092	15,979
Financial liabilities at amortised cost		
Trade creditors	15,178	8,391

d. Market risk

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

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

Notes to the financial statements

For the year ended 30 June 2015

28. FINANCIAL INSTRUMENTS CONT.

e. Foreign currency risk management

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

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

	2015 $'000	2014 $'000
US Dollars		
Assets:		
Cash and short term deposits	1,080	4,092
Accounts receivable	4,139	811
	5,219	4,903
Liabilities:		
Trade creditors	3,740	1,794
	3,740	1,794
AUS Dollars		
Assets:		
Cash and short term deposits	4,225	11,772
Accounts receivable	33,862	25,287
	38,087	37,059
Liabilities:		
Trade creditors	12,647	8,348
	12,647	8,348
GB Pounds		
Assets:		
Cash and short term deposits	293	38
Accounts receivable	763	380
	1,056	418
Liabilities:		
Trade creditors	2,486	1,677
	2,486	1,677

The above tables express the foreign currency amounts in New Zealand dollar equivalents using the exchange rates at 30 June 2015 and 30 June 2014.

Notes to the financial statements

For the year ended 30 June 2015

28. FINANCIAL INSTRUMENTS CONT.

f. Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external bank accounts and external receivables as well as loans to foreign operations within the group where the denomination of the loan is in currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the New Zealand dollar strengthens 10% against the relevant currency and vice versa for a weakening of the New Zealand dollar.

	2015 $'000	2014 $'000
Currency impact on profit or loss		
Strengthening in NZD/AUD	(4)	4
Weakening in NZD/AUD	4	(4)
Strengthening in NZD/GBP	12	1
Weakening in NZD/GBP	(12)	(1)
Strengthening in NZD/USD	232	311
Weakening in NZD/USD	(232)	(311)
Currency impact on equity		
Strengthening in NZD/AUD	4,288	4,948
Weakening in NZD/AUD	(4,288)	(4,948)
Strengthening in NZD/USD	266	311
Weakening in NZD/USD	(266)	(311)
Strengthening in NZD/GBP	(73)	(85)
Weakening in NZD/GBP	73	85

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

Notes to the financial statements

For the year ended 30 June 2015

28. FINANCIAL INSTRUMENTS CONT.

g. Interest rate risk

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

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

h. Other price risk management

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

i. Credit risk management

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

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

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

	2015 $'000	2014 $'000
The maximum exposures to credit risk at balance date are:		
Cash, short term deposits and short term borrowings	6,092	15,979
Trade and other receivables	39,944	27,358
Prepayments	9,651	1,992
	55,687	45,329

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

Notes to the financial statements

For the year ended 30 June 2015

28. FINANCIAL INSTRUMENTS CONT.

j. Liquidity risk management

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

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

k. Liquidity & interest risk tables

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

	Weighted average effective interest rate	Fixed maturity dates					
2015	%	Less than 1 month $'000	1–3 months $'000	3 months – 1 year $'000	1–5 years $'000	5+ years $'000	Total $'000
Financial liabilities:							
Trade creditors		12,994	2,184	–	–	–	15,178
		12,994	2,184	–	–	–	15,178

	Weighted average effective interest rate	Fixed maturity dates					
2014	%	Less than 1 month $'000	1–3 months $'000	3 months – 1 year $'000	1–5 years $'000	5+ years $'000	Total $'000
Financial liabilities:							
Trade creditors		8,391	–	–	–	–	8,391
		8,391	–	–	–	–	8,391

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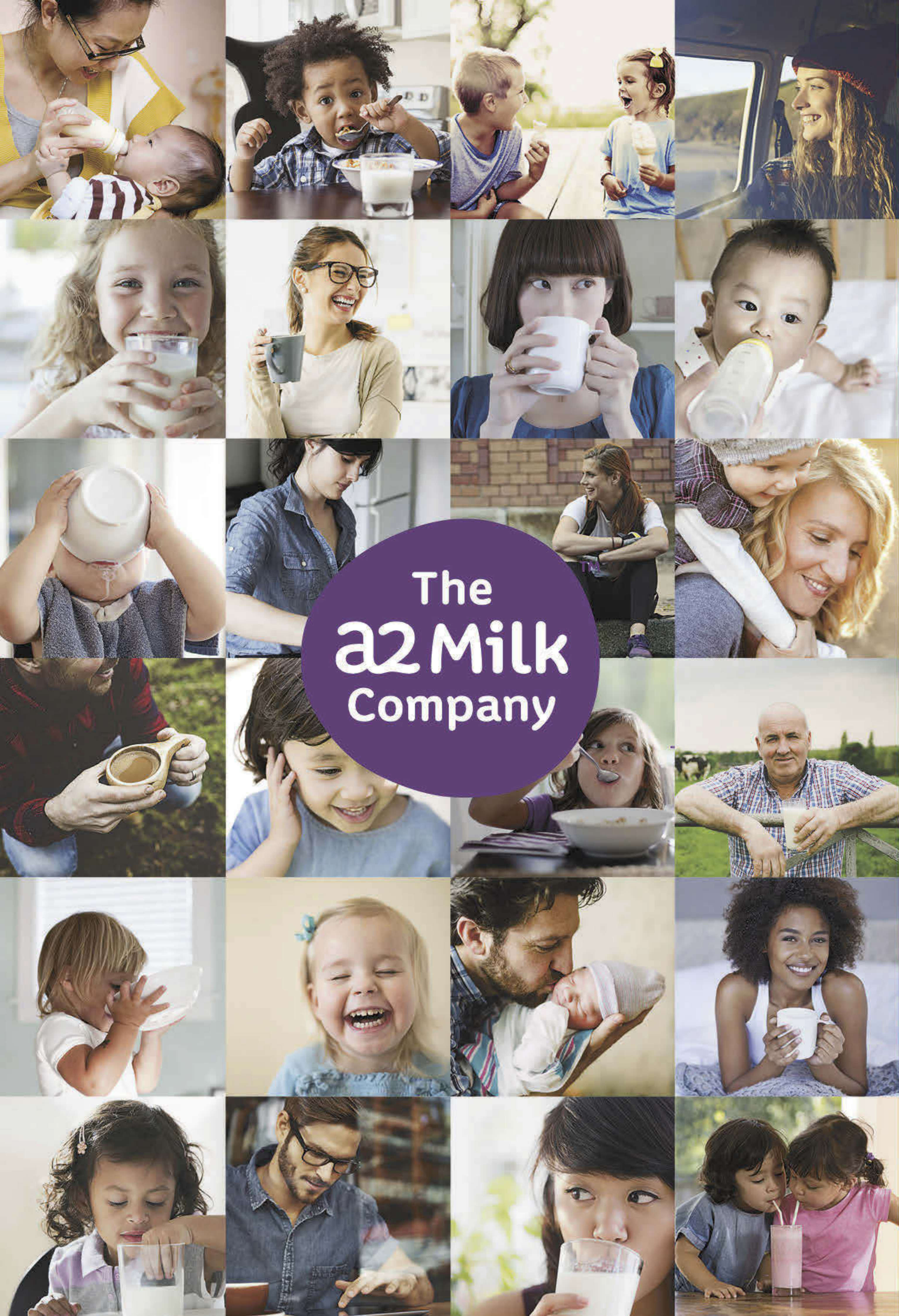
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