The a2 Milk Company

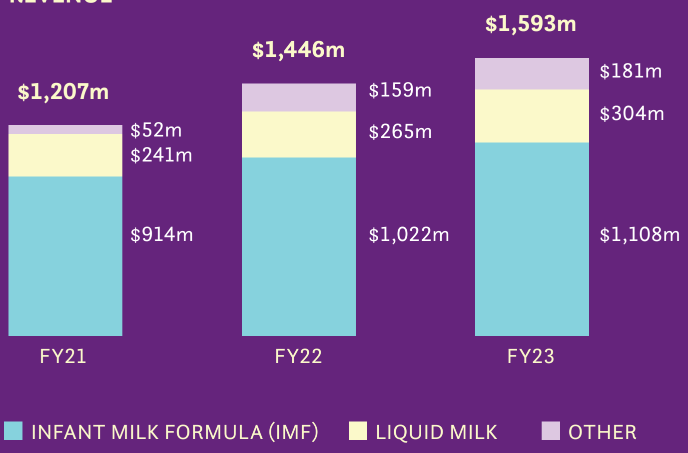
2023 Annual Report

We pioneer the future of Dairy for good

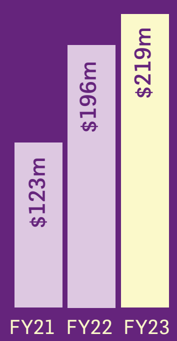
Management commentary
(no financial statements)

The a2 Milk Company has made significant progress in FY23 towards its strategic goals

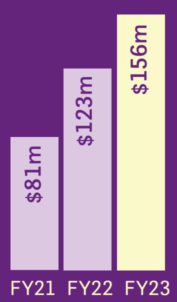
REVENUE



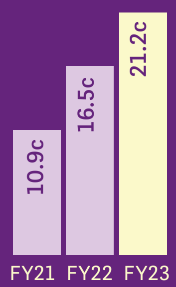
EBITDA



NPAT*



EPS



NET CASH

$757 million**

* Attributable to owners of the Company.

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

Management commentary
(no financial statements)

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Management commentary
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Chair's letter

David Hearn

Dear Shareholder,

On behalf of your Board, I am delighted to announce the continued strong performance of The a2 Milk Company in FY23. Throughout the year, the Company has demonstrated an unwavering commitment to executing our growth strategy, delivering strong results and several important achievements. I am particularly proud of this given the very challenging macroeconomic landscape and external headwinds we are facing in key markets.

We have embraced our refreshed purpose to pioneer the future of dairy for good and our vision to create an A1-free world where dairy nourishes all people and our planet. These guiding principles are now living through our business, guiding the Company to execute our goals more effectively in the years ahead.

Delivering results on a consistent basis is the hallmark of building successful businesses. Therefore, I am pleased to note that the results that we have delivered in FY23 are in line with the medium-term ambitions we have set for the business. In particular, our strategic China label infant milk formula (IMF) brand, *a2 至初®*, was the standout performer, delivering another year of double-digit growth. It is also encouraging that, despite significant market contractions, the work we are doing to support our English label IMF business has laid a good foundation for continued progress in the future.

During the year, we also achieved a number of important regulatory milestones. We are incredibly pleased to have received confirmation of re-registration from China's State Administration for Market Regulation (SAMR) for our upgraded China label IMF product in June 2023. The achievement of this re-registration has been an enormous team effort over a number of years. Our team's dedication, resilience and expertise during this journey has been extraordinary, and I am incredibly proud of every member of the a2MC team involved in this achievement.

I would like to acknowledge the support we received from SAMR, New Zealand's Ministry for Primary Industries, our strategic partners in China, China National Agriculture Development Group Co., Ltd and China State Farm Agribusiness (CSFA), and our manufacturing partner, Synlait and its major shareholder Bright Dairy, throughout the process. During the year we also renewed our exclusive import and distribution arrangements with CSFA for a further five years. We are pleased that CSFA will remain the exclusive import agent for our China label IMF product.

These significant milestones highlight the strength of our relationships with strategic partners in China and our shared confidence in the future. The approval provides us with continued access to China's substantial registered domestic IMF market, which remains the key focus of our growth strategy. It also allows us to continue building on the strong brand trust and loyalty we have developed with Chinese families over the past decade.

During the year, we also received confirmation from the US Food and Drug Administration (FDA) that our application for temporary permission to import, sell and distribute *a2 Platinum®* IMF product from New Zealand into the USA was approved. While the USA represents a significant opportunity to develop our brand in the IMF category over the long-term, the FDA application process for permanent approval to import and sell IMF product remains a challenging process and timeframe.

In addition to strong financial performance and key regulatory decisions, we also undertook an important capital management activity during the year. Exiting the previous fiscal year with improving confidence in our strategy and execution and having determined that the Company had surplus capital to our requirements in the short-term, we announced we would undertake an on-market share buyback. We commenced this in the first half of FY23 and completed the NZ$149 million buyback programme in the second half.

Our capital management framework continues to prioritise investments in growth initiatives and maintaining balance sheet flexibility ahead of shareholder capital returns. The business has increased its supply chain transformation focus during the year with new leadership and structure, increased in-sourcing and progressed other growth capital expenditure projects supporting our long-term strategic growth goals. However, when there is capital surplus to achieving these priorities, we will make a disciplined assessment of the potential to return capital to shareholders and the most appropriate option to do so.

Management commentary
(no financial statements)

On behalf of the Board, I sincerely thank David Bortolussi, our Managing Director and Chief Executive Officer, for his leadership and impactful contribution to executing our strategy in very challenging market conditions. At the Executive Leadership Team (ELT) level, there have been a number of changes during the year, including the appointment of David Muscat as Chief Financial Officer and Chopin Zhang as Chief Supply Chain Officer, the role expansion for Eleanor Khor as Managing Director – ANZ and Strategy and Kevin Bush taking on the role of Managing Director – USA. I thank David Bortolussi, the ELT and every member of the a2MC team in all our regions for their contributions this year.

We have also made significant progress with regard to Board renewal during the year, delivering on succession plans for long serving directors and announcing new appointments.

In November 2022, I announced my intention to stand down as a Director and Chair of the Board at the Annual Meeting in November 2023, following almost ten years with the Company. As a result, Pip Greenwood, who has now been on the Board for over four years, was unanimously elected to replace me as the Chair. Pip has the skills and experience to lead the Board and I am delighted to hand over the reins to such an outstanding director.

During the year we also announced that Julia Hoare, the Company's Deputy Chair, would step down from the Board after over nine years of service. On behalf of the Board, I would like to express our sincere appreciation for Julia's outstanding service throughout her tenure at The a2 Milk Company. Julia's commitment and dedication have been instrumental in the Company's success, and we are grateful for her invaluable contribution over the years.

Kate Mitchell was appointed to the Board in June 2023 and has taken over as Audit and Risk Management Committee Chair. Kate has significant governance experience and is currently Chair of The New Zealand Merino Company and Link Engine Management and a director of Heartland Group Holdings, Farm Right, and Christchurch International Airport, for which she also serves as Chair of the Risk, Audit & Finance Committee.

We also appointed David Wang to the Board during the year. David brings extensive expertise across the Asia-Pacific region in manufacturing and supply chain with over 30 years' experience in industrial and consumer goods businesses, including 15 years in senior executive leadership roles in China and international markets.

I would like to extend my gratitude to all my fellow Directors for their efforts and significant contributions during the past year. Their expertise, guidance, and tireless work have played a vital role in shaping our strategic direction and ensuring the Company's growth and prosperity.

Reflecting on the past decade for The a2 Milk Company, it has been a truly extraordinary journey. It has been my privilege to have been a Director and Chair of your Company through this transformative period. As the pioneer and leader of the A2 protein category, we have transformed from a fresh milk business in Australia to a global nutritional dairy products company. We have developed a leading brand in the China IMF market, the largest IMF market in the world. We faced, and continue to face, a rapidly evolving business landscape and uncertain times, including the global pandemic that not only shifted the business environment for us but the entire global economy from supply chain through to end consumer behaviours, as well as several regulatory changes that disrupted the industry we operate in. Together, we adapted, pivoted, and continued to work through these challenges to be successful.

Looking ahead, the Company is well-positioned to achieve its strategic goals and thrive to seize additional market opportunities in the future. Your Board and the ELT are committed to the Company's purpose and vision. The strategy is in place and, with a continued disciplined approach to execution, will continue to gain traction.

To you, our shareholders, thank you for your trust and support. To our customers, thank you for your loyalty. To our strategic partners, thank you for your long-term support and collaboration. We are committed to delivering value for shareholders and positively impacting the world – to pioneer the future of dairy for good.

I look forward to seeing you at the Annual Meeting in November, which will be my last. In the meantime, I wish you and your family the best of health.

Yours faithfully,

David Hearn
Chair

20 August 2023

Management commentary
(no financial statements)

CEO'S YEAR IN REVIEW - DAVID BORTOLUSSI

Strong performance in a very challenging market

The Company's revenue for FY23 was up 10.1% driven by strong growth in the China & Other Asia segment up 37.9%, with the USA and MVM segments also up.

Group financial performance[1,2,3]

The a2 Milk Company ("the Company", "a2MC") today announces its financial results for the year ended 30 June 2023. Key results are as follows:

	FY23 ($M)	FY22 ($M)	VARIANCE (%)
Revenue	1,592.9	1,446.2	10.1%
EBITDA[4]	219.3	196.2	11.8%
Net profit after tax - Attributable to owners of the Company	155.6	122.6	26.9%
Basic earnings per share (EPS) (cents)	21.2	16.5	28.7%
Net cash[5]	757.2	816.5	(7.3)%

The Company's revenue for FY23 was up 10.1% driven by strong growth in the China & Other Asia segment up 37.9%, with the USA and MVM segments also up 27.1% and 9.2% respectively, partially offset by a 30.2% decrease in the ANZ segment mainly due to an intentional change in English label distribution strategy. Revenue growth slowed to 3.0% in 2H23 mainly due to a sharp decline in English label IMF Daigou market value in 2H23 and cycling higher lockdown-driven sales in 4Q22. Higher revenue growth of 18.6% in 1H23 was mainly due to China label IMF sales cycling lower sales in 1H22 due to channel rebalancing and USA sales benefiting from 2H22 new product launches. Notwithstanding, an important milestone was achieved in FY23 with China & Other Asia segment revenue exceeding $1 billion (representing 62.9% of total revenue) for the first time demonstrating the importance of the Company's China focused growth strategy.

1 All references to full year (FY), halves (H) and quarters (Q) relate to the Company's financial year, ending 30 June.
2 All figures are in New Zealand Dollars (NZ$), unless otherwise stated.
3 All comparisons are with the 12 months ended 30 June 2022 (FY22), unless otherwise stated.
4 EBITDA is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP. However, the Company believes that in combination with GAAP measures, it assists in providing investors with a comprehensive understanding of the underlying operational performance of the business. A reconciliation of EBITDA to net profit after tax is shown in the Company's FY23 Investor Presentation (slide 55) dated 21 August 2023.
5 Including term deposits and borrowings, excluding subordinated non-current shareholder loans.

Management commentary
(no financial statements)

“We reached new highs in China brand awareness, trial and loyalty metrics and were a top-3 share gainer in the China IMF market overall, with record market share.”

FINANCIAL HIGHLIGHTS

$1,593m
Revenue ↑10.1%

$219m
EBITDA ↑11.8%

$156m
NPAT attributable to owners of the Company ↑ 26.9%

21.2c
Earnings per share ↑28.7%

$757m*
Net cash

$149m
Share buyback completed

OPERATIONAL HIGHLIGHTS

Brand health
Reached new highs in China brand health metrics

Top-3 share gainer
Achieved top-3 share gainer in China IMF market overall

SAMR
Received new GB brand re-registration

Innovation
Ramped up innovation through new product launches in all categories

China State Farm
Extended exclusive partnership with China State Farm Agribusiness

Sustainability
Advanced sustainability programmes across climate, nature and packaging

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

Management commentary
(no financial statements)

> **“We are pleased to have received approval from China’s State Administration for Market Regulation for the re-registration of our China label IMF product *a2 至初®*.”**

Gross margin percentage[6] of 46.5% was 0.5 ppts higher reflecting benefits from *a2 Platinum®* English label refresh positioning and distribution model changes and the cycling of other nutritional stock write-downs recognised in the prior year, partially offset by unfavourable foreign exchange on cost of goods sold. Increases in farmgate milk pricing, raw materials, and other inflationary pressures were mitigated by price rises and other cost saving initiatives. Gross margins in 2H23 were also impacted by the timing of MVM sales which were weighted to the second half.

EBITDA increased by 11.8% to $219.3 million, primarily reflecting higher revenue and gross margin improvements. EBITDA margin as a percentage of revenue increased to 13.8% (up 0.2ppts), with margin expansion achieved notwithstanding an increase in marketing investment by 13.1% and Administrative and Other expenses increasing by 9.0%. Administrative and Other expenses increased due to continued capability building (particularly in China and Supply Chain teams), further investment in product innovation and science research projects, the timing of long-term incentives and increased travel costs post COVID-19.

Foreign exchange rates were volatile during the year. Group revenue benefited from favourable foreign exchange movements in the order of $40 million, primarily in 1H23. However, the combined realised and unrealised foreign exchange impact on cost of goods sold, administrative and other expenses on EBITDA was not material in part due to hedging.

Depreciation and amortisation was similar to prior year at $18.2 million, net interest income increased to $21.6 million due to higher interest rates and the effective tax rate reduced to 35.0% primarily driven by the alignment of the accounting and tax treatment of foreign exchange contracts. NPAT including amounts attributable to non-controlling interests was $144.8 million, an increase of 26.2%. The non-controlling interests represent China Animal Husbandry Group’s (CAHG’s) 25% interest in MVM. Excluding this loss of $10.8 million, NPAT attributable to owners of the Company was $155.6 million.

The balance sheet remains in a strong position with closing cash and term deposits of $802.2 million and net cash of $757.2 million. The lower cash balance compared to June 2022 mostly reflects the $149 million used to execute the on-market share buyback. In accordance with the Company’s Capital Allocation Framework, a2MC has decided to prioritise investment in growth opportunities (focused on Supply Chain transformation) and balance sheet strength, ahead of returning further capital to shareholders at this point in time but will continue to review this on a regular basis.

Inventory at the end of the period was $193.4 million, higher than at the end of 1H23, mainly due to stock building of China label IMF inventory to accommodate the timing of new China GB registration and product transition, as well as a sharp decline in the Daigou channel and the timing of Synlait supply which resulted in higher English label inventory at year end. Channel inventory and product freshness remained at target levels across the business. The Company’s China label inventory levels and product freshness at 30 June 2023 (96% of expiry dates >18 months from manufacturing date) were in line with Company’s plans for the new GB product transition.

Excluding interest and tax, operating cash inflow was $127.4 million, representing cash conversion of 58%[7] which was, as anticipated, lower than the prior period due to the catch-up of FY22 payments in China which were impacted by COVID-19 delays (outside the Company’s control) as well as prepayments for China label stock build to support transition.

6 Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.
7 Operating cash conversion defined as net cash flow from operating activities before interest and tax divided by EBITDA.

Management commentary
(no financial statements)

China market update[8]

The overall China IMF market declined 12.1% in volume and 14.4% in value in FY23. The decline in BCD cities exceeded Key&A cities particularly in the second half, with Key&A market value decreasing by 13.1% in 2H23 and BCD market value decreasing by 18.3% in 2H23. The market decline reflected the decrease in newborns overall, socio-demographic differences between Key&A and BCD cities, challenging macroeconomic conditions impacting retail sales, and increased competitive intensity and promotional activity driven by excess industry capacity and the commencement of the market-wide transition to new GB standards.

The number of newborns in China declined by 10.0% in CY22 to 9.6 million[9] which is likely to decline further in CY23 having regard to various factors and data points, including socio-demographics, prevailing youth unemployment rates, recent marriage numbers and pregnancy indicators. The Company still expects a post COVID-19 recovery in birth rates in the medium-term with the longer-term birth rate inherently uncertain. The lower birth rate in CY22 along with the rolling impact of fewer births in prior years reduced China IMF market Stage 3 sales (the biggest segment of the IMF market) in particular which declined by 20.6% in 2H23 and accelerated to be down 23.5% in 4Q23.

China label market value declined 14.9% in FY23 with 2H23 down 17.3%. The MBS channel was down 12.7% in FY23 and DOL was down 4.5%. Within China label channels, a2MC continues to be supported by a mix shift to the ultra-premium price segment (although this segment also declined in absolute terms in FY23), rapid growth of the A2 protein segment and increasing brand concentration with the top-10 brands now accounting for 77% of the total China label market.

English label market value decline stabilised in FY23 down 14.0% with 2H23 down 11.5%. Within English label channels, the Daigou channel experienced a sharp decline of 39.5% in FY23, while O2O was down 17.9% in FY23 and CBEC experienced sustained growth up 8.3%[10], continuing the significant mix shift across English label channels. a2MC's distribution strategy is focused on continuing to develop the CBEC and O2O channels where it continues to gain share.

In the context of challenging socio-demographic, macroeconomic and IMF market conditions, a2MC's growth in FY23 in China label IMF of 27.8% and total IMF of 8.4% was very encouraging.

Regional performance

1. China & Other Asia

Growth in value and volume of the China & Other Asia segment was driven by continued execution of the Company's growth strategy particularly in China label. Revenue of $1,002.2 million was up 37.9%, with EBITDA of $254.1 million up 75.1%. The combination of increased investment and higher impact marketing campaigns had a positive impact on key brand health metrics in 2H23, which in turn supported increased sales and market share. New highs in overall China brand health metrics were achieved with total a2MC IMF prompted brand awareness increasing from 52% to 63%, unprompted brand awareness increasing from 17% to 23% and top of mind brand awareness increasing from 7% to 9%, and trial and loyalty metrics increasing as well[11].

8 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities); unless otherwise stated.
9 China National Bureau of Statistics.
10 Smart Path China IMF online market tracking: for CBEC only retail sales (by value).
11 a2MC internal data based on the Company's brand health tracking. Average brand health metrics for each financial year based on 3 surveys in FY21 and FY22, and 2 surveys in FY23. Sample skews to a2MC target consumers ie higher income earners based in provinces / cities that are the focus of sales and marketing activities.

Management commentary
(no financial statements)

"Our strong performance was supported by significant marketing investment in brand building campaigns as well as innovative trade activation initiatives."

China label IMF

The strong performance in China label IMF sales in 1H23 continued into 2H23 despite the declining market and heightened volatility with the market transitioning to new GB products. Consumer demand for *a2 至初®* remained strong with market value share improvement both in-store and online. Sales for *a2 至初®* China label IMF increased 27.8% to $559.3 million, with 2H23 sales up 16.0%. Growth was supported by continued strong execution of the Company's growth strategy through same store sales volume growth and favourable pricing and foreign exchange.

The strong performance was supported by significant marketing investment in brand building campaigns as well as innovative consumer campaigns such as caravan tour roadshow events to drive brand awareness and trial in BCD cities, and a corporate social responsibility campaign with Operation Smile to engage consumers with impact.

MBS weighted distribution increased as well as same store sales, driving growth in Key&A and BCD cities. Offline distribution declined slightly to 25.9k stores at the end of June 2023 from 26.5k at the end of June 2022[12]. A significant number of store closures occurred in the market during the period reflecting challenging retail and category conditions. The Company is building share in national key accounts, pursuing regional key accounts, as well as targeting greater penetration of BCD cities, whilst developing new strategies for accelerated growth in certain prioritised provinces.

Retail market value for the MBS channel was down 12.7% in FY23[13], with 2H23 down 15.9%, reflecting challenging China IMF market dynamics including store closures and increased discounting of old GB product prior to transitioning to new product. a2MC's market value share in MBS increased to 3.4% at the end of June 2023 compared with 3.0% at the end of June 2022, making *a2 至初®* one of the fastest growing international brands within MBS in FY23.

Accelerating online growth is a strategic priority for China label IMF and performance in DOL is a key measure of success. Retail market value for the DOL channel was down 4.5% in FY23[14], with 2H23 down 13.6% cycling 4Q22 lockdown impacts. a2MC's market value share in DOL increased to 3.3% at the end of June 2023 compared with 2.5% at the end of June 2022, and was the number 2 share gainer in the channel. Within this channel the Company's share of early-stage product sales has increased significantly as more users shift to online channels at all stages of their IMF lifecycle.

English label IMF[15]

The China & other Asia segment benefited from continued execution of the Company's English label IMF distribution strategy, resulting in a further sales mix shift towards the CBEC channel, as well as improved brand health metrics following increased investment as part of the *a2 Platinum®* English label refresh. Overall, English label IMF sales of $386.2 million were up 51.0%, with 2H23 growing 37.3% on prior year.

a2MC continued to prioritise overall channel economics as part of its inventory management plan and promotional activity in CBEC. English label sales during key sales events were up moderately, with market pricing across CBEC platforms and reseller channels at target levels, and emerging platforms seeing stronger growth from a lower base. Platform rankings on mainstream platforms were maintained or improved in the Double 11 and 618 sales events, and a2MC ranks as one of the leading IMF players on Douyin (TikTok).

The Company is focused on CBEC growth and building digital marketing and e-commerce capability to further improve its execution which is having an impact, particularly on new user recruitment. Retail sales for the overall CBEC channel were up 8.3% in FY23[16]. Despite market value growth in 2H23 slowing to 2.9% from 13.8% in 1H23, a2MC's was the number 1 share gainer in CBEC with market value share increasing to 22.6% at the end of June 2023 compared with 19.4% at June 2022. Similar to DOL, a2MC's share of early-stage product sales also increased significantly in CBEC which is becoming increasingly important relative to the Daigou channel.

12 a2MC internal data tracking of stores with active sales in the past 6 months.
13 Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). FY23 versus FY22.
14 Smart Path China IMF online market tracking: domestic online platform sales (by value). FY23 versus FY22.
15 English label IMF includes sales via CBEC, Korea, and Hong Kong Resellers.
16 Smart Path China IMF online market tracking: for CBEC only retail sales (by value). 12-month rolling share. FY23 versus FY22.

Management commentary
(no financial statements)

Liquid milk and other nutritional products

Sales of liquid milk in China & Other Asia segment were up 36.7% to $15.2 million and revenue from other nutritional products was also up 87.9% to $41.4 million, benefitting from stronger execution, brand awareness and mix shift from ANZ channels to CBEC. The strong performances in these categories were supported by increased marketing investment through brand building campaigns.

2. Australia and New Zealand

The Australia and New Zealand (ANZ) segment result was driven by lower IMF sales to ANZ resellers / Daigou due to an intentional change in a2MC's distribution strategy, partially offset by the positioning and pricing benefit associated with the *a2 Platinum®* refresh. Overall, ANZ sales volumes were down with segment revenue of $371.7 million, down 30.2%, and EBITDA of $93.5 million, down 46.0%.

IMF resellers and retail

With Daigou channel market value down 39.5% in FY23[17] and the change to the Company's English label distribution strategy in 2H22, IMF reseller and retail sales decreased 50.6% to $162.5 million. The Company has proactively changed its English label distribution model to more controlled channels and to more transparent and performance-based distribution partnerships in all channels. These declines were partially offset by a significant increase in sales to CBEC (see commentary in China & Other Asia above). Whilst the Company's English label IMF focus going forward is likely to be on CBEC and O2O given the recent evolving dynamics, it will also continue to support the Daigou channel through multi-channel consumer marketing campaigns and reseller trade support programmes.

Development of the O2O channel has also been a key focus area for English label distribution. In 2H23, the Company entered into a new partnership with one of the leading distributors in China and is focused on improving share in O2O key accounts, long-tail O2O and Pop accounts complementing certain Company led initiatives. Results relating to this partnership in the future will be reflected in the China & Other Asia segment.

In 2H23, while the O2O channel market value was down 15.7%, its trajectory improved versus 1H23, and a2MC's channel market share increased significantly at the end of June 2023 versus last year[18].

Due to sample size, data classification and associated volatility reasons, the Company focuses more on its combined O2O and Daigou channel market share based on Kantar survey data which is the only source of market share data for these channels. Based on this data, a2MC's market share in the O2O and Daigou channel increased to 20.8% at the end of June 2023 versus 19.5% at the end of June 2022[19].

Liquid milk and other nutritional products

Australian liquid milk sales were up by 7.1% to $184.1 million, with 2H23 growth of 8.5%, driven by a full 6-month contribution from price increases taken in 1H23 in response to higher raw milk prices and other input and logistics cost increases, favourable foreign currency movements plus continued strong performance from the launch of *a2 Milk® Lactose Free*.

This result was partly offset by consumption volume declines impacted by increased cost of living, as well as several challenges within the supply chain network impacting on-shelf availability. *a2 Milk® Lactose Free* (launched in August 2022) has performed ahead of expectations, with sales supported by distribution expansion into Queensland, South Australia and Tasmania in 2H23. This saw market share in the lactose free segment in initial launch cities (New South Wales and Victoria) increase to 18.4%[20] in June 2023 compared with 12.3% in December 2022.

a2MC recorded market value share of 11.3% at the end of June 2023[21] versus 12.4% at the end of June 2022. This result was impacted by consumers trading down due to wider macroeconomic factors, as well as the prior comparable period (primarily 1H22) benefitting from strong in-home consumption from COVID-19 lockdowns. The current market share is broadly similar to pre-COVID-19 levels, with a2MC's MAT market volume share increasing from 6.6% in January 2020 to 6.8%[22] at June 2023. Whilst market volume for liquid milk increased during the COVID-19 lockdown period, it decreased 4.5% from January 2020 to June 2023. Pleasingly, three *a2 Milk®* products achieved rankings in the top-10 products in the dairy category in Grocery.

Consistent with IMF, revenue for other nutritional products was also impacted by the channel mix shift to CBEC, declining 21.4% to $25.1 million.

3. USA

Accelerating the path to profitability in the USA by FY25/FY26 is a strategic priority for the Company. During FY23, USA profitability improved through a combination of higher revenue growth from both core range and new products, as well as cost reduction initiatives. As a result, USA revenue increased 27.1% to $105.1 million while EBITDA losses were reduced to $23.3 million compared with a loss of $36.7 million in FY22.

Sales growth was driven by a modest increase in core liquid milk volumes, contribution from new products, pricing and favourable foreign exchange movements. Sales in 2H23 were broadly in line with the first half, as the Company reduced promotional spend. Despite this a2MC's market value share in the premium milk category for the Grocery channel increased from 2.0% in June 2022 to 2.3% in June 2023[23].

17 Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.
18 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.
19 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.
20 IRI Scan Data NSW and VIC Month ending 30 June 2023.
21 IRI Australian Grocery Weighted Scan 12-months ending 30 June 2023.
22 IRI Australian Grocery scan Weighted Scan MAT.
23 SPINS data for the Grocery channel only for the 52 weeks ending 30 June 2023 and 30 June 2022.

Management commentary
(no financial statements)

The lower EBITDA loss was mainly due to revenue growth, less promotional activity, improved input costs and distribution rates, lower marketing spend and reduced SG&A costs. Whilst reduced marketing investment led to a lower level of brand awareness, household penetration increased and brand loyalty and equity ratings improved. The Company has recently changed the management team in the USA and there will be a greater focus on profitability going forward.

In November 2022, the Company received confirmation from the FDA that its application for enforcement discretion to import, sell and distribute *a2 Platinum®* IMF product from New Zealand into the USA had been approved. a2MC is pursuing longer term FDA approval of *a2 Platinum®* whilst carefully considering market entry options. A small amount of product has been produced recently to facilitate FDA required clinical studies and distribution trials during FY24.

4. Mataura Valley Milk

Accelerating MVM's path to profitability by FY26 or earlier is also a strategic priority. During FY23, the Company accelerated execution of its supply chain transformation strategy, including increasing raw A1 protein free milk supply, completing the insourcing of all *a2 Milk™ Whole and Skim milk powder* products, completing production trials for insourcing of certain IMF product with manufacturing to commence in 1H24, and commencing production trials for a new English label IMF range, all with MVM and new blending and canning partners prior to installing similar capability at MVM.

Revenue of $113.9 million[24] and an EBITDA loss of $26.5 million were recorded for the period. The higher revenue reflected 12-months under a2MC ownership versus 11-months in FY22 (due to acquisition timing) net of intercompany sales of $32.3 million during the current period. EBITDA loss of $26.5 million, compared to a reported loss of $18.8 million in FY22 (or a loss of $23.2 million on a pro-forma unaudited basis for 12-months). The slightly higher EBITDA loss was due to the timing of sales in a volatile commodity and FX environment; reduced demand from third-party customers in China; increased investment in capability (including management changes), significant product development trials; and investment to support future nutritional powder production.

Sustainability progress

a2MC's sustainability strategy is focused on taking action on climate change, achieving nature positive outcomes, supporting thriving farms, utilising more sustainable packaging and supporting communities in need. The Company has previously communicated its Planet-related goals, including achieving Scope 1 and 2 net zero emissions by 2030 and Scope 3 by 2040. The Company is pleased to announce that it has refined its Scope 3 reduction ambition to include an interim goal to reduce emissions intensity by 30% by 2030.

The Company made significant progress on implementing its Sustainability strategy during FY23. In 2H23, MVM commenced the installation of a new high-pressure electrode boiler and the full electrification of the site supplied by 100% renewable energy such as hydro and wind, which is a first in the New Zealand market that will substantially reduce a2MC's total Scope 1 and 2 emissions close to net zero. To accelerate addressing Scope 3 emissions, the Company commenced an on-farm methane inhibitor pilot in Australia with additional studies and a commercial trial planned for FY24. The Company completed its first two nature risk and opportunity assessments covering two regions in New Zealand, Canterbury and Southland, where the largest A1 protein free milk pools supplying the Company are based. a2MC also entered into an environmental research agreement with Lincoln University, continued to roll out its Farmer Environmental Plan programme, and increased its support for its Farmer Grant programmes.

"We advanced our sustainability programmes, including commencing the electrification of MVM from 100% renewable energy sources and an on-farm methane inhibitor feasibility study."

24 Revenue excluding intercompany sales.

Management commentary
(no financial statements)

"We will continue to focus on capturing the full potential of China IMF as well as ramping up innovation to pursue opportunities in adjacent categories and new markets."

Strategy execution update

The Company has progressively refreshed its strategy and execution framework over the past couple of years. At the a2MC's Investor Day in October 2021, the Company communicated its people, planet, consumer and shareholder related goals, outlined its five strategic priorities and highlighted key enablers to execution. Consistent with its strategy, the Company will continue to focus on capturing the full potential of China IMF as well as ramping up innovation to pursue opportunities in adjacent categories and new markets.

From a shareholder goal perspective, the Company outlined its medium-term financial ambition to grow revenue to $2 billion over 5 or more years from FY21 and to target EBITDA margins in the "teens". In doing so, the Company highlighted the key risks to achieving these goals and that the path is unlikely to be linear. At that time, the Company also stated that EBITDA margins could possibly increase to the "low-to-mid 20s" in the medium-to-long term subject to higher than expected market recovery, English label channel growth and market share gains.

a2MC has made solid progress towards these financial goals with revenue growing from $1,207 million in FY21 to $1,593 million in FY23, and EBITDA margins increasing from 10.2% in FY21 to 13.8% in FY23. Over this period, market conditions have been more challenging than expected with the total China IMF market value down 17.4% – China label down 16.0% and English label down 24.7%[25]. a2MC has increased its share of the overall China IMF market significantly from 4.9% in FY21 to 5.7%[26] in FY23 and remains on track to achieve its revenue goal of $2 billion. At this stage, it is unlikely that EBITDA margins will increase to the "low-to-mid 20s" in the foreseeable future due to market conditions and outlook. Notwithstanding, the Company remains committed to an EBITDA margin goal in the "teens" targeting year-on-year improvement.

In terms of people, planet and consumer goals, a2MC has specific non-financial measures of success that were also communicated to the market at its October 2021 Investor Day. The Company has also made substantial progress on achieving these goals, including: improving safety metrics and employee engagement; accelerating its sustainability programmes as noted above; and from a consumer point of view it has improved brand health, increased market share and ramped up innovation.

In addition to its strategic goals, last year a2MC updated its Purpose and Vision and shared this in the Company's 2022 Annual Report. The Company's purpose is to "*Pioneer the future of Dairy for Good*" with a vision of creating "*An A1-free world where Dairy nourishes all People and our Planet*" which has provided a north star and greater emotional connection for the a2MC team and stakeholders as to why the Company exists and the world it is endeavouring to create.

More recently during 2023, the Company has refreshed its Values and associated Standards of Behaviour which provide a cultural framework and clarity around how team members should execute the Company's strategy individually and collectively. The Company's new values framework is expressed through the "BOLD" acronym standing for Bold Passion, Ownership and Agility, Leading Constructively and Disruptive Thinking. The refreshed Values and Standards of behaviour build on what has contributed to a2MC's success in the past and emphasises areas that will be key to executing our strategy, living our purpose and achieving our vision and goals.

25 Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.
26 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key & A + BCD cities). 12-month rolling share. FY23 versus FY22.

Management commentary
(no financial statements)

Executive Leadership Team renewal

There have been significant Executive Leadership Team renewal over the last two years, with all ELT members either new to the Company or in expanded roles. During the year there were a number of new appointments. David Muscat was appointed to the role of Chief Financial Officer, having previously served in CFO roles in Australia and Europe, bringing significant experience in the consumer and retail sectors in various international markets, including China. Chopin Zhang joined with over 35 years of experience in supply chain management, including significant experience in China and New Zealand IMF having most recently served as CEO at Yashili from 2017 to 2020. Chopin's primary focus includes transforming the Company's supply chain to enable further market access, insourcing, innovation, and growth, which is a key aspect of its refreshed growth strategy.

Additionally, there have been several internal appointments later in the financial year. Kevin Bush, previously Executive General Manager – ANZ, has recently been appointed to the role of Managing Director – USA. Kevin's main focus is driving growth through innovation and accelerating the path to profitability in the USA. Eleanor Khor, previously Chief Strategy Officer, has taken on an expanded role, adding the leadership of a2MC's ANZ business as Managing Director – ANZ and Strategy. Eleanor's focus is on expanding the business in ANZ through innovation, with particular attention to realising the full potential of the new *a2 Milk™ Lactose-free* product.

FY24 Outlook

Market conditions

China IMF market conditions are uncertain but likely to become more challenging in FY24 with a further double-digit decline in market value expected. This is due to volume declines driven by the rolling impact of fewer newborns in recent years on later stage IMF products, and a lower number of newborns expected in CY23 due to the lagged impact of COVID-19 prior to an expected increase in CY24. In addition, it is expected that average selling prices will remain under pressure due to an increase in competitive intensity driven by the market-wide transition to new GB product, excess manufacturing capacity and challenging macroeconomic conditions.

Business and category sales

The Company will continue to execute its growth strategy in FY24, focusing on growing share in IMF as well as commercialising opportunities in adjacent categories and new markets.

The Company expects to continue to gain market share in China IMF, with growth dependent on the extent of market share gains in a declining market. China label is expected to outperform English label, and overall IMF growth is expected to be 2H24 weighted as the Company manages the transition to its new China label product primarily in 1H24, and due to English label cycling a relatively strong prior period in 1H23.

The Company expects growth in other nutritional products and modest growth in ANZ and USA liquid milk. USA IMF sales are expected to be immaterial. MVM sales are expected to decline significantly due to increased levels of insourcing and lower GDT market pricing.

Key financials

Due to the expected market conditions outlined above, a broad range of sales outcomes is possible. At this stage, the Company is expecting low single-digit revenue growth in FY24.

FY24 gross margin (% of sales) is expected to be similar to FY23, with cost of goods sold headwinds related to China label IMF re-formulation and upgraded packaging, ingredients and packaging inflationary pressures, foreign exchange changes, product and channel mix impacts, and higher Australian farmgate milk pricing – offset by price increases, lower New Zealand farmgate milk pricing for IMF, MVM internalisation benefits and cost mitigation initiatives.

The Company plans to increase its brand investment in FY24 in line with sales growth to support its new China label product launch and growth. Administration & Other expenses are expected to be similar to FY23.

The Company expects EBITDA margin (% of revenue) to be broadly in line with FY23.

Operational cash conversion is expected to be higher in FY24 partly supported by an incremental reduction in inventory cover, and capital expenditure is expected to increase to approximately $26 million mainly due to the Kyabram facility upgrade and MVM electrification projects.

Key risks

In addition to the challenges noted above and trading upside and downside, other risks include, but are not limited to, residual COVID-19 impacts on supply and demand, new China label product transition, volume impact of price increases, cross border trade, foreign exchange movements, changes in interest rates, farmgate milk pricing and other commodity prices, and changes in the regulatory environment. These challenges and risks could materially impact expected revenue and earnings outcomes.

David Bortolussi
Managing Director and Chief Executive Officer
20 August 2023

Management commentary
(no financial statements)

Building a sustainable growth business

Management commentary
(no financial statements)

Who we are

The a2 Milk Company is a dairy nutritionals company, fuelled by its purpose to pioneer the future of dairy for good.

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

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

Today, a2MC continues to pioneer this science and research, bringing A1 protein free milk to the world, allowing more consumers to enjoy its unique digestive and other potential health benefits.

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

The Company's primary business activities are:

- **China and Other Asia:** Sales of China label and English label IMF, liquid milk and other nutritional products in offline stores and domestic and cross-border e-commerce channels.
- **ANZ:** Sales of English label IMF, plain and fortified milk powders for children and pregnant women through reseller and retail channels, and sales of liquid milk across Australian and New Zealand retail channels. It is understood that the majority of the infant milk formula sales to customers in ANZ are ultimately consumed in China.
- **North America:** Sales of liquid milk and nutritional products in the United States of America and liquid milk in Canada.
- **Mataura Valley Milk:** Production of nutritional and commodity products for a2MC and other external customers in overseas markets.

Management commentary
(no financial statements)

What we do

China and Other Asia

Revenue	$1,002m
EBITDA	$254m
Market size	Estimated China IMF market value size for FY23 was NZD$33 billion[1]
Supply chain	– China State Farm importation agent and master distributor – Over 100 distributors
Our people	132 (headcount)

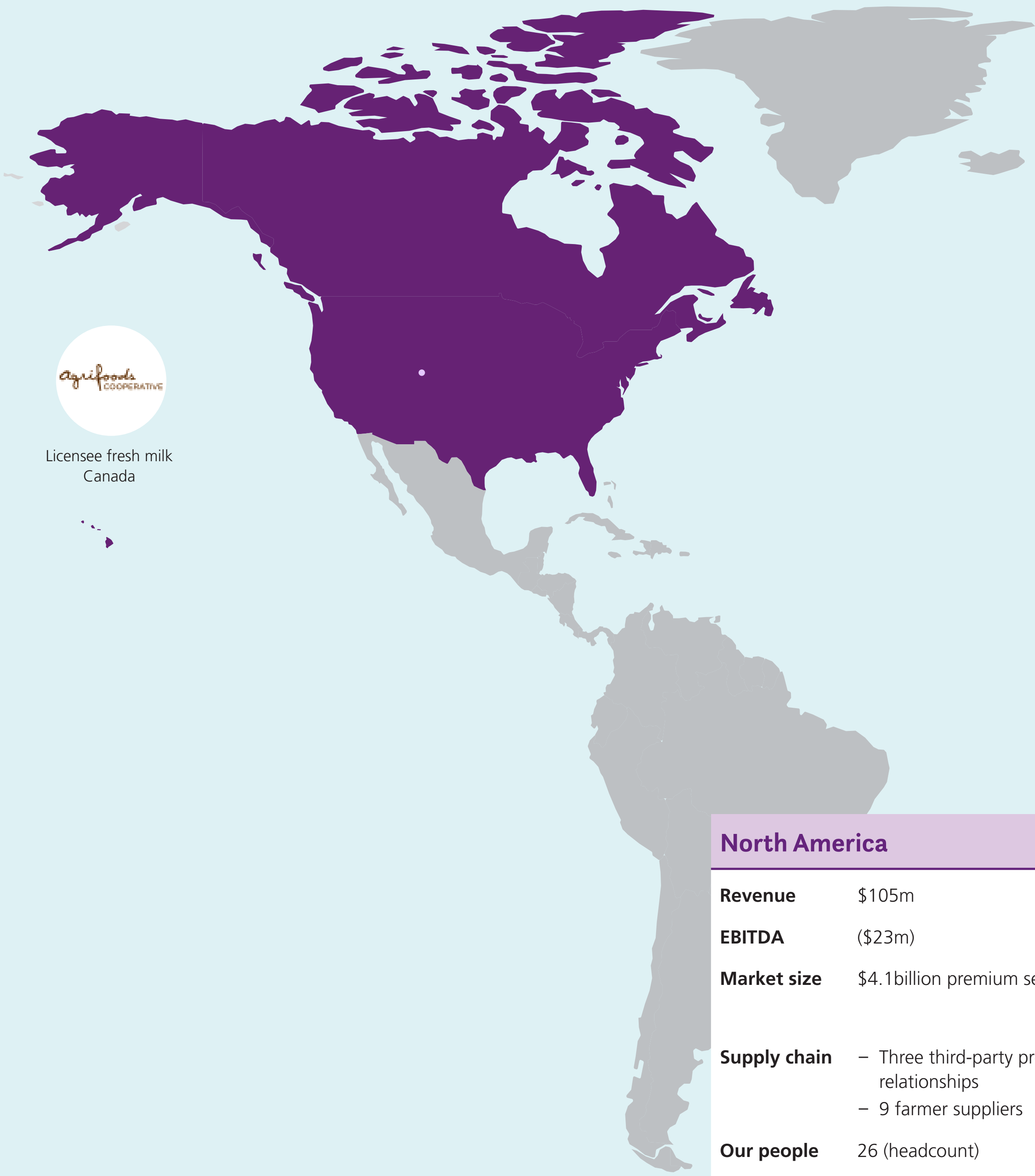
PRODUCT PORTFOLIO

Australia and New Zealand

Revenue	$486m
EBITDA	$67m
Market size	Australian fresh milk market NZD$2.6 billion[2] plus cross-border access to China market
Supply chain	Australia (Liquid Milk) – Smeaton Grange (a2MC) – Kyabram (a2MC) – Four third-party processing relationships – 21 farmer suppliers New Zealand (Nutritionals) – 75% interest in Mataura Valley Milk – 19.8% interest in Synlait Milk – 198 farmer suppliers
Our people	307 (headcount)

PRODUCT PORTFOLIO

Management commentary
(no financial statements)



North America

Revenue	$105m
EBITDA	($23m)
Market size	$4.1billion premium segment[3]
Supply chain	– Three third-party processing relationships – 9 farmer suppliers
Our people	26 (headcount)

PRODUCT PORTFOLIO

1 Source: FY23 Market size based on a2MC internal estimation approach, which may be adjusted year-to-year, and which may result in market size not being directly comparable across periods.

2 Source: Circana Grocery Scan data for measured market with internal estimates using Circana Shopper Data for unmeasured market.

3 Source: SPINS; USA Food FY23 retail milk sales in the premium segment. Note, in FY23 the Company has updated the market size from 'US MULO + Natural + Regional + Independents' to 'US Food' as it is a more representative metric.

Management commentary
(no financial statements)

How we create value

Inputs

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

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

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

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

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

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

Our strategy
Page 21

Purpose

We pioneer the future of Dairy for good

Vision

An A1-free world where Dairy nourishes all people and our planet

Management commentary
(no financial statements)

Risks and opportunities

Page 50

The sale of nutritional food products Page 51

Doing business in international markets Page 52

Major international events Page 53

Competitive intensity Page 54

Climate and nature Page 55

Strategic partnerships Page 56

Evolving technology and cyber security Page 57

Talent and culture Page 58

Social licence to operate Page 59

Strategic priorities

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

Values

- Bold passion
- Ownership and agility
- Leading constructively
- Disruptive thinking

Progress towards our goals

Page 25

People

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

Page 25

Planet

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

Page 32

Consumers

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

Page 40

Shareholders

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

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Management commentary
(no financial statements)

What makes us unique

Purpose

We pioneer the future of Dairy for good

Vision

An A1-free world where Dairy nourishes all people and our planet

Values refresh

Building on the purpose and strategy refresh in FY22, the Company also refreshed its values and standards of behaviour in FY23. The values refresh was led by the Executive Leadership Team and a cross-functional working group from the business, across multiple geographies, teams and working styles, to ensure the values are relevant to all team members, underpin culture in the organisation, and support execution of the Company's strategy going forward.

Bold passion

We believe in the power of the *a2™* proposition.

We are pioneers and always find a way to make it happen.

We are passionate about our consumers and customers.

Ownership and agility

We align on outcomes and prioritise initiatives.

We are effective in teams and do what we say we will do.

We are flexible and act with a sense of urgency.

Leading constructively

We are proud of what we do and how we do it.

We encourage and develop ourselves and others.

We are honest, direct and respectful in our interactions.

Disruptive thinking

We think big, creatively and logically to maximise group impact.

We are better together and unlock the power of the collective.

We challenge existing ways of working to achieve better solutions.

Management commentary
(no financial statements)

Our strategy

Our growth strategy

The a2 Milk Company's strategic priorities and goals remain largely unchanged since it undertook a holistic review of its market, brand, product and distribution opportunities, which was communicated to the market in October 2021.

The Company has clear goals in four stakeholder groups, People, Planet, Consumers and Shareholders, to ensure that in addition to achieving its commercial ambitions, it is also actively working to deliver its sustainability priorities and is executing in a way that further develops a trusted and transparent relationship with its stakeholders.

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

- **Invest in people and planet leadership:** While the Company's primary commercial objective is to deliver its full potential in China IMF, critical to doing so is ensuring it has thriving, high performing teams to execute its strategy. The Company has continued to invest in people leadership, including through its constructive leadership programmes and refreshing its values and behaviours. The Company elevated investment in planet leadership to sit amongst its top strategic priorities, by taking direct action with an ambition to lead the industry, particularly in GHG emissions reduction, farming practices and sustainable packaging. The Company is also focused on supporting healthy ecosystems through initiatives that contribute to nature positive outcomes.
- **Capture full potential in China IMF:** To achieve its commercial ambitions, the Company remains primarily focused on capturing its opportunity in IMF in the China market. To accomplish this, the Company is increasing its control over its CL and EL distribution, getting closer to consumers, continuing to increase investment in its brand, and further investing in its digital marketing and e-commerce capability.
- **Ramp-up product innovation:** While the Company has historically been focused on a narrow product range, to continue to drive growth in IMF and beyond, it will be important to expand its portfolio both in CL and EL IMF, as well as entering adjacent product categories in key markets.
- **Transform the supply chain:** Connected to its IMF and innovation ambitions, the Company is working to transform its supply chain. This includes a focus on obtaining additional CL IMF registrations, increasingly leveraging its manufacturing capability at Mataura Valley Milk Limited (MVM), partnering with new suppliers to deliver new products and, over time, developing its supply capability in China.
- **Accelerate path to profitability for MVM and USA:** To maximise investment in China and to improve Group return on sales, the Company needs to ensure it accelerates the path to profitability for both the USA and MVM. The Company is targeting achieving this during FY26 or sooner.

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

Management commentary
(no financial statements)

Financial measures of success

The Company's medium-term ambition is to grow sales from $1.2 billion in FY21 to approximately $2 billion by FY26 or later and to improve EBITDA margins in the 'teens'. The sales ambition is expected to be predominantly driven by growth in CL and EL IMF as well as other nutritional products sold in China.

The key drivers for the sales growth are:

- Increasing share of CL IMF nutrition
- Supporting EL channel recovery post COVID-19 and gaining channel share
- Growing other dairy and nutritional products in China through innovation and distribution growth
- Growing in existing and new emerging markets
- Expanding in milk and adjacent categories in ANZ and the USA

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

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

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

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

Non-financial measures of success

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

People: The Company is committed to creating a safe and highly diverse and inclusive environment for its people. The Company's ambition is to be an employer of choice in the industry by creating a fulfilling employee engagement experience that enables employees to thrive personally and professionally. To facilitate this ambition, the Company is targeting below 10 for its safety total recordable injury frequency rate (TRIFR) with continuous improvement, improving its employee engagement score to above 80%, and maintaining its diversity and inclusion rating.

Planet: The Company is committed to minimising its impact on the planet and becoming a more sustainable business across a broad range of areas. On emissions, this includes targeting net zero emissions for Scope 1 and 2 by 2030 and Scope 3 by 2040 and a reduction in Scope 3 by 30% (per tonne of milks solids), by 2030. For on-farm and other impact areas, this includes targeting 100% completion of Farm Environmental Plans and Certified Animal Welfare Programmes by the end of calendar year 2023, and targeting 100% reusable, recyclable or compostable packaging with 50% average recycled content by 2025.

Consumers: The Company has also set brand health, market share, innovation and supply chain targets to deliver on its Consumer goals.

For brand health, the Company is targeting greater than 25% for unprompted awareness in China, household penetration of 16% in Australian fresh milk, and household penetration above 3% in the USA in the premium milk segment.

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

For innovation, the Company is looking to drive $200 million in incremental revenue from dairy and other nutritionals in China while also driving 25% of sales from new products in Australia and the USA.

For supply chain, importantly, the Company is also looking to secure three or more China label IMF registrations. The Company targets to maintain the highest food safety and quality standards, improve supplier and customer service levels, tightly manage inventory levels and constantly improve supply chain efficiency.

Management commentary
(no financial statements)

Medium term measures of success

● On track ● Work in progress

GOALS						
PEOPLE	PLANET	CONSUMERS				SHAREHOLDERS
		Brand Health	Market Share	Innovation	Supply Chain	
1	2	3	4	5	6	7
Safety TRIFR[1] Engagement Diversity & Inclusion	GHG emissions reduction Environmental plans on farms Animal welfare programmes Sustainable packaging	China unprompted brand awareness AU household penetration USA household penetration	MBS share DOL share CBEC share O2O + Daigou share Australian fresh milk share USA premium milk share	China other dairy / nutritionals growth Emerging markets development USA sales from new products ANZ sales from new products	Access to ≥3 CL registrations CL inventory management EL inventory management Quality outcomes Supply chain efficiency	Medium-term sales ambition of ~$2.0b (≥FY26) EBITDA margin goal in the 'teens' targeting year-on-year improvement USA profitability during FY25/ FY26 MVM profitability during FY26

1. Total Recordable Injury Frequency Rate (TRIFR)

Management commentary
(no financial statements)

Our reporting approach

The Company believes that by further integrating its reporting, it will benefit stakeholders by providing a more complete picture of how it continues to create and preserve long-term value.

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

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

The Company notes the recent developments in this space, and in particular the publication of New Zealand's first Climate related standards in December 2022 from the External Reporting Board (XRB). The XRB standards were guided by the International Sustainability Standards Board (ISSB) exposure drafts, which were released in March 2022 and formally published in June 2023.

It is expected that this will result in a more definitive approach for companies to follow with regard to integrated reporting. This report has been prepared with reference to the XRB and ISSB standards and considers the integrated reporting principles.

During FY23 the Company continued to assess materiality, informing the Company on which topics to prioritise and report against, whilst building on its strategic priorities and aligning with the needs and expectation of its stakeholders. The materiality assessment included stakeholder interviews, peer benchmarking and alignment to the United Nation's Sustainable Development Goals (SDGs), The Global Reporting Initiative (GRI) and The Sustainability Accounting Standards Board (SASB) standards.

The Company also acknowledges the increasing expectation of internal and external stakeholders to ensure non-financial metrics disclosed externally are done so with a similar level of rigour to financial reporting. Over the past several years the Company has taken steps to improve the robustness of its internal processes to capture and report non-financial data to be included in external materials. For FY23, the Company has received limited assurance for many of the key non-financial metrics included in this report. For further information, please see ESG assurance report on page 81 from Ernst & Young.

The Company will endeavour to continue assessing stakeholder requirements and expectations along with the reporting requirements in all jurisdictions in which it operates.

Management commentary
(no financial statements)

Progress towards our goals

PEOPLE

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

SUSTAINABLE DEVELOPMENT GOALS

SDG 5: Gender equality
Target 5.5

SDG 8: Decent work and economic growth
Target 8.2

Targets and commitments

<10
Safety TRIFR with continuous improvement

>80%
Engagement

Rated >4 out of 5
Diversity and inclusion

a2MC team members supporting our communities:

Row 1 L-R: China team supporting Operation Smile, Laptop donations to KidsCan sponsored school in Mataura

Row 2 L-R: Auckland team members volunteering at KidsCan warehouse, Melbourne team volunteering at Foodbank Victoria, Boulder team volunteering at Boulder Shelter for Homeless

Row 3 L-R: Melbourne team volunteering for Landcare, Sydney team volunteering for Foodbank NSW, China team supporting Operation Smile

Management commentary
(no financial statements)

Passionate and thriving team

The Company is committed to creating a safe and highly diverse and inclusive environment for its people. The Company's ambition is to be an employer of choice in the industry by creating a fulfilling employee engagement experience that enables employees to thrive personally and professionally.

To facilitate this ambition, the Company focuses on health and safety, invests in leadership, promotes the employee experience, fosters a learning environment, and celebrates diversity and inclusion.

During FY23, the Company launched various initiatives to deliver on its ambition and to achieve engaged and effective teams who create long-term value for the Company and its shareholders.

FY23 progress

Health, safety and wellbeing

- All worksites continued to focus on managing critical risks and promoting a safety culture through leadership and education across all sites. Manufacturing teams continue to focus on managing critical risks, including the use of external resources where appropriate.
- Reported a Total Recordable Injury Frequency Rate (TRIFR) of 6.1, which was an improvement on the prior year. This included team members from all the Company's sites (including contractors).
- Continued to provide employee assistance programme resources to team members across all geographies.
- Further developed health and safety reporting.
- Provided free access to all team members and their families to resources and tools promoting mindfulness, meditation and mental wellbeing.
- Conducted health and wellbeing expos across Australia and New Zealand worksites and virtually.

Investment in leadership

- Relaunched a renewed set of our Company values and standards of behaviour, reflecting the input and contributions of over 200 team members across all worksites.
- Embedded the Lifestyles Inventory (LSI) tool to provide a common leadership language and support the development of leadership capability and effectiveness.
- Launched a Roles and Goals model for role clarity and a quarterly focus on goal achievement and leadership behaviours.
- Continued to roll out the 'Thrive' constructive leadership programme to senior leaders, to support the development of leadership effectiveness and constructive ways of working.
- Delivered Situational Leadership training for leaders at all levels to provide an integrated and practical approach to effective leadership styles.
- Implemented 'Compass', a global Human Resources Information System (HRIS) building on the Company's ERP platform.

KEY METRICS DATA (FY23)[1]

GENDER (AS AT 30 JUNE 2023)	COHORT	MALE	%	FEMALE	%	VARIANCE TO LAST YEAR (% FEMALES)
Directors[2]	7	4	57%	3	43%	-7%
Executive Leadership Team[2]	10	7	70%	3	30%	5%
People Leaders[3]	118	64	54%	54	46%	13%
Remaining Team Members	331	154	47%	177	53%	-2%
Total	**465**	**228**	**49%**	**237**	**51%**	**+2%**

AGE (AS AT 30 JUNE 2023)	NUMBER	%	VARIANCE TO LAST YEAR (%)
Under 30	56	12%	0%
30 to 50	310	67%	-1%
Over 50	99	21%	1%
Total	**465**	**100%**	

TENURE (AS AT 30 JUNE 2023)	NUMBER	%	VARIANCE TO LAST YEAR (%)
0–2 Years	217	47%	3%
2–5 Years	190	41%	-3%
5+ Years	58	12%	–
Total	**465**	**100%**	

1 All values subject to rounding
2 David Bortolussi has been included in both the Director and ELT calculations
3 a2MC defines People Leaders as any Team Member with direct reports

Management commentary
(no financial statements)

Reward, recognition and training

- Continued to embed the Company's global reward and recognition platform 'LegenDairy' across all geographies. The platform provides wellbeing and rewards, recognises tenure and also provides an opportunity to celebrate the many examples of individuals and teams who are going above and beyond in delivering the Company's strategy and living its values.
- Celebrated and recognised monthly nominees for our a2 Legends awards.
- Celebrated annual a2 Legend of the Year award.
- Launched Udemy and Masterclass which provide educational platforms to enhance and support online learning and development.
- Implemented a Work from Anywhere policy to support all team members in leveraging flexible work for up to two weeks a year.

Xiao Li, Chief Executive Officer – Greater China, presenting Felix Liu, Trade Marketing Director – China, with a2MC 2023 Legend of the Year Award

Recruitment

- Launched the Company's corporate induction programme. The purpose of the programme is to equip team members with an understanding of the Company's history, purpose, vision, strategy, and values along with the experience of visiting a farm, production site and retailers.
- Upgraded external website capability with Careers at a2, showcasing Working at a2 and providing future team members with an understanding of the Company's purpose, vision, strategy, values and benefits, as well as current role vacancies.
- Embedded talent acquisition partnership with an external provider as an integrated talent function in the ANZ business.
- Updated internal systems, resulting in a centralised team member information centre for the Company.
- Evolved the operating model and organisational design to optimise delivery of our strategic objectives.
- Launched an online recruitment module at Mataura Valley Milk to support a better candidate experience.

Supporting a diverse and inclusive workplace

- Introduced an additional five days of paid women's health leave for team members experiencing symptoms of endometriosis, peri-menopause or menopause as well as those individuals undertaking fertility treatments, including IVF. a2MC recognises that there are days when these symptoms and treatments interfere with an individual's ability to work.
- Introduced an on-demand platform to support team members managing childcare and tutoring in New Zealand and Australia.

Next steps

- Continue to roll out constructive leadership training programme across the Company.
- Enhance current benefits to strengthen the Company's value proposition for a2MC team members and attract new talent.
- Implement refined Workplace Health and Safety Management System.
- Implement 'Thrive' leadership programme with next level leadership.

Management commentary
(no financial statements)

Anti-modern slavery

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

The Company is committed to high standards of responsible conduct, social responsibility and sustainability in all areas of the business, including operations and supply chain. The Company's commitment comes not just from an acknowledgement that it is the right thing to do, but from a recognition that the manner in which the Company and its partners manage social, environmental and economic impacts is critical to long-term success. The Company released its third Modern Slavery Statement under the Modern Slavery Act in December 2022 which is available at www.thea2milkcompany.com/ESG-reporting.

FY23 progress

- Adopted an anti-modern slavery response protocol with a focus on governance, risk mapping, supplier engagement and grievance mechanisms and reporting.
- Adopted an anti-modern slavery remediation plan which sets out the steps the Company is to take in the event it discovers any modern slavery in its supply chain.
- Prepared an anti-modern slavery questionnaire and conducted analysis of all suppliers to determine approach to roll out questionnaire. The questionnaire will be rolled out progressively initially to suppliers that are categorised as higher risk.
- Received signed 'Pledge against modern slavery' from USA farmers and seeking the same from Canadian farmers.
- Continued to conduct further work across the Company's supply chain, with a focus on modern slavery risks across both the Company's own supply chain and indirect operations.
- Continued to refine existing training programmes for all employees and the Company's on-farm suppliers.

Next steps

- Analyse modern slavery risks with key suppliers' supply chains and operations.
- Update agreements with farms providing raw A1 protein free milk to include a commitment to operate slavery free.
- Continue roll out of modern slavery questionnaire with suppliers.

Green Teams

The Company has Green Teams across each of its offices and worksites which focus on improving the sustainable practises of the offices and worksites.

Green Teams engage and educate the wider team in sustainability initiatives. A 'People and Planet Legend' award was established through the Company's reward and recognition platform, 'LegenDairy' to recognise achievements in this space. A green office policy was also implemented by the Green Teams, outlining the Company's expectation of its team members in respect to sustainable management of its offices. Additional initiatives have included:

- Enhancing onsite recycling, including e-waste.
- Hosting clothing drops, clean ups, and lunch and learn sessions.
- Exploring low impact alternatives such as trialling the use of electric vehicles by the sales team.

green team

Reconciliation Action Plan

The Company recognises the importance of reconciliation between First Nations peoples and non-indigenous peoples in Australia and in FY23 formally commenced its reconciliation journey by committing to the Reconciliation Action Plan (RAP) framework established by Reconciliation Australia.

FY23 progress

- Published the Company's 'Reflect' RAP.
- Partnered with Yarnnup, an Aboriginal advisory firm, and commenced action towards the deliverables set out in the RAP.

Our Company artwork: Respecting Together – Elaine Chambers

Management commentary
(no financial statements)

Enriching communities

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

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

Support takes the form of funds and product donations to help communities, as well investments of time from the Company's people to work directly with partner organisations.

As a business founded on innovation, the Company believes that science plays an essential role in enhancing the health and wellbeing of communities over time and by harnessing science, the Company can deliver superior outcomes for its consumers.

FY23 progress

$2.84m* in product and cash donations, including:

Volunteering support

In FY23, team members across various regions donated 334 hours of time to different organisations. This included packing lunch orders for KidsCan in New Zealand, packing and sorting food at Foodbank in Australia, stocking supplies at the Boulder homeless shelter and volunteering at Operation Smile in China.

Proactive support

- KidsCan (New Zealand)
- Foodbank School Breakfast Program (Australia)
- Feed the Children (USA)
- Operation Smile (China)

Event-based (or reactive) support

- KidsCan milk powder for cyclone and flood affected families (New Zealand)
- Victorian floods farm support (Australia)
- GIVIT natural disaster relief cash donation (Australia)

Additional farming community specific programmes and support

- *a2™ Farm Sustainability Fund*, in partnership with Lincoln University
- Surfing for Farmers
- Sustainable Agriculture Landcare Grants
- Bale Up Conference support

* Donations figure includes the cost value of donated products and any donation of cash (NZD) to communities, organisations, farmers and individuals

The a2 Milk Company is supporting communities to thrive

Operation Smile (China)

About 25,000 babies born in China each year suffer from cleft lip palate. Corrective surgery can help to transform those children's lives – but they cannot undergo surgery until they achieve the requisite 'health standard', which includes weight targets. The Company partnered with Operation Smile during the year to provide corrective surgery and nutrition products to 300 children suffering from cleft lip palate, before and after their operations. With more than 6,000 medical volunteers from around the world, Operation Smile is one of the world's largest volunteer-based not-for-profit organisations.

Management commentary
(no financial statements)

KidsCan (New Zealand)

The Company is proud to partner with KidsCan, providing New Zealand children with the essentials to help them participate in learning and have the opportunity for a better future. In addition to the partnership, the Company donated milk powders to KidsCan to support families affected by floods and cyclones.

KidsCan is New Zealand's leading charity dedicated to helping New Zealand children affected by poverty. The Child Poverty Monitor in New Zealand shows 11.0% of all children living in households in material hardship regularly go without essentials. The Company is a major partner of KidsCan to help support low socio-economic early childhood education centres across New Zealand to provide children attending those centres with food, clothing, and health products. In FY23, the support increased by providing a donation of 7 laptops to a KidsCan sponsored school. a2MC supports KidsCan's belief that education is a child's ticket out of poverty and that children struggle to learn when they are cold or hungry.

KidsCan

Feed the Children (USA)

The Company partnered with Feed the Children in the USA to help provide struggling families the supplies they need to send their children back to school with confidence. The combined health and economic crises of COVID-19 continue to cause hardship. It is estimated that one in eight children in the USA suffer from food insecurity. In June 2023, the Company donated funds to provide food and supplies to school children, giving children what they need to do and be their best.

FEED THE CHILDREN®

$2.84m* in product and cash donations to help communities thrive

Foodbank (Australia)

The Company has supported Foodbank with fresh milk product donations in New South Wales and Victoria since 2015, scaling up support in times of heightened need. In FY23, support was increased by providing a cash donation to support the Foodbank School Breakfast Program. The Company also donated *a2 Milk*® products to Foodbank through the National Donor Partnership. The School Breakfast Program provides a healthy breakfast for school children who would otherwise go without, and delivers important benefits for students across a broad range of physical and mental health outcomes, including energy levels and concentration. Through this donation, the Company was able to support Foodbank to provide over 40 schools in some of Australia's most remote Indigenous communities with access to the School Breakfast Program.

FOOD BANK SCHOOL BREAKFAST PROGRAM

Management commentary
(no financial statements)

PLANET

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

The relationships the Company has with farmers and the natural systems in which it operates are pivotal to its success and long-term value creation. The Company continues to work with farmers to promote strong animal welfare practices, put in place farm environmental plans, and invest in on-farm programmes to support farmers in adopting practices that will contribute to a sustainable future. These key initiatives support the natural resources utilised by the business.

The impact of climate change and the reliance on natural resources is driving significant structural transformation across the dairy sector. The Company is actively looking at ways to reduce its impact on climate and focus on sustainability more broadly.

SUSTAINABLE DEVELOPMENT GOALS

SDG 2: Zero hunger
Target 2.4

SDG 6: Clean water and sanitation
Target 6.3 and 6.4

SDG 12: Responsible consumption and production
Target 12.2

SDG 13: Climate action
Target 13.2

SDG 15: Life on land
Target 15.3

Nature

The natural environment plays an essential role in the production of *a2 Milk™* products. The reliance on natural resources is driving an important shift in the way that companies manage and assess the impact they have on the natural environment.

Targets and commitments

100%

of farms supplying raw A1 protein free milk to be certified under an upgraded animal welfare programme by the end of CY23

100%

of certified farms supplying raw A1 protein free milk to have a farm environmental plan in place by the end of CY23

45%

reduction in nitrogen loss to waterways per kilogram of milk solids by 2030 for farms in the Canterbury region supplying milk for a2MC's IMF production, from a FY18 base year

Continuing to review

additional water, waste and biodiversity targets as part of work on nature risk and opportunity assessment

The dairy sector has an extraordinary opportunity to lower its impact on the natural environment and the Company is committed to delivering a positive contribution to biodiversity, water and soils. These are critically important issues to the Company, its strategic partners, as well as governments and regulators in the countries in which it operates. The Company believes this will also become increasingly important as consumers become more attuned to nature impact.

The Company acknowledges the work being undertaken with respect to the Taskforce on Nature-related Financial Disclosures (TNFD) which is focused on developing a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature positive outcomes.

In a similar way to the Company voluntarily aligning its climate disclosures to the Taskforce for Climate-related Financial Disclosures (TCFD), which included reporting impacts for the first time in FY22, the Company will aim to align to TNFD over time.

In FY23, the Company undertook its first two nature risk and opportunity assessments covering two regions in New Zealand, Canterbury and Southland, where the largest A1 protein free milk pools supplying the Company are based. These regions also represent a significant proportion of the Company's supply chain footprint, in particular from a production perspective. These two pilot assessments confirmed the need for the Company, with its strategic partners and suppliers, to focus on the key risks and opportunities around:

- Water quality and use
- Soil quality
- Biodiversity
- Climate (as an element of nature)

The Company also has targets related to GHG emissions reductions, farm environmental plans, animal welfare and sustainable packaging which the Company believes will also contribute to nature positive outcomes. In reviewing the Company's supplier targets, the Company has aligned to its IMF manufacturer on nitrogen loss targets, an initial step towards introducing nature related targets. The Company will consider both the Science Based Target Network (SBTN) and the Science Based Target Initiative for Forest, Land and Agriculture (SBTI FLAG) when setting additional nature targets.

FY23 progress

- Conducted nature risk and opportunity pilot assessments where the largest A1 protein free milk pools supplying the Company are based.
- Established a partnership with Lincoln University in New Zealand and commenced a research project aiming to strengthen on-farm resilience and deliver positive environmental outcomes.
- Commenced nature-related on-farm measurement pilot studies connected to the *a2™ Farm Sustainability Fund* programme in New Zealand.

Next steps

- Progress towards aligning to and reporting against the TNFD framework.
- Extend the nature-related on-farm measurement pilot studies connected to the *a2™ Farm Sustainability Fund* programme in New Zealand.
- Extend nature-related targets for other key risks and opportunities and for additional operating regions.
- Report against initial water use and quality targets.

Management commentary
(no financial statements)

Climate

Climate change is driving significant structural transformation across all sectors. There will also be extraordinary opportunity for the agricultural sector to realise increased productivity and efficiency through new technologies and practices that lower emissions and environmental impact across the supply chains, including a particular focus on on-farm emissions.

At the same time, external reporting expectations and requirements are increasing. This is highlighted by the introduction of New Zealand's XRB climate standards, the International Sustainability Standards Board (ISSB), and the Australian Treasury's climate related exposure draft released in June 2023. The Company believes it is well placed to report in line with upcoming standards and legislation.

Targets and commitments

Net zero GHG emissions

for Scope 1 and 2 by 2030

Net zero GHG emissions

for Scope 3 by 2040

30%

reduction of Scope 3 emissions, per kilogram of milk solids, by 2030, from a FY21 base year

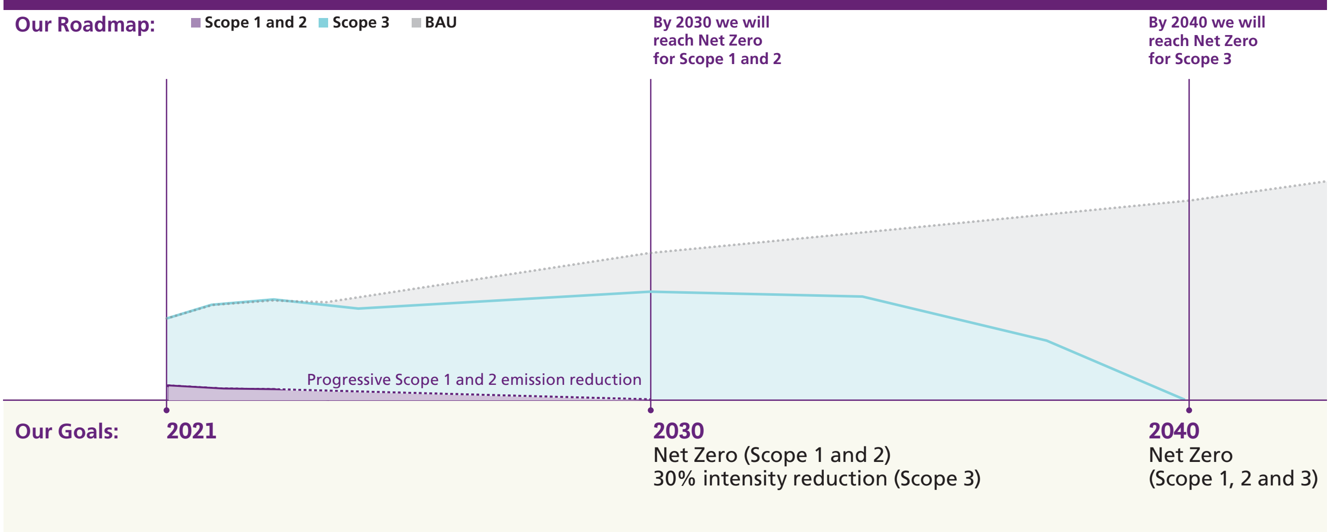
GHG emissions net zero roadmap and GHG inventory

In FY23, the Company conducted a 'boundary review' to ensure completeness and accuracy over data for its Scope 1, 2 and 3 emissions. Following this, the Company developed its GHG emissions net zero roadmap which illustrates the Company's net zero targets and how it plans to meet these targets over time. The Company has commenced the process to have these targets certified by Science Based Targets.

The Company is targeting net zero for Scope 1 and 2 emissions by 2030 and has a target to achieve net zero by 2040 for Scope 3. The Company has also introduced an interim Scope 3 target to reduce Scope 3 GHG emissions by 30%, per kilogram of milk solids, by 2030, from a FY21 base year.

In addition to the roadmap, the Company has published a GHG inventory report which shows the breakdown of Scope 1, 2 and 3 emissions. The purpose of the inventory report is to provide transparency on the Company's emissions profile as well as communicate any estimation uncertainties and assumptions. The GHG inventory report is available on the Company's website at www.thea2milkcompany.com/ESG-reporting.

a2MC NET ZERO GOALS AND ROADMAP[1]



1 The GHG emissions (tCO_2e) summarised in the Net Zero Roadmap is shown as one scenario for the purpose of depicting potential emissions in the future. It should not be interpreted or extrapolated as a view of any potential scenario related to the Company's financial performance or outlook.

Management commentary
(no financial statements)

GHG emissions reduction programme

Scope 1 and 2 emissions account for approximately 5% of the Company's total GHG emissions profile, with Scope 3 emissions comprising the other 95%. The largest proportion of Scope 3 emissions is from on-farm activities.

FY23 progress

SCOPE 1: GHG emissions from direct operations

- Progressed the installation of a high-pressure electrode boiler at MVM to replace existing coal-fired thermal heat generation system.

SCOPE 2: GHG emissions from electricity operations

- Progressed the full electrification of the MVM site which includes converting MVM to 100% renewable energy once the boiler conversion is completed later in CY23.
- Continued to utilise green energy contracts at all available sites.
- Once these activities are complete, approximately 96% of the Company's electricity usage will come from renewable or green energy sources.

SCOPE 3: Indirect GHG emissions

- Commenced methane abatement feasibility study on-farm, with additional feasibility studies to commence in FY24.
- Continued research to support regenerative farming practices through the partnership with Lincoln University.

Methane inhibitors

In FY23, the Company continued its work on methane abatement. The Company currently has a feasibility study underway and is planning to commence additional studies in FY24. The feasibility study has required collaboration between the Company, feed supplement providers, farmers, and other service providers. The study has presented various challenges throughout the period, providing opportunities for the Company to work with farmers to ensure they are appropriately prepared. This has included investing in on-farm infrastructure, methane emission data capture software, animal health monitoring collars and providing additional support where needed.

The Company is working with farmers, processors and feed suppliers to ensure that in the future supplements are easily accessible and ensuring animal welfare, maintaining the premium quality of products and reducing Scope 3 emissions.

KEY METRICS DATA (FY23)[1]

GHG EMISSIONS[2]	FY23	FY22	FY21
Total GHG Emissions[3]	501,090	516,345	493,319
Scope 1	24,343	22,972	30,144
Scope 2 (Market based)[4]	153	–	–
Scope 2 (Location based)[4]	3,356	3,221	3,426
Scope 3	476,595	490,153	459,749
On-farm	374,168	403,429	376,930
Scope 1 and 2 energy consumption (Gj)	239,962	–	–

1 Numbers are subject to rounding.
2 Greenhouse gas emissions, calculated as tonnes of carbon dioxide equivalent (tCO_2 e), have been estimated using considerations from The GHG Protocol guidelines. Emissions and conversion factors were sourced from the National Greenhouse Accounts Factors for Australia, the UK DEFRA GHG conversion factors and a range of other country specific sources. Where required, non direct emissions sources have been estimated using default and/or extrapolated emissions intensity rates to provide a more complete picture of our Scope 1, 2 and 3 emissions. Total emissions calculations exclude packaging. Refer to our GHG inventory report for details on estimations and assumptions used, which can be found at www.thea2milkcompany.com/ESG-reporting.
3 Total GHG emissions for FY23 have been calculated using market based method for Scope 2.
4 A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen. It derives emission factors from contractual instruments, such as green energy contracts.

Management commentary
(no financial statements)

How The a2 Milk Company is helping to support the planet

Matura Valley Milk boiler upgrade

In March 2023, construction works for the MVM high-pressure electrode boiler installation project commenced. The project involves replacing the existing coal-fired boiler with a high-pressure electrode boiler. The boiler will provide all the steam needed for operations. Steam generation is an essential element in milk products manufacturing, providing heat to enable the drying of milk to powder. The coal-fired boiler contributed to ~98% of a2MC's Scope 1 emissions in FY23. Once the high-pressure electrode boiler is commissioned, the boiler and MVM site will operate on 100% renewable energy, making it highly efficient whilst emitting zero emissions and will be the first of its kind in New Zealand. The Company is proud to have invested approximately $16 million into the boiler and site electrification project and is grateful to its fellow shareholder China Animal Husbandry Group, and to the Energy Efficiency and Conservation Authority for its $5 million co-investment in the project under the New Zealand's Government Investment in Decarbonising Industry fund.

FY23 progress

Water usage and efficiency

- Water usage and efficiency have been a focus for both facilities in the FY23 period. Whilst water usage is decreasing, it is heavily affected by product mix and the Company may see fluctuations in water usage, particularly at MVM.

Waste and waste diversion

- Both sites have continued to focus on reducing waste on site, with new initiatives at MVM being introduced, such as increased recycling of cardboard.

Energy consumption

- Both facilities have continued to use green energy contracts, with Smeaton Grange producing energy through solar panels. Smeaton Grange had an increase in energy usage due to a new product mix, with expectations to see a further increase in kWh from FY24, at MVM, when the electrode boiler is complete.

OTHER ENVIRONMENT METRICS	FY23	FY22
Manufacturing Facilities[1]		
Total water usage ('000 litres)	290,908	331,288
Water efficiency (litres/litre of milk)	1.7	2.0
Waste water diverted to beneficial land application (litres)	2,780,010	2,902,950
Waste produced (tonnes)	100	112
Waste diversion	96.7%	96.6%
Energy consumption (kWh)[2]	16,700,000	16,800,000

1 Manufacturing facilities include Smeaton Grange and MVM
2 Numbers have been rounded

Management commentary
(no financial statements)

Thriving farms

Farmers play a vital role in the Company's supply chain, not only as suppliers of the precious milk source for the Company's products but also as stewards of the environment and as vital contributors to local communities.

In addition, the humane treatment of cows is of the utmost importance. The Company is committed to working with and supporting farmers to enable them to improve the impact on the environment.

The work undertaken by the Company to better understand its nature and climate risks and opportunities has highlighted the need to take a holistic systems-based approach to regenerative agriculture to be effective in driving towards nature positive outcomes, including net zero targets.

Over the past several years, the Company has been working towards its targets of having 100% of certified farms supplying raw A1 protein free milk to having a farm environmental plan in place and to be certified under an upgraded animal welfare programme by the end of CY23. In addition to that, the Company has developed programmes and services to engage with and support farmers. This has included the development and support of farmer grants programmes, on-farm measurement pilot studies, research partnerships, methane inhibitor research, farmer education programmes, and crisis support.

Farm environmental plans

The Company has developed a global framework for farm environmental plans.

The principles of the framework address the most material aspects of environmental management in the dairy industry:

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

FY23 progress

- On target to have 100% of certified farms supplying A1 protein free milk with farm environmental plans (including MVM) by end of CY23.

Next steps

- Progress towards 100% of certified farms supplying A1 protein free milk in New Zealand having a Fresh Water Farm Plan.

Animal welfare programme

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

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

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

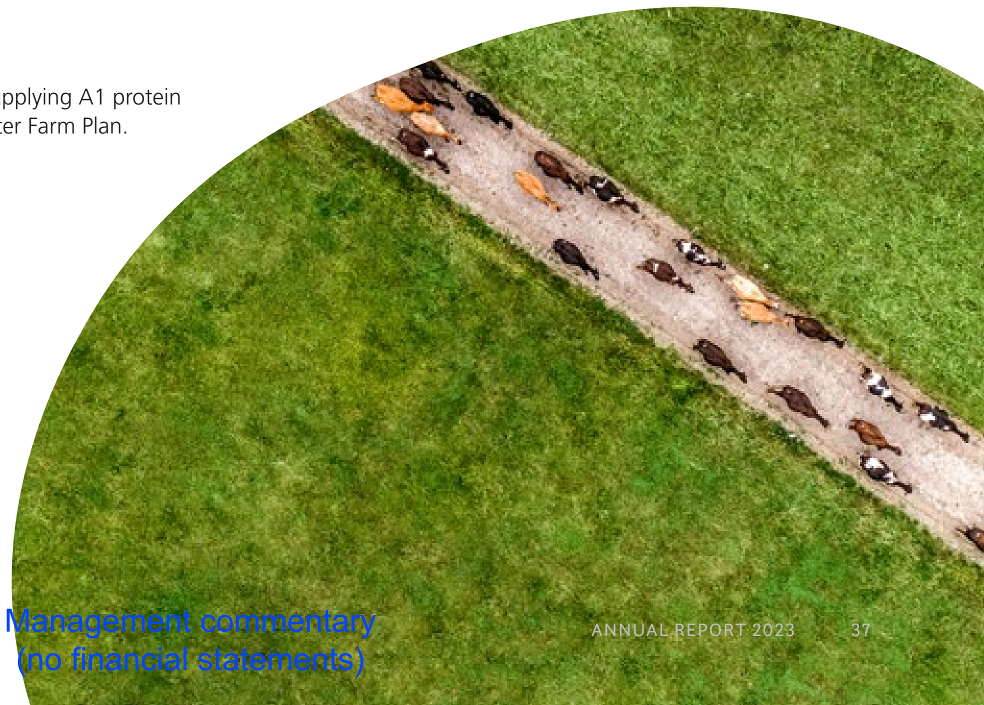
A number of extensions to the animal welfare programme were developed in FY23, supporting farmers to establish systems for continuous improvement in animal welfare and to further improve programmes beyond the industry standard.

FY23 progress

- Continued roll-out of auditor and a2MC farm services team training modules.
- Staged launch of upgraded animal welfare programme across the Company's regions.
- Successful roll out of updated audit scope and frequency.
- Redefined animal welfare programme with MVM ready to launch.
- On target for 100% animal welfare certification by end of CY23.

Next steps

- Progress towards global certification of the redefined programme.
- Invest in education and value add initiatives for farmers.



Research studies, partnerships and measurement pilots

The Company is committed to supporting the dairy industry by working with technology and solutions providers to tackle some of the major issues in the industry.

As noted in the Climate section above, the Company has been actively involved in methane inhibitor research. The Company is also seeking to partner with research institutions on projects that will advance science and technology solutions to contribute to nature positive outcomes. Another of the major challenges in agriculture where the Company is investing time and resources to advance the accurate measurement of on-farm data.

FY23 progress

- Commenced methane inhibitor feasibility study in Victoria, Australia.
- Commenced roll out of on-farm carbon audits for certified farms.
- Completed pilot of farm environment plans in Australia, with final tool available to farmers.
- Established a research partnership with Lincoln University and commenced a research project aiming to enhance on-farm resilience and deliver positive environmental outcomes.

Next steps

- Continue methane inhibitor feasibility study in Victoria, Australia and commence additional feasibility studies.
- Continue measurement pilot studies in Australia and New Zealand.
- Expand carbon audits to certified farms in North America.
- Continue research partnership and research project with Lincoln University.

Farmer grants programmes

The Company has two established farmer grants programmes operating in New Zealand and Australia – the *a2™ Farm Sustainability Fund* and Sustainable Agriculture Landcare Grants.

These programmes offer financial awards to contracted A1 protein free dairy farms to support projects that demonstrate an integrated approach to a sustainable future.

The *a2™ Farm Sustainability Fund* is a collaboration between the Company and Lincoln University, while the Sustainable Agriculture Landcare Grants are a partnership with Landcare Australia, both with a vision to protect, enhance or restore the natural environment. Both programmes allow A1 protein free farms to apply for grants to fund farming practices that align with the Company's sustainability objectives and one or more of its key environmental improvement themes:

- Lowering greenhouse gas emissions
- Increasing on-farm carbon sequestration
- Improving farm system resilience
- Improving water quality and efficiency
- Enhancing on-farm biodiversity
- Animal wellbeing/health
- Managing and improving soil health
- Expanding blue/green infrastructure e.g. living things (soil/trees/diverse pasture)

The programmes each have an investment committee with independent representatives assisting in the evaluation and awards process to farmers. The Company is grateful to Lincoln University, Landcare Australia and the members of the investment committees for their support of these programmes.

FY23 progress

Twenty-three awards totalling approximately $440K made under the *a2™ Farm Sustainability Fund* in round 2 of the programme.

Eight awards totalling $250K made under the *a2 Milk® Sustainable Agriculture Landcare Grants* in round six of the programme.

Next steps

- Continue to support the *a2™ Farm Sustainability Fund* and Sustainable Agriculture Landcare Grants, with a focus on sustainable farming practices.
- Establish farmer grant programme in the USA.

Lincoln University research partnership

The Company has established a partnership with Lincoln University in New Zealand and commenced a research project aiming to enhance on-farm resilience and deliver positive environmental outcomes. Lincoln University is a specialist agriculture-based tertiary institution and is committed to being an exemplar of sustainable practices for the land-based sector and ecosystems within it. The research project will be conducted over a three-year period and is focused on GHG reduction, soil health and water quality and the Company has engaged with some of its supplier farms to participate in the research.

Management commentary
(no financial statements)

Sustainable packaging

Sustainable packaging is an important element in the Company's ambition to protect the planet. It is also an increasingly important area for many stakeholders, including consumers. The Company has a vision for as much of its packaging as possible to be reusable, recyclable or compostable.

Targets and commitments

100%

reusable, recyclable, or compostable packaging by 2025

70%

plastic packaging being recycled or composted by 2025

50%

average recycled content included in packaging by 2025

Phase out

of problematic and unnecessary single-use plastics packaging by 2025

Achieving this will require a region-by-region and product-by-product approach over time. In the latest year there was a focus on products sold in Australia and New Zealand. Australia first introduced the '2025 National Packaging Targets' in 2018 and updated them in 2020. The targets require a complete and systemic change to the way Australia creates, collects and recovers product packaging, and are an important step on the country's journey towards a circular economy for packaging.

The targets are overseen by the Australian Packaging Covenant Organisation (APCO) which recently completed a review into the 2025 targets. The report written by APCO on the 2025 targets noted that in order to meet the targets, collaboration across the entire packaging system is needed and APCO is focusing its resources on helping business bring the system together. In 2021, a2MC became a signatory to the Covenant, strengthening the Company's long-term commitment to sustainable packaging. As a signatory to the Covenant, a2MC is required to report on its progress on an annual basis and to publish its action plan. This covers all Australian sales which captures a significant proportion of the Company's product portfolio including IMF. During the year, the Company extended and aligned its sustainable packaging targets to APCO targets for products sold in all markets.

FY23 progress

- Fully recyclable packaging reduced from 90.2% in FY22 to 87.1% in FY23. This reduction was due to increased production of UHT products. However, alternative packaging solutions are being investigated through the long-term sustainable packaging roadmap project to meet the '2025 National Packaging Targets'.
- Developed the Company's sustainable packaging roadmap.
- Submitted its second APCO Annual Report.
- Continued to investigate innovative packaging design for sustainable solutions.
- Maintained an APCO rating of 'Leading'.

Next steps

- Continue executing against the APCO action plan and make progress against sustainable packaging targets.
- Explore options for inclusion of recycled content in milk containers in Australia.

Management commentary
(no financial statements)

CONSUMERS

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

The Company's trusted brand, its proprietary know-how and A2 beta-casein expertise are valuable assets. The Company is committed to ongoing investment to maintain and sustainably grow these assets. In addition, the Company is focused on responsibly marketing to consumers, delivering products that are safe and of high quality.

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

Through ongoing investment into scientific research and development programmes, the Company is deepening its expertise and advancing global understanding of the potential health benefits of *a2 Milk*™. This science will underpin our future product innovation, bringing the benefits of *a2 Milk*™ to a broader audience of consumers.

There are three key focus areas to ensure the Company can continue to deliver a targeted and differentiated brand proposition and product portfolio:

- Build and strengthen brand adoration
- Create a distinctive product portfolio
- Invest in science, nutrition and beta-casein education

SUSTAINABLE DEVELOPMENT GOALS

SDG 3: Good health and wellbeing
Target 3.4

SDG 9: Industry, innovation and infrastructure
Target 9.1

SDG 12: Responsible consumption and production
Target 12.5

Management commentary (no financial statements)

Build and strengthen brand adoration

The Company is committed to increasing investment levels to improve brand equity in its key markets of China, ANZ and the USA. The Company targets consumers who experience perceived discomfort consuming products that contain A1 beta-casein protein as well as progressive and health-conscious consumers who are drawn to the differentiated and quality proposition that a2MC delivers. When targeting consumers who would otherwise limit their consumption of dairy products or avoid them altogether, the Company's marketing approach emphasises the potential health and well-being benefits of its branded products. a2MC aims to 'welcome these consumers back to milk'. Many consumers and healthcare professionals report that people who experience digestive issues drinking regular cows' milk may experience benefits when they switch to *a2 Milk*™.

Create a distinctive product portfolio

The Company is committed to innovation and continuing the growth of its distinctive product portfolio. The Company's product portfolio is based around the benefits of products made from milk that contains only A2-type protein and no A1. The product portfolio can be divided into three core categories: liquid milk, infant milk formula and macro milk. Each is positioned in the premium segment of their respective categories. The Company's approach to growing and innovating its products varies within each market in which it operates – adapting to local consumer preferences, category nuances, channel dynamics, regulatory requirements and overall category maturity.

Invest in science, nutrition and A2 protein science education

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

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

Science, and the newly created nutrition function, are enablers to support growth and delivery of key strategic priorities, and decrease risk to the business. The Company is increasing its investment in strengthening its global leadership in A1/A2 beta-casein research. Key strategic priorities include:

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

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

a2 Centre of Research Excellence™

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

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

- Build credibility for A1/A2 protein science.
- Promote academic partnerships and industry collaborations to define and shape the A1/A2 protein category.
- House research summaries, scientific references and education materials for consumers, academics and health care professionals.

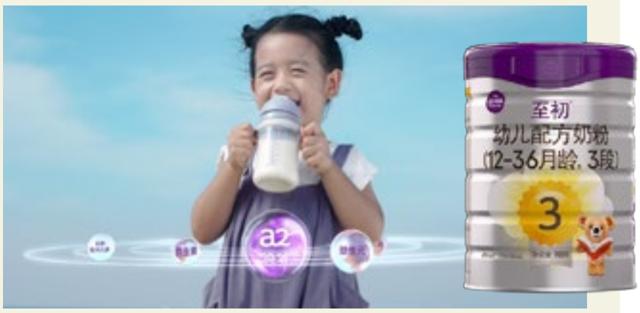
FY23 progress and next steps

The Company increased marketing investment by 13.1% in FY23 primarily reflecting a significant step-up in China above-the-line brand investment as well as below the line activation in line with its refreshed growth strategy. The focus into FY24 will be on awareness and penetration.

FY23 regional highlights

China

- Continued to reach new highs for brand health metrics, particularly in awareness with improvements in loyalty.
- Launched new brand positioning campaign '*a2 Milk*™ Base Matters'.
- Relaunched EL *a2 Platinum*® with a dedicated integrated marketing campaign, which received a Gold Award at the most recent China International Advertising Festival.
- Disruptively launched new campaign heroing fresh *a2 Milk*™ and *a2 Milk*™ powder.
- Increased investment in digital marketing, and expanded into emerging online channels.
- Launched new products, fresh *a2 Milk*™ low fat 1L and *a2 Nutrition for Mothers*™.
- Expanded offline distribution in lower tier cities – a significant driver of offline growth.
- Continued to drive *a2*™ brand preference and strengthened brand reputation through meaningful community campaign (Project Smile).



Management commentary
(no financial statements)

International

- Delivered material improvements in brand engagement, following increased brand support to resellers, and direct engagement with daigou.
- Executed the transition to refreshed *a2 Platinum®* IMF product across all English label channels, with multi-channel marketing campaigns including the in-person relaunch in Australia and digital consumer focused campaigns in China.
- Launched "Little Tummies Love" campaign for *a2 Platinum®*.
- Launched upgraded *Smart Nutrition®* fortified children's milk and premium *a2 Milk™ Powder* Tub format.
- Continued to experience growth in both the CBEC and offline to online (O2O) channels.

USA

- New marketing campaign launched to drive increased awareness and new consumers to brand.
- Received FDA enforcement discretion approval to import *a2 Platinum®* IMF product (0–12 months).
- Continued to expand product portfolio with the launch of *a2 Milk® Protein + Collagen* nutritional powders and *a2 Milk® Grassfed* liquid milk.

ANZ

- Launched *a2 Milk® Lactose Free* in Australia in August 2022 and achieved the highest value launch in the dairy milk category for CY22 with over 1 million units sold in the Australian market in the first nine months.
- *a2 Milk®* products achieved rankings in the top ten products in the dairy category in Grocery.
- Continued to invest in brand and in ensuring strong in-market presence.
- Brand health metrics improved during the period.
- Brand leadership maintained with increased loyalty and household penetration.
- Largest brand advertiser in the fresh milk category in Australia.

Management commentary
(no financial statements)

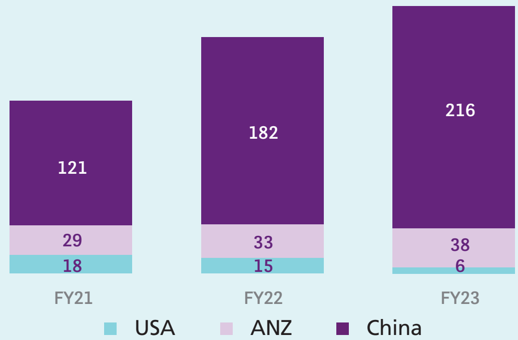
Medium term measures of success

● On track ● Work in progress

CONSUMERS

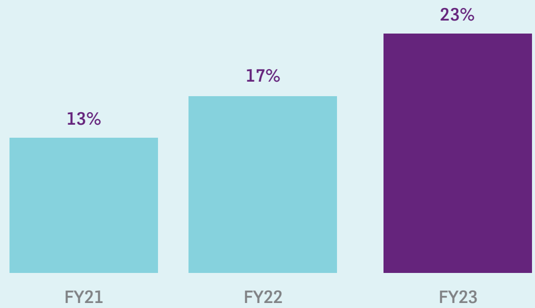
Brand Health	Market Share	Innovation	Supply Chain
China unprompted brand awareness	MBS share	China other dairy / nutritionals growth	Access to ≥3 CL registrations
AU household penetration	DOL share	Emerging markets development	CL inventory management
USA household penetration	CBEC share	USA sales from new products	EL inventory management
	O2O + Daigou share	ANZ sales from new products	Quality outcomes
	AU fresh milk share		Supply chain efficiency
	USA premium milk share		

MARKETING INVESTMENT INCREASED[1]

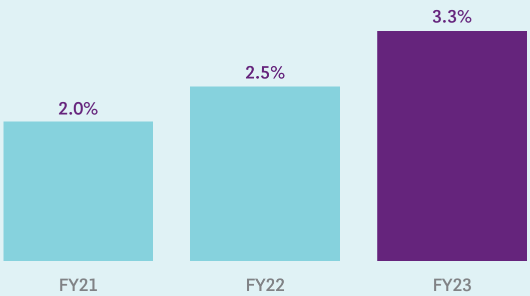


	FY21	FY22	FY23
% of sales revenue	14.0%	15.9%	16.4%

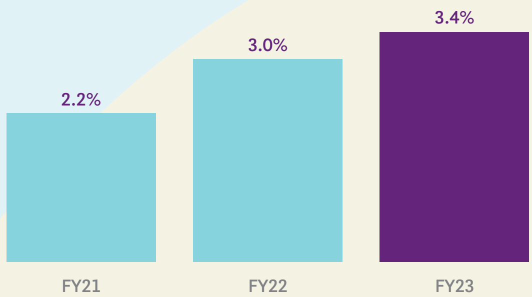
CHINA UNPROMPTED BRAND AWARENESS[2]



CHINA LABEL IMF DOL VALUE SHARE[3]



CHINA LABEL IMF MBS VALUE SHARE[4]



1 Marketing investment by region in NZD$ million.
2 a2MC internal data based on the Company's brand health tracking. Average brand health metrics for each financial year based on 3 surveys in FY21 and FY22, and 2 surveys in FY23. Sample skews to a2MC target consumers ie higher income earners based in Provinces / cities that are the focus of sales and marketing activities.
3 Smart Path China IMF online market tracking: domestic online platform sales (by value).
4 Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value).

Management commentary
(no financial statements)

Product quality and food safety

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

This commitment is supported by:

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

Responsible marketing

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

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

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

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

True a2™

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

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

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

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

Made with *a2 Milk*™

At The a2 Milk Company, we go to great lengths to ensure that our *a2 Milk*™ is from cows that naturally produce milk with only the A2-type protein and no A1. Our farmers hand select cows that naturally produce only the A2-type protein by using a simple and non-invasive genetic test that analyses a hair or tissue sample from each cow. These cows are then milked separately and the milk is segregated throughout the supply chain.

Testing

Testing is an integral part of the product development process. At multiple stages along the *a2 Platinum*® and *Zhi Chu*® product journeys, ingredients, packaging components, and the final product are tested. This ensures all our *a2 Platinum*® and *Zhi Chu*® products meet the highest quality and safety standards.

QR code – verification system

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

Independent product audits

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

Management commentary
(no financial statements)

SHAREHOLDERS

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

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

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

Maintaining transparency with the Company's shareholders ensures they are informed, and updated with the Company's strategic priorities and decision-making processes. The Company continues to provide more information through its approach to integrated reporting and a variety of reporting frameworks including the Task Force for Climate-related Financial Disclosures, Carbon Disclosure Project, Global Reporting Initiative (GRI) and alignment to New Zealand's External Reporting Board (XRB) and the International Sustainability Standards Board (ISSB).

In FY23 the Company made meaningful progress against its medium-term financial ambitions, with strong growth in revenue and earnings, and is well positioned for further growth in a challenging market.

KEY METRICS DATA (FY23)

+10.1%
Revenue growth

13.8%
EBITDA margin

+28.7%
Earnings per share (EPS) growth

+8.5%
Closing share price growth

46.7%
Return on capital employed (ROCE)[1]

$149m
Share buyback completed

The Company's medium-term ambition is to grow sales from $1.2 billion in FY21 to approximately $2 billion by FY26 or later and to improve EBITDA margins in the 'teens'.

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

SUSTAINABLE DEVELOPMENT GOALS

8 DECENT WORK AND ECONOMIC GROWTH

SDG 8: Decent work and economic growth
Target 8.2

Management commentary
(no financial statements)

Capital allocation to drive growth

The Company's capital allocation framework prioritises investment in growth initiatives ahead of returning capital to shareholders. There are several critical elements to be considered as part of the capital framework.

Firstly, the Company will invest to grow its core business in existing markets, which includes investment to build its business in China, supply chain transformation, and other infrastructure to support growth.

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

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

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

Finally, the Company will make decisions to return excess capital to shareholders where it is in shareholders' long-term interests to do so.

The Company's capital allocation framework is continually reviewed by management and the Board and is summarised in the image below.

Capital management

On 20 March 2023, the Company announced the completion of its on-market share buyback. Over the course of the buyback programme, the Company acquired 21,680,314 shares, representing 2.9% of issued capital. The average price for the purchases was NZ$6.87 per share (excluding brokerage costs). The acquired shares were cancelled and the total outstanding ordinary shares in the Company following the completion of the buyback is 721,976,214.

As a result of the buyback programme, the Company has further reduced its Share Capital in its Consolidated statement of financial position and reported Share Capital of NZ$100,000 for FY23 (FY22: NZ$149,157,000).

CAPITAL ALLOCATION FRAMEWORK

Operating cash flow generation

Capital funding

Grow the core business in existing markets

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

Expand the boundaries

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

Balance sheet strength and flexibility

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

Excess cash flow

Shareholder returns

Management commentary
(no financial statements)

Strategic partnerships and supply chain investments

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

Each partner brings different strengths that enable the Company to execute against its strategic objectives. In particular, its strategic partnerships with China National Agriculture Development Group, China Animal Husbandry Group and China State Farm Agribusiness provide invaluable insights and assistance in understanding the consumer and regulatory environment in China. a2MC also has supply and other relationships with Synlait, MVM and Fonterra.

China National Agriculture Development Group Co., Ltd.

China National Agriculture Development Group Co., Ltd. (CNADC) is a leading State-Owned Enterprise (SOE) and offers comprehensive agricultural services in mainland China. CNADC is responsible for meeting China's agricultural needs with 17 wholly-owned or share-controlled subsidiaries, and three publicly listed companies. CNADC's knowledge of the Chinese market and its ownership of China State Farm Agribusiness and China Animal Husbandry Group positions it as a strong partner for a2MC for the long-term.

China State Farm Agribusiness

China State Farm Agribusiness Holding Shanghai Co., Ltd (CSFA) is an SOE and became the Company's exclusive logistics and distribution partner for IMF products in China in 2013. CSFA is the exclusive import agent for the Company's China label IMF products with 120 active IMF distributors and approximately 110 UHT and milk powder distributors throughout the country. The Company renewed its agreement with CSFA for a term of five years from 1 October 2022 and entered into a longer term strategic co-operation agreement. CSFA's China expertise is of significant value to a2MC in managing its operations effectively.

China Animal Husbandry Group

China Animal Husbandry Group (CAHG) is an SOE and became a strategic partner when the Company purchased 75% of MVM in 2021. CAHG holds 25% of MVM and is also owned by CNADC. The partnership with CAHG provides the opportunity to build and enhance the Company's relationships with key partners in China.

Synlait

Synlait Milk Limited (Synlait) has produced a2MC's IMF products since 2012 and sources its milk from the Canterbury Plains and Waikato regions in New Zealand. a2MC and Synlait renewed their agreement in 2019. The agreement outlined a two-year extension to the original agreement providing for a rolling three-year term from 1 August 2022 (i.e. an evergreen agreement subject to termination by either party on three years notice). In addition to its supply agreement, a2MC holds a 19.8% equity interest in Synlait, making it the second-largest shareholder. Synlait's largest shareholder is Bright Dairy, a multinational food and beverages manufacturing company headquartered in China. Bright has a 39.0% interest in Synlait and is its controlling shareholder.

Mataura Valley Milk

Mataura Valley Milk (MVM) is a purpose-built nutritionals facility and sources milk from Southland in New Zealand. a2MC acquired a 75% interest in MVM in July 2021. The acquisition provides a2MC with a unique opportunity to insource certain volumes from Synlait, to prioritise innovation of an owned facility, achieve additional China label registrations over time and capture vertical manufacturing margins. FY23 was the Company's first full year with its 75% interest in MVM. In FY23, the Company has fully internalised whole milk and skim milk powder products through MVM.

Fonterra

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

Management commentary
(no financial statements)

Environmental Social & Governance Reporting

With the adoption of the ISSB standards through both New Zealand's External Reporting Board (XRB) and the Australian Treasury's climate-related disclosure requirements, the Company acknowledges the importance of Environmental, Social and Governance (ESG) reporting.

The Company reports against the TCFD framework and reports with reference to 'Integrated Reporting' principles. In addition to this, the Company has considered the GRI universal standards and undertook an ISSB readiness assessment in FY23. Based on this work, the Company believes it is prepared to align to the standards when released at the end of the financial year. An index for each of the frameworks the Company has aligned to is available on its website in the ESG reporting library at www.thea2milkcompany.com/ESG-reporting.

Taskforce on Nature-related Financial Disclosures

In March 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) released its fourth and final beta framework with plans to publish final recommendations in September 2023.

Given the importance of nature to its business model and activities, the Company conducted two nature-based risk and opportunity assessments on areas of significant geographical footprint in FY23. With the TNFD framework to be released in FY24, the Company is preparing to report in line with the requirements and recommendations of the framework and expects to increase its transparency and accountability in relation to nature related risks and opportunities moving forward.

Task Force on Climate-related Financial Disclosures

The Company undertook its second climate scenario analysis in FY22. Despite the increased reporting done by the Company throughout the year, it decided to not conduct a third analysis as there were no material changes to the business during the FY23 period. The Company has remained focused on its strategic responses to the risks identified in FY22, with the release of its net zero roadmap and its focus on consumer demands. The Company will conduct a refreshed analysis in FY24 to comply with the upcoming ISSB and XRB standards and ensure it is aligned with the latest sustainability requirements.

New Zealand's External Reporting Board

In December 2022, New Zealand's External Reporting Board (XRB) announced the publication of the climate-related disclosures. The XRB Climate Standards considers both the TCFD framework and the ISSB standards. Given the work done to adhere to the ISSB standards, the Company is prepared to report against XRB when required in FY24.

Australian Treasury

In June 2023, the Australian Government released a consultation paper for the proposed climate-related disclosure requirements. The standards are an interpretation of the ISSB standards that were finalised in June 2023. Given the work done to adhere to the ISSB standards, the Company is prepared to report against Treasury's climate-related disclosures when required in FY25.

International Sustainability Standards Board

In June 2023, the International Sustainability Standards Board (ISSB) released the first universal ESG related standards, IFRS 1 (general sustainability standards) and IFRS 2 (climate related standards), which aim to promote transparency and consistency in sustainability reporting. To further strengthen these standards, the ISSB incorporated several other sustainability frameworks, including the Taskforce on Climate-related Financial Disclosures (TCFD), Value Reporting Framework (VRF) (including Integrated Reporting), Sustainability Accounting Standards Boards (SASB) and reference to the Global Reporting Initiative (GRI).

Sustainability Accounting Standards Board (SASB)

SASB aims to identify the sustainability-related risks and opportunities that are material to understanding how an organisation creates value. As a part of the ISSB readiness assessment, the Company considered the SASB, Food and Beverage – Meat, Poultry and Dairy standards when disclosing ESG metrics.

Global Reporting Initiative (GRI)

In 2023, the Company aligned to the GRI universal standards. The GRI is an independent international standard that aims to standardise comparable, and consistent ESG information.

Management commentary
(no financial statements)

Carbon Disclosure Project

The Company completed its fourth submission of the Carbon Disclosure Project (CDP) Climate Change questionnaire. The questionnaire measures and outlines the risks and opportunities the business faces with regards to climate change. The questionnaire is scored by CDP and then released for public review following the rating. This provides transparency to shareholders on climate change impacts and how the Company is navigating these challenges. The rating also provides shareholders with a comparison to other corporates as it relates to its approach to climate change. The Company submitted the next iteration of the survey in July 2023, and is considering whether this will be its final submission given the expanded climate reporting that will be required in FY24 and FY25.

Australian Packaging Covenant Organisation

In FY23, the Company submitted its second Australian Packaging Covenant Organisation (APCO) Annual Report (Page 39 of this Annual Report) and received a 'leading' rating.

Anti-Modern Slavery

In FY23, the Company released its third Modern Slavery Statement under the Modern Slavery Act (page 29 of this Annual Report).

Reconciliation Action Plan

The Company formally commenced its reconciliation journey by committing to the Reconciliation Action Plan (RAP) framework established by Reconciliation Australia. In April 2023, the Company received formal endorsement for its first 'Reflect' RAP.

Indicative external reporting pathway

FY23	FY24	FY25	FY26+
XRB New Zealand Climate Standards 1 & 3	**XRB reporting**	**Treasury/ISSB reporting**	**IFRS S1 & S2**
– Align to TCFD – Align to SASB – Align to GRI – External gap assessment against XRB and ISSB – Obtain limited assurance over selected ESG disclosures	– Align to XRB – Continue limited assurance procedures over selected ESG disclosures – Continue to build upon nature risk and opportunity assessments in preparation for TNFD alignment	– Align to Australian Treasury's climate-related disclosure requirements and ISSB S1/S2 – Obtain reasonable level of assurance over Scope 1 and 2 emissions – Continue limited assurance procedures over selected ESG and climate disclosures – Continue aligning to TNFD	– Align to XRB, ISSB and Australian Treasury's climate-related disclosure requirements – Align to TNFD – Obtain reasonable level of assurance over Scope 1 and 2 emissions – Continue limited assurance procedures over selected ESG metrics, climate disclosures and transition plans

Management commentary
(no financial statements)

Risks and opportunities

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

Effective risk management anticipates risk, develops strategies to manage risk and enables the Company to capitalise on opportunities, which is critical to sustainable, long-term value creation.

The a2 Milk Company Risk Management Policy outlines the programme the Company has implemented to deliver appropriate risk management within its processes, systems, culture and decision making. A copy of the Risk Management Policy is available at www.thea2milkcompany.com/corporate-governance.

Governance of risk

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

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

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

Management reports regularly to the Board regarding the status of the risk management programme and reviews its effectiveness with the Board.

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

Approach to risk management

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

The Company's risk management approach evolves continually as we identify, assess, mitigate, and monitor both financial and non-financial risks that may affect our ability to achieve our strategic goals.

The Company has identified nine sources of risk and opportunity relevant to its business activities. The pages that follow provide an overview of each source of risk, including key economic, environmental and social risks with the potential to materially impact the Company's ability to achieve its objectives. They also summarise how the Company is responding to those risks, as well as associated opportunities.

The nine sources of risk

The sale of nutritional food products PAGE 51	**Doing business in international markets** PAGE 52	**Major international events** PAGE 53
Competitive intensity PAGE 54	**Climate and nature** PAGE 55	**Strategic partnerships** PAGE 56
Evolving technology and cyber security PAGE 57	**Talent and culture** PAGE 58	**Social licence to operate** PAGE 59

Management commentary
(no financial statements)

The sale of nutritional food products

The a2 Milk Company supplies food products for human consumption, including complex nutritional products for consumption by infants and children. As a result, the Company is inherently exposed to potential product quality, food safety and/or food integrity events.

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

KEY OPPORTUNITIES

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

- Leverage our pioneer status to promote the benefits of products made with *a2 Milk*™.
- Assert the Company's competitive advantage in beta-casein testing and technology (our *True a2*™ ecosystem – page 44).
- Continually advance an uncompromising Quality Assurance programme.
- Maximise the potential of our existing product portfolio in key markets.
- Explore opportunities to innovate and expand our existing product portfolio, and enter adjacent product categories to drive growth.

Doing business in international markets

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

KEY RISKS	KEY RESPONSES
Changing macro trends (including demographic, economic and social trends), which can impact the size of addressable markets and/or the complexity of operating in those markets (e.g. declining China birth rates)	– Continued strong investment in brand to grow share – Agile approach to the execution of sales and marketing programmes, adjusting where appropriate to reflect shifts in consumer and channel dynamics – Leverage multi-label, multi-channel portfolio to broaden distribution
Geopolitical tension and regulatory environments influencing channels to market, market access, product registrations, trade tariffs, taxes, and quotas	– Strong understanding of local standards, regulations and guidelines, supported by expert in-market advisory – Strong strategic and collaborative partnerships with Chinese State-owned enterprises[1] – A multi-product, multi-channel route to market strategy for the sale of infant nutrition into China
Foreign currency exchange rate volatility	– Treasury management activities, providing oversight and monitoring of foreign currency exposures with some cash flow hedging
Multilayered, complex, and opaque route to market channels	– Actions taken to simplify and delayer our English label infant milk formula distribution network, supported by more transparent partner relationships and greater control
Renewal of the SAMR product registration[2] for China label infant nutrition	– Close partnership with infant nutrition manufacturer, Synlait, which holds GACC[3] and SAMR registrations allowing canned formula to be exported to and sold into the China market – Supported Synlait to successfully complete SAMR registration – Operational plans in place to navigate orderly transition to newly registered China label product
Long-term approval of USA IMF	– Close collaboration with Synlait, to complete and submit the New Infant Formula Notification for the sale of USA IMF product beyond the period of enforcement discretion – Use of third-party local experts for FDA guidance

KEY OPPORTUNITIES

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

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

1 Refer to shareholders section for detail on partnerships
2 China's State Administration of Market Regulation (SAMR) requires registration to be held in the name of the manufacturer as opposed to the brand owner. The current registration for a2MC China label products was granted to Synlait in June 2023 and expires in September 2027
3 General Administration of Customs of the People's Republic of China

Management commentary
(no financial statements)

Major international events

The COVID-19 pandemic and international events have caused unprecedented social, economic and supply chain disruptions globally. Additionally, potential outbreaks of animal diseases are a risk for the business.

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

KEY OPPORTUNITIES

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

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

Management commentary
(no financial statements)

Competitive intensity

The a2 Milk Company has experienced significant growth over recent years, driven predominantly by the success of its infant nutrition businesses in Australia and China and liquid milk businesses in Australia and the USA. This success has inspired others to compete with a2MC in the A2 beta-casein protein segment.

KEY RISKS	KEY RESPONSES
Market share erosion in core markets due to domestic brands' potential to resonate and connect more effectively with local consumers than international brands	– Significant and ongoing investment in brand building activities globally – Use of consumer and health care professional education to ensure clear understanding of the unique A2 protein proposition and benefits – Significant and ongoing investment in science, nutrition and innovation globally to ensure the Company delivers unique consumer value propositions in all its markets underpinned by its proprietary know-how and quality processes – Regular monitoring of market share data and proprietary research into consumer/shopper insights, preferences, and expectations – Continued investment in intellectual property to expand the Company's trade mark and patent portfolio
Infringements of our intellectual property rights resulting from third-party conduct or claims against such IP rights	– Monitoring infringement of the Company's IP and taking action to protect it
Counterfeit products	– Processes and technology to identify and manage potential counterfeit products including the use of external agencies and in-market authentication testing – Development of the *True a2*™ ecosystem, which includes independent product audits and QR code verification systems to ensure products are of the highest quality and safety (see *True a2*™ page 44)

KEY OPPORTUNITIES

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

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

Management commentary
(no financial statements)

Climate and nature

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

KEY RISKS	KEY RESPONSES
Climate change effect on biodiversity, soil, ecosystems, water access and uncertainty in carbon pricing, quality and availability of raw materials and ingredients	– Established baseline and set targets for GHG emissions – Establishing baselines and setting targets for water consumption, waste-to-landfill and product packaging (see pages 33 to 39) – Sourcing milk from diversified milk pools within New Zealand, Australia and the USA and incorporating climate impacts into future sourcing strategies – Investing in new technologies and emissions reduction initiatives, such as upgrading the coal-fired boiler at MVM to high-pressure electrode using renewable energy – Global framework for farm environmental plans, addressing the most material aspects of environmental management in the dairy industry – Farmer grant programmes to support farmer-led sustainable dairy farming projects
Risk of natural disasters (e.g. flooding, drought, earthquake), particularly in Dunsandel given the China label product registration	– Diversification of processing locations with capability at both Synlait and MVM – Plan to obtain additional China label registrations – Insurance coverage

KEY OPPORTUNITIES

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

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

Management commentary
(no financial statements)

Strategic partnerships

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

KEY RISKS	KEY RESPONSES
Disruption to key partner operations impacting supply and/or access to critical markets	– A broad range of strategic partner relationships have been developed over time – Long-term partnership with dairy nutritionals manufacturer, Synlait, complemented by the Company's equity interest in that business (and in which Bright Dairy, a multinational food and beverage company headquartered in China, has a 39.0% interest) – Supplier diversification through driving insourcing and innovation at MVM – Strong partnership with China State Farm Agribusiness, a2MC's exclusive import agent and master distributor for its China label products – Strengthened relationship with key partners in China via joint investment in MVM with China Animal Husbandry Group (CAHG)[1]
Key partners reprioritising their support for a2MC or failing to act ethically or in line with a2MC's values	– Multiple milk processors contracted in Australia and the USA, mitigating reliance on a single processor in these regions – A controlling 75% interest in MVM supports growth of the Company's nutritionals business and further strengthens our relationship with China National Agriculture Development Group Co., Ltd. (parent company of CAHG)[1] – Actions taken to simplify and de-layer our English label infant milk formula distribution network, supported by more transparent partner relationships
Ability to ensure timely supply of finished products to customers	– Ongoing access to milk pools that exceed the Company's current usage requirements – Access to manufacturing capacity that exceeds current usage requirements

KEY OPPORTUNITIES

Our key partnerships provide significant opportunities including:

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

1 Refer to shareholders section for detail on partnerships.

Management commentary
(no financial statements)

Evolving technology and cyber security

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

KEY RISKS	KEY RESPONSES
Cyber-attacks (including ransomware) and unauthorised disclosure of, or loss of, confidential data/information	– Continue to improve cyber security systems and protections, including engagement of specialised third parties to assist with 24/7 monitoring, classification and restriction of access to sensitive information, conducting regionally-specific cyber security audits, implementing more sophisticated cyber tracking and monitoring tools
Reliability/stability of critical applications	– Continued transitioning core functions to Tier 1 cloud-based enterprise resource planning (ERP) software – Implemented best of breed cloud-based solutions for functions which are outside the scope of ERP and continue to reduce the number of legacy applications in use across the business

KEY OPPORTUNITIES

Advances in technology also present significant opportunities, including:

- Digital platforms that support consumer engagement and marketing initiatives.
- Real-time data combined with the use of Artificial Intelligence (AI) to drive insights and informed decision making.
- The use of emerging product technology including supply chain traceability systems.
- Increased automation of manufacturing, sales and distribution processes over time.

Talent and culture

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

KEY RISKS	KEY RESPONSES
Failure to adequately protect the physical and psychological wellbeing of our workforce resulting in harm to health, safety and wellbeing	– Investment in dedicated programmes and resources that support our people; including 'the way we work' policy, health expos, partnership with Headspace, integrative employee assistance programme and 'stop for safety' initiatives – Implementation of dedicated site safety managers at both manufacturing sites – Actively promote an inclusive and diverse workplace through initiatives that reiterate our culture of 'bringing your authentic self' to work – Continue to invest in the development of constructive and humanistic leaders through our 'Thrive' leadership development programme
Critical corporate knowledge and specialised skills lost from the business, due to regrettable attrition	– Alignment of remuneration to market benchmarks, Company objectives and risk tolerances – Regular engagement surveys to drive targeted people initiatives – Regular talent discussions at Executive Leadership Team (ELT) level – Continue to evolve the operating model to reinforce talent and 'bench strength' at all levels and functions
Impact to team productivity due to lack of capability and capacity	– Investment in formal and on-the-job learning and development opportunities to support individual development plans – Evolve our operating model to support and promote global mobility, cross functional skills transfer and promoting from within

KEY OPPORTUNITIES

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

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

Social licence to operate

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

KEY RISKS	KEY RESPONSES
Non-compliant or sub-standard animal welfare practices	– The Company's animal welfare programme aligns to globally recognised frameworks for Animal Health and is evolving from the Five Freedoms Model to the Five Domains Framework of animal welfare (refer to page 37)
Responsible marketing (e.g. promotion of breast milk substitutes)	– Signatory to the Marketing in Australia of Infant Formula: Manufacturers and Importers Agreement 1992 (MAIF Agreement) (refer to page 44) – Cross-functional approval process implemented (including regulatory and legal review) prior to publication of marketing material
Modern slavery in the supply chain (refer to page 29)	– Modern slavery risk management programme, with annual Modern Slavery Statement submissions – Corporate values and a suite of corporate codes and policies developed and embedded (including a Code of Conduct and a Responsible Sourcing Policy)
Potential bribery and corruption allegations	– Corporate values and a suite of corporate codes and policies developed and embedded (including an Anti-Bribery and Corruption Policy and Gifts and Hospitality Policy)
Water usage, waste water and water pollution	– Established initial targets for water in New Zealand with plans to expand water targets through nature risk and opportunity assessments – Water use monitoring systems in place at MVM and Smeaton Grange milk processing site – Undertaking water usage reduction projects and utilisation of a waste-water treatment system on-site at Smeaton Grange, with liquid waste products returned to farms and used as fertiliser – Farmer grant programmes to support farmer-led sustainable dairy farming projects

KEY OPPORTUNITIES

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

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

Management commentary
(no financial statements)

Task Force on Climate-related Financial Disclosure

The objective of the Task Force on Climate-related Financial Disclosure (TCFD) is to improve and increase reporting of climate-related financial information.

Over the past several years, The a2 Milk Company (a2MC, the Company) has worked towards aligning to this framework. The Company aims to continue updating relevant information as the TCFD and other reporting requirements evolve.

This index and report below have been prepared in accordance with the TCFD recommendations.

TCFD Index

Disclosure requirement	Reference
Governance **Disclose the organisation's governance around climate-related risks and opportunities**	
a. Describe the board's oversight of climate-related risks and opportunities.	The Board is responsible for the overall governance and operations of the Company, guiding the Company's strategic direction, monitoring risk, and overseeing the activities of management. All issues of substance affecting the Company are considered by the Board, with advice from external advisers as required. The role and responsibilities of the Board include responding to the Company's environmental and social sustainability risks and opportunities. The Board delegates certain functions to its three Committees (Audit and Risk Management Committee, People and Remuneration Committee, and Nomination Committee). The Audit and Risk Management Committee's responsibilities include ensuring the Company meets its financial and sustainability reporting requirements and keeping the Board informed of all significant business risks by reviewing whether the Group has any material exposure to strategic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks. Refer to the Company's Corporate Governance Statement for more detail.
b. Describe management's role in assessing and managing climate-related risks and opportunities.	The Company has a sustainability function which is led by the Chief Legal and Sustainability Officer who reports to the Managing Director and Chief Executive Officer. The Chief Legal and Sustainability Officer reports to the Audit and Risk Management Committee on the Company's ESG reporting requirements and sustainability initiatives. The Chief Legal and Sustainability officer is supported by a core sustainability team who have embedded sustainability roles to ensure there are sustainability workstreams across the organisation that work across the following key business functions: marketing, farm services, supply chain and operations. The team is also supported by the legal, finance, IT and risk functions. The Sustainability team presents to the Company's Executive Leadership Team on an almost monthly basis on sustainability topics including climate-related risks and opportunities. The team also contributes to the Chief Legal and Sustainability Officer's Audit and Risk Management Committee reporting and provides presentation updates during the year. Refer to the Company's Corporate Governance Statement for more detail.
Strategy **Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.**	
a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	The Company has identified four key areas which are both a risk and opportunity to the business. The key transition risk and opportunities include carbon pricing and changing consumer behavior. The key physical risks include fires and floods. Refer below to page 3 for more detail.

Disclosure requirement	Reference
b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	The various risks and opportunities identified will impact the business, strategy and planning. The Company has used changing consumer behaviour as an identified opportunity to enhance current products and release new products. The Company has used the physical risks, which are a result of climate change, to focus on its net zero targets. Refer to page 3 for more detail.
c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	The Company conducted two transition risk scenarios representing a 1.5-degree trajectory and a greater than 3-degree trajectory. The Company also conducted two physical risk scenarios representing a greater than 3-degree trajectory and a less than 2-degree trajectory. Refer to page 3 for more detail.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

a. Describe the organization's processes for identifying and assessing climate-related risks	As Climate and nature risk is a key risk and opportunity area to the business, risks are identified, assessed and monitored through regular workshops with senior management and the Audit and Risk Management Committee. Mitigating actions and controls are designed to limit the likelihood of key risks occurring, as well as reduce the associated impact if these risks occur. Refer to page 50 of The a2 Milk Company's 2023 Annual Report for more detail.
b. Describe the organization's processes for managing climate-related risks.	The Company's management is responsible for designing and implementing risk management and internal control systems which identify material risks for the Company and aim to provide the Company with warnings of risks before they escalate. Management implements the action plans developed to address material business risks across the Company. Refer to page 50 of Annual Report for more detail.
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	The risk management approach evolves continually as the Company identifies, assesses, mitigates, and monitors both financial and non-financial risks that may affect its ability to achieve the strategic objectives of the Company. Refer to page 50 of the Annual Report for more detail.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	The Company's strategy is to pioneer the future of dairy for good. With a goal to Protect our planet and cows, rethink packaging, achieve net zero and contribute to nature positive. The Company strategy has five strategic priorities, including Invest in people and plant leadership with one of the measures of success including climate-related ambition. The Company has also included climate and nature as one of its nine key risk and opportunities to the business. Refer to page 50 of Annual Report for more detail.
b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Refer to Greenhouse Gas inventory report for a breakdown of Scope 1, 2 and 3 emissions.
c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	The Company has a net zero target of 2030 for scope 1 and 2 and a net zero target of 2040 for Scope 3 with a 30% reduction in Scope 3 emissions, per kilogram of milk solids, by 2030. Refer to net zero roadmap for more detail.

Climate Scenario Analysis

The Company undertook its second climate scenario analysis in FY22, deciding to not conduct a third analysis in FY23 as there were no material changes to the business. The Company has remained focused on its strategic responses to the risks identified in FY22. The Company intends to refresh its analysis in FY24 to comply with the reporting requirements for New Zealand's External Reporting Board (XRB) and the International Sustainability Standards Board (ISSB), and to ensure it is aligned to relevant sustainability practices and disclosure requirements.

Overview of climate scenarios methodology and approach

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

The Company has undertaken two climate risk and opportunities analyses:

- **Transition risk analysis:** two transition risk scenarios representing a 1.5-degree trajectory and a greater than 3-degree trajectory respectively
- **Physical risk analysis:** two physical risk scenarios representing a greater than 3-degree trajectory and a less than 2-degree trajectory respectively

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

Transition risk analysis

The transition scenarios were used to assess how the Company would perform and operate under both a low emission transition scenario where the economy decarbonises in line with 1.5-degrees relative to a business-as-usual trajectory and a hot house world where the economy fails to decarbonise. This allowed for an assessment of the impact of climate action, policy, technology deployment and market shifts on the Company. To model these impacts, the Company used data provided by the International Energy Agency's (IEA's) Net Zero emissions by 2050 to assess a rapid transition (1.5 degrees) and data from the IEA Stated Policies Scenario to assess a low transition risk scenario (>3 degrees).

The analysis resulted in two key impacts which were deemed to be most material to the Company:

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

Physical risk analysis

The scenarios were used to assess how the Company would perform under both a lower emissions transition scenario (<2 degrees) and how the Company would perform and operate under a 'hot house world' scenario in which there is limited climate action and as such the economy fails to decarbonise resulting in global temperature rise of above 3-degrees. This allowed for an assessment of the impact of acute and chronic physical risks on the Company. To model these impacts, the Company used data provided in the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5 to assess higher physical risks and the RCP2.6 to assess lower physical risks. The analysis included bottom-up farm level analysis of exposure to acute and chronic physical risks across the Company's supply chain, with deep dives on the most material risks, being drought and floods.

The analysis resulted in two key impacts which were deemed to be most material to the Company.

- **Chronic risk** Under the greater than 3 degree's scenario, amplified drought stress is forecasted to have a significant impact on the dairy industry, with the highest impacts in Australia and the US.
- **Acute risk** Under the greater than 3 degree's scenario, flooding was identified as a key risk area causing significant damage and impacting the supply of milk.

Analysis on an unmitigated basis

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

The below table highlights the key risk and opportunities identified in the climate scenario analysis.

Transition risks and opportunities	Risk / opportunity	Overview	Potential financial impact	Potential magnitude	Time horizon[1]
Carbon pricing					
Regulation	Risk	The Company's direct operational emissions (Scope 1 and 2) are predominantly from the lignite used for the boiler at MVM. With planned completion of the high-pressure electrode boiler in FY24, a2MC's direct operational emissions will be modest, making direct carbon pricing liabilities immaterial to the business. However, emissions pricing (across all GHG emissions) in the supply chain could increase the cost of milk inputs. On farm emissions represent a large proportion of the Company's lifecycle emissions footprint and these costs are likely to be passed on by farmers under current market conditions. This is particularly relevant in the New Zealand context where proposed regulatory changes regarding a price on agricultural emissions are being developed. The materiality of these regulatory risks will depend on market price elasticity of demand for the Company's products and the extent to which these costs are passed on by suppliers. Under current market conditions the price elasticity of demand for the Company's IMF and liquid milk products is low, reducing the materiality of this risk. It will also be impacted by the extent to which the Company can reduce its emissions and decarbonise its supply chain.	Increased indirect operating costs	Low	Medium-term
Changing consumer behaviour					
Market	Risk / opportunity	Consumer preference shifts away from traditional dairy products towards plant-based products have been observed in recent years, driven by various factors including climate and environmental considerations. Carbon pricing has the potential to amplify switching, by affecting dairy milk supply chains more than plant-based supply chains resulting in a smaller price differential between the two product categories. The Company views this as both a risk and opportunity and is responding with strategies to maintain and grow its premium brand positioning, and through the development of a low-carbon transition strategy to reduce potential carbon liabilities.	Decreased / increased revenues due to reduced demand for products	Low	Short-term

Physical risks and opportunities	Risk / opportunity	Overview	Potential financial impact	Potential magnitude	Time horizon[1]
Drought					
Chronic	Risk	Drought can impact dairy farms in several ways, including limited supply and high cost of feed, limited water supply, and impacts to the health and output of cattle due to change in feed nutrition mix. Drought has the potential to impact availability of supply and increase operating costs.	Increased indirect operating costs	Medium	Long-term
Flooding					
Acute	Risk	Flooding can result in the loss of livestock, occupational health and safety risks for employees and other stakeholders, damage to property including paddocks and pastures, critical equipment and facilities, temporary loss of farm access, and loss of inventory.	Increased indirect operating costs	Medium	Long-term

1 The time horizons: Short term is up to 5 years; medium term is 5 – 15 years; and long term is 15+ years.

Key insights: Transition risks and opportunities

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

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

Carbon pricing would increase costs for the Company's products in the absence of emissions reduction activities scenario relative to a scenario in which the Company delivers on its emissions reduction targets. The plan to meet these targets is based on several initiatives including methane inhibitors, electrification of coal boilers, renewable energy supply and decarbonisation of transport over time. Investments in these initiatives will make the business more resilient to carbon pricing in the medium to long-term.

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

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

Carbon pricing has the potential to amplify these trends by affecting dairy milk supply chains substantially more than plant-based supply chains – resulting in a smaller price differential between the two product categories. Given the Company's premium brand – which is driven by health benefits – it is possible that a2MC is protected from 'switching'. Underpinning the 'premium' brand position with both health and sustainability attributes, coupled with demonstrating environmental credentials, may offer further protection.

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

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

Key insights: Physical risks and opportunities

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

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

The Company's liquid milk supply chains in Australia and the USA are highly exposed to drought risks. Drought has the potential to significantly impact on-farm dairy productivity, creating supply constraints in highly exposed regions. The Company's analysis indicates that if unmitigated, drought risk could impact profitability under both the below 2-degrees scenario and the above 3-degrees scenario referred to above.

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

The New Zealand IMF supply chain is relatively protected from drought risk under climate scenarios with some regions forecast to experience increased intensification of rainfall. While some farms are at risk across the New Zealand supplier base, surplus milk available in the milk pool could provide some protection against impacts on supply and profitability. Despite this, some parts of the supply chain – including the Canterbury region – are exposed to water quality and usage issues.

Strategic response and next steps

The 2022 scenario analysis identified two key risks being, a change in consumer views due to the introduction of plant based alternatives and natural disasters as a result of a slow transition to a low carbon planet. In FY23, the Company focused on enhancing its premium brand positioning and advancing its decarbonisation strategy.

The Company views changing consumer preferences as both a risk and opportunity and is responding with strategies to maintain and grow its premium brand positioning. The Company has used this opportunity to further develop its current products and processes by exploring options to of what the dairy industry could look like tomorrow whilst continuing to nourish people and the planet. The Company will work towards its purpose of pioneering the future of dairy for good.

In FY23, the Company was able to finalise and release its net zero roadmap and has commenced the process to have these targets certified by Science Based Targets. The roadmap plans to achieve net zero for Scope 1 and 2 emissions by 2030 (5% of the emissions profile) with a target to achieve net zero by 2040 for Scope 3. The Company has also introduced an interim target of 30% reduction in Scope 3 emissions, per kilogram of milk solids, by 2030. Scope 3 emissions represent 95% of the Company's total GHG emissions profile. The largest proportion of Scope 3 emissions is from on-farm activities which includes both methane and nitrous oxide gases. The Company is progressing with methane inhibitor projects, with a feasibility study underway in FY23 and planning to undertake additional methane inhibitor feasibility studies in FY24. The Company has commenced a research partnership with Lincoln University in New Zealand with initial research project focussing on elements to improve the environmental impact of dairy farming in New Zealand.

FY23 Progress

Scope 1: GHG emission from direct operations

- Progressed the installation of the high pressure electrode boiler at MVM to replace existing coal fired thermal heat generation system.

Scope 2: GHG emissions from electricity operations

- Progressed the full electrification of the MVM site which includes converting MVM to 100% renewables once the boiler conversion is complete in CY23.
- Transitioned to green energy contracts at all available sites.
- Once these activities are complete, approximately 96% of the Company's electricity usage will come from renewable or green energy sources.

Scope 3: Indirect GHG emissions

- Commenced methane abatement feasibility study on farm, with additional feasibility studies to commence in FY24.
- Continued research to support regenerative farming practices through the partnership with Lincoln University.

Corporate governance

Governance

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

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

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

- the NZX Corporate Governance Code dated 17 June 2022 (NZX Corporate Governance Code)
- the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 4th Edition (ASX Principles)

For FY23 the Company's corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles.

The Company notes the amendments to the NZX Corporate Governance Code, which took effect from 1 April 2023 which the Company will report against in its FY24 Annual Report and Corporate Governance Statement.

Corporate Governance Statement

The Company's Corporate Governance Statement, which is current as at 30 June 2023 and approved by the Board, can be found at www.thea2milkcompany.com/corporate-governance.

The Board

Role of the Board and delegation of authority

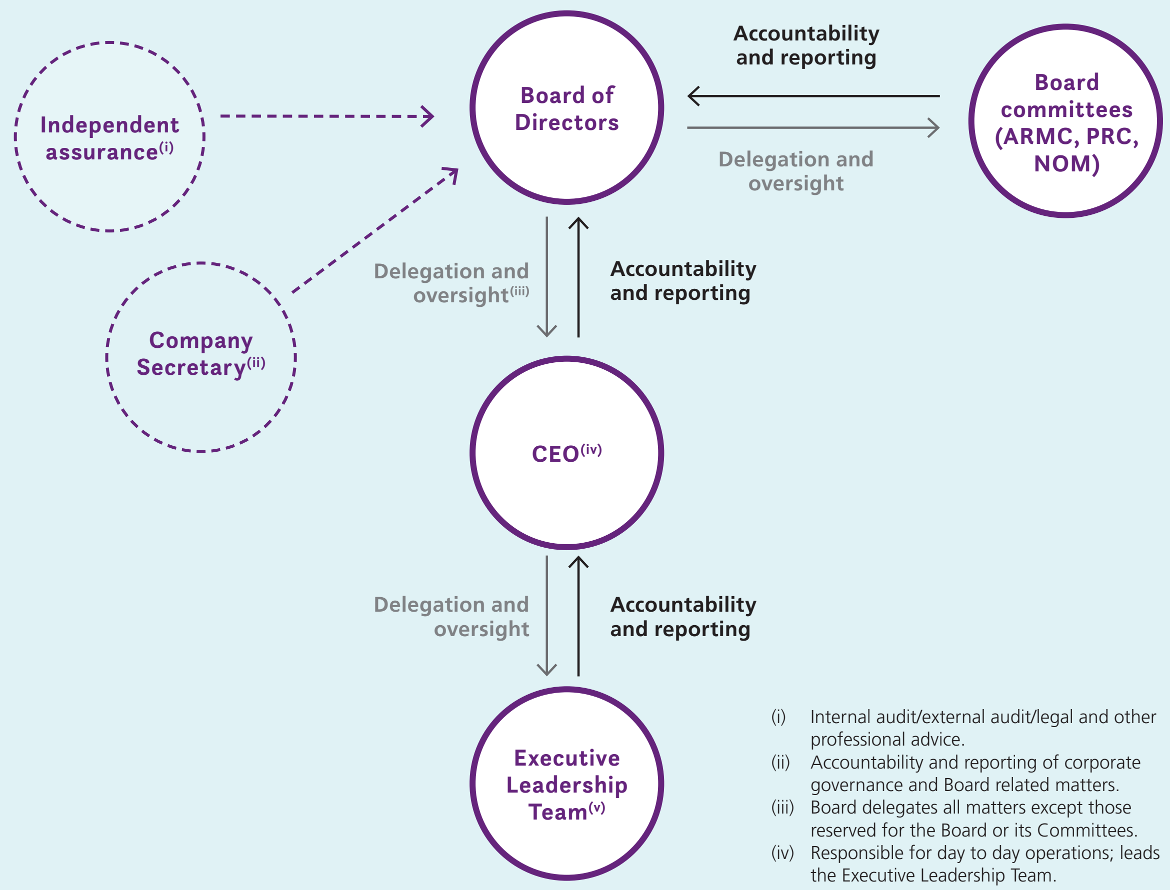
The Board is responsible for the overall governance and operations of the Company, guiding the Company's strategic direction, monitoring risk, and overseeing the activities of management. All issues of substance affecting the Company are considered by the Board, with advice from external advisors as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

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

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

Management commentary
(no financial statements)

Governance framework



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

Audit and Risk Management Committee (ARMC)

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

People and Remuneration Committee (PRC)

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

Nomination Committee (NOM)

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

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

Management commentary
(no financial statements)

Board size, skills and structure

During the reporting period, the Board comprised between five and seven independent non-executive directors (with David Wang being appointed to the Board on 1 September 2022 and Kate Mitchell being appointed on 1 June 2023) and one executive director, the Managing Director and CEO, David Bortolussi. Julia Hoare retired from the Board with effect from 30 June 2023. The Company's constitution provides for a minimum of four directors and a maximum of eight, of which at least two must be ordinarily resident in New Zealand to comply with the NZX Listing Rules.

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

	NO. OF DIRECTORS (TOTAL OF 7)	
	LEVEL OF CAPABILITY	
CAPABILITY	HIGH	MEDIUM
Consumer products and innovation – experience as a senior executive in, or as a professional advisor to, consumer products businesses, including sales and marketing, product innovation and supply chain	4	1
Digital, data and technology – experience and expertise in e-commerce as well as identifying, assessing, implementing and leveraging digital and other technology, understanding the application and use of data and analytics and responding to digital disruption	2	1
Financial acumen – understanding of financial statements and reporting, key drivers of financial performance, corporate finance and internal controls	2	2
Food safety and quality – technical or managerial experience relating to food, food product development and implementation and management of safe practices for the sourcing, production, transport and distribution of perishable foods	2	1
Governance – experience in and commitment to the highest standards of corporate governance, including as a non-executive director of a listed company, large or complex organisation or government body	2	2
International markets – experience as a senior executive in, or as a professional advisor to, international businesses and exposure to global markets and a range of different political, regulatory and business environments	3	4
Leadership – experience in a senior management position in a listed company, large or complex organisation or government body, including experience in leading strategy development and execution	4	3
People and culture – experience in overseeing workplace culture, people management, development and succession planning, setting remuneration frameworks and promoting diversity and inclusion	2	5
Risk management – experience in identification, monitoring and management of material financial and non-financial risks and understanding, implementation and oversight of risk management frameworks and controls	2	3
Strategy and M&A – development of corporate and business unit strategy and/or mergers, acquisitions and alliance structuring and execution	4	3
Sustainability – understanding and experience in sustainable practices to manage the impact of business operations on the environment and community and the impact of climate change on business operations	1	3

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

Board Committees

The Board's three standing Committees facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the committees as at, and throughout the financial year ended 30 June 2023 was as follows:

Management commentary
(no financial statements)

COMMITTEE	MEMBERS	INDEPENDENT	NON-EXECUTIVE
Audit and Risk Management Committee	Julia Hoare (Chair)[1]	✓	✓
	Warwick Every-Burns	✓	✓
	Kate Mitchell[2]	✓	✓
	David Wang[3]	✓	✓
	Sandra Yu	✓	✓
People and Remuneration Committee	Warwick Every-Burns (Chair)	✓	✓
	Pip Greenwood	✓	✓
	David Wang[3]	✓	✓
	Sandra Yu	✓	✓
Nomination Committee	Pip Greenwood (Chair)	✓	✓
	David Hearn	✓	✓
	Julia Hoare[1]	✓	✓

1 Julia Hoare: retired 30 June 2023
2 Kate Mitchell: appointed member 1 June 2023 and Chair 1 July 2023
3 David Wang: appointed 1 September 2022

Attendance at Board and Committee meetings

Director attendance at Board and Committee meetings during FY23 is set out below.

	MEETINGS OF THE BOARD[4]		AUDIT AND RISK MANAGEMENT COMMITTEE[5]		PEOPLE AND REMUNERATION COMMITTEE[6]		NOMINATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
David Hearn (Chair)	7	7					8	8
David Bortolussi (Managing Director & CEO)	7	7						
Warwick Every-Burns	7	7	2	2	2	2		
Pip Greenwood	7	7			2	2	8	8
Julia Hoare[1] (Deputy Chair)	7	7	2	2			8	8
Kate Mitchell[2]	1	1	1	1				
David Wang[3]	6	6	2	2	2	2		
Sandra Yu	7	7	2	2	2	2		

Held: meetings held during the period for which the person was a director or Committee member
1 Julia Hoare: retired 30 June 2023
2 Kate Mitchell: appointed 1 June 2023
3 David Wang: appointed 1 September 2022
4 In addition to the formal Board meetings, the Board also had 3 workshops to prepare for formal meetings and discuss any issues as they arose
5 In addition to the formal Audit and Risk Management Committee meetings, the Committee also had 3 workshops to prepare for formal meetings and discuss any issues as they arose
6 In addition to the formal People and Remuneration Committee meetings, the Committee had 1 workshop to prepare for formal meetings and discuss any issues as they arose

Corporate governance policies

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

- Code of Ethics
- Continuous Disclosure Policy
- Diversity and Inclusion Policy
- Risk Management Policy. Refer to the discussion of this policy commencing on page 50
- Securities Trading Policy
- Shareholder Communication Policy
- Global Whistleblower Policy
- Global Anti-Bribery and Anti-Corruption Policy; and
- Responsible Sourcing Policy

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

Management commentary
(no financial statements)

Directors

David Hearn

Chair & Independent, Non-executive Director

Master of Arts

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

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

In addition to his Company directorship, David is also Chairman of SafeStore Holdings plc (a UK FTSE listed company) and Lovat Partners Limited. David resides in the United Kingdom.

David Bortolussi

Managing Director and CEO

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

David joined the Company in February 2021 from his most recent role as Group President – International Innerwear, HanesBrands. He joined Pacific Brands in 2009 initially as Chief Financial & Operating Officer taking over as CEO of the public company in 2014. In 2016, HanesBrands acquired Pacific Brands and expanded David's role to cover Australasia and subsequently its international innerwear operations outside of the Americas. Prior to this, David spent five years at Foster's Group, where he held the role of Chief Strategy Officer responsible for corporate strategy, M&A, business development and performance improvement. Prior to Foster's Group, David held senior consulting roles at McKinsey & Company and PwC.

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

Warwick Every-Burns

Independent, Non-executive Director

Advanced Management Program (Harvard)

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

Warwick has been a career Consumer Packaged Goods (CPG) executive of global scale. His executive roles have included a career with The Clorox Company of the USA as Senior Vice President, International, based in the USA and prior to that as VP Asia Pacific. His earlier roles included Managing Director of NationalPak Limited (the Glad Products Company ultimately acquired by Clorox) and a long career with Unilever plc where he was based in Australia. Warwick was a Non-Executive Director of the ASX listed Treasury Wine Estates Limited from 2011 until 2022. Warwick resides in Australia.

Pip Greenwood

Independent, Non-executive Director

Bachelor of Laws (LL.B.), University of Canterbury (New Zealand)

Pip has been a director of the Company since 1 July 2019. She is also Chair of the Nomination Committee and a member of the People and Remuneration Committee. Pip is currently Chair elect and will assume the role of the Chair of the Board following the conclusion of the Company's 2023 Annual Meeting of shareholders.

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

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

Management commentary
(no financial statements)

Kate Mitchell

Independent,
Non-executive Director

Bachelor of Arts Honours (Modern Languages), Oxford University, UK

Kate has been a director of the Company since 1 June 2023. She is also Chair of the Audit and Risk Management Committee.

Kate has significant governance experience as a director of both private and public companies. She also has extensive experience in developing solutions for clients, particularly in the areas of financial risk management, structured financing and investments.

Kate is currently Chair of The New Zealand Merino Company and Link Engine Management and a director of Heartland Group Holdings, FarmRight, and Christchurch International Airport, for which she also serves as Chair of the Risk, Audit & Finance Committee.

Prior to moving to New Zealand in 2014, Kate's executive career spanned over 20 years in investment banking in London, which included senior leadership roles across several divisions within global investment banks including Deutsche Bank, Goldman Sachs and Merrill Lynch. Kate resides in New Zealand.

David Wang

Independent,
Non-executive Director

Master Business Administration, Carnegie Mellon University - Tepper School of Business; Bachelor of Bio-technology, Wuhan University

David has been a Director since 1 September 2022. David sits on both the Audit and Risk Management and the People and Remuneration committees.

David brings extensive expertise across the Asia-Pacific region in manufacturing and supply chain with over 30 years' experience in industrial and consumer goods businesses including 15 years in senior executive leadership roles in China and international. Currently, David works in Buhler AG and has been the President of Asia Pacific, Greater China region for Buhler, a global leader in the provision of industrial solutions, which specialises in integrated plant equipment system and related services for food processing and advanced materials manufacturing.

In his career, David has held various senior executive roles including at Blackstone AVINTIV Inc and Dover Corporation where his responsibilities covered manufacturing, research and development, technology, sales and marketing throughout Asia. David also worked with PepsiCo for almost 10 years in operations and supply chain.

David was featured in CEO Magazine (November 2020), and also was selected as one of CEO Magazine's 2021 'Successful Entrepreneurs, Industry Disruptors & Game Changers'. David resides in China.

Sandra Yu

Independent,
Non-executive Director

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

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

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

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

Sandra was also appointed as the non-executive chairwoman to lead RB China advisory board after the merger between Reckitt Benckiser and Mead Johnson Nutrition in 2017. Prior to joining Mead Johnson, Sandra held executive positions at Unilever, where she worked across Asia for thirteen years. Sandra resides in Greater China.

Management commentary
(no financial statements)

Executive Leadership Team

David Bortolussi
Managing Director and CEO

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

Refer to page 64.

David Muscat
Chief Financial Officer

Bachelor of Commerce - Accounting and Finance (Monash University), CA

David joined the Group in October 2022. As CFO, David is responsible for finance, investor relations, risk and IT across the Group. David is an experienced finance and people leader with a history of working in a dual-listed company (NZX/ASX) and working directly with the Board of Directors and the Audit and Risk Management Committee.

Prior to joining the Group, David was the CFO of DIM Brands International (formerly Hanes Europe Innerwear), and prior to this was the CFO of Hanes Australasia. David was the CFO of ASX and NZX listed Pacific Brands prior to its takeover by Hanesbrands Inc. in 2016. David commenced his career at Deloitte and has since gained significant experience in consumer goods and retail sectors in various international markets, including China.

Jaron McVicar
Chief Legal and Sustainability Officer & Company Secretary

Bachelor of Laws (University of Otago)

Jaron joined the Group in November 2016 and is responsible for the Group's legal function and our important sustainability programme. In his role as Company Secretary, Jaron works closely with the Board on corporate governance and Board related matters.

Prior to joining the Group, Jaron worked in private practice for 15 years as a corporate and commercial lawyer in New Zealand and the UK.

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

Chopin Zhang
Chief Supply Chain Officer

Master, Business Administration (Maastricht School of Management)

Chopin joined the Group in November 2022 and has over 35 years' experience in supply chain management with significant experience in China and New Zealand, including planning, procurement, manufacturing, quality, cross-border trade, distribution, regulatory affairs, and government relations. Chopin has extensive experience in the China IMF market, having held senior executive and supply chain leadership roles with Yashili and Danone.

During his career, Chopin has held additional supply chain senior leadership roles across Greater China, Asia Pacific and the USA with leading consumer goods companies including Starbucks, Nike and Johnson & Johnson.

Chopin's expertise in the China IMF industry and experience across New Zealand and China are highly relevant to his leadership of the transformation of the Company's supply chain to enable further market access, innovation and growth.

Edith Bailey
Chief Marketing Officer

(Bachelor of Business - Marketing & Management (University of Technology, Sydney), Graduate of the Australian Institute of Company Directors (GAICD)

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

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

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

Executive Leadership Team (L-R): Chopin Zhang, Edith Bailey, Jaron McVicar, Amanda Hart, David Bortolussi, Yohan Senaratne, Xiao Li, Eleanor Khor, David Muscat, Kevin Bush.

Management commentary
(no financial statements)

Amanda Hart

Chief People and Culture Officer

Bachelor of Business Administration (University of South Australia), Member of the Australian Institute of Company Directors (MAICD)

Amanda joined the Company in September 2021 and has extensive experience in people and culture roles within consumer products, telecommunications and media industries.

She is responsible for leading and executing integrated programmes and initiatives focused on constructive leadership development, capability building, employee engagement, health and safety, diversity and inclusion, and cultural change.

Prior to joining the Group, Amanda was previously Head of Human Resources (Australia and New Zealand) with Dyson Appliances and has experience in people and culture leadership roles both in the UK and USA and leading teams across APAC markets.

Xiao Li

Chief Executive – Greater China

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

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

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

Yohan Senaratne

Managing Director – International

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

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

Yohan brings capability in strategy, marketing, sales and e-commerce, and experience in infant milk nutrition and adjacent categories in China.

Yohan joined the Company in 2021 from his most recent role as Sales and Marketing Director at Bellamy's Organic. Yohan has also held multiple positions at Mondelez International, including Head of e-commerce for Australia, New Zealand and Japan. Prior to this, Yohan worked at ANZ Bank, focusing on retail banking digital transformation and with strategy consultancy LEK.

Eleanor Khor

Managing Director – ANZ and Strategy

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

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

In May 2023, Eleanor's role was expanded to Managing Director – ANZ and Strategy, taking on the leadership of the Australia and New Zealand business in addition to the Strategy function.

As leader of the ANZ business, Eleanor is responsible for continuing to grow the Company's business in Australia and New Zealand to realise the full potential of the *a2 Milk*™ brand, with a strong focus on driving growth through innovation.

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

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

Kevin Bush

Managing Director – USA

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

Kevin was appointed to the role of Managing Director – USA in May 2023. Kevin is responsible for leading the Company's North American business and continuing to grow the brand and delivering its path to profitability.

Prior to this, Kevin was Executive General Manager – ANZ from July 2021. In this role, Kevin was responsible for leading the Company's business in Australia and New Zealand and the successful launch of *a2 Milk® Lactose Free*.

Kevin previously held the role of Sales Director – ANZ from July 2016 and was pivotal in growing the *a2 Milk®* liquid milk brand and driving increased market share. He has also overseen the successful establishment of the *a2 Platinum®* IMF brand in the South Korean market and various other business development initiatives across the Group.

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

Management commentary
(no financial statements)

Remuneration

Our remuneration framework is designed to appropriately align with our strategy and achievement of our short-term and long-term ambitions. The key principles of our remuneration framework are outlined below.

Market competitive

Provide competitive rewards to attract, motivate and retain talented employees and executives relevant to the markets in which we operate.

Business strategy

Drive delivery of the Company's strategy by rewarding performance and having a mix of short-term and long-term remuneration elements.

Behaviours

Be consistent with, and supportive of, the Company's ethical framework and commitment to good corporate governance.

Shareholder alignment

Link rewards to the creation of sustainable value for shareholders, whilst avoiding inappropriate risk.

Remuneration governance

The People and Remuneration Committee (the Committee) advises the Board on the policies and practices of the Company regarding the remuneration of non-executive directors, the Executive Leadership Team (ELT) (all of whom report directly to the CEO) and other senior leaders of the Group, and reviews all components of the Group's remuneration practices relevant to its employees. The Committee Charter sets out the objectives, responsibilities and authority of the Committee in relation to remuneration matters.

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

The Committee seeks external professional advice from time to time on remuneration matters. During FY23, external consultants were engaged to provide market practice information and benchmarking data. During the year, no remuneration recommendations were made by external consultants.

Remuneration policies and practices

All employees have a fixed remuneration package. Selected employees also have variable remuneration in the form of a short-term incentive (STI) as part of their remuneration package. The ELT and selected senior leaders also have a long-term incentive (LTI) as part of their remuneration package.

In FY23, eligible employees not participating in the LTI plan were entitled to participate in the Company's Gift Plan, under which they receive ordinary shares in the Company worth up to A$1,000, at no cost to the employee. This plan is designed to provide participating employees an ownership interest in the Company.

Remuneration packages for senior leaders are structured with a significant portion of variable reward at risk that can be earned by the achievement of performance outcomes. An appropriate remuneration mix is determined for each position, taking into consideration the employee's role and level of responsibility.

In FY23, the Committee reviewed the CEO's remuneration framework. As a result of the review, in the FY23 year the Company's STI plan structure for the CEO will include a percentage of deferral as cash. In the interests of transparency and good governance, the Board will also voluntarily put the CEO's FY24 LTI grant to shareholders as a non-binding vote at the 2023 Annual Meeting of shareholders.

Managing ELT performance

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

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

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

The outcome of the ELT's performance over the course of the year is one factor considered when any changes to fixed annual remuneration or any award of variable remuneration and incentives are determined.

During FY23, each member of the ELT who was an employee for the duration of the reporting period had at least one performance discussion documented.

Management commentary
(no financial statements)

ELT remuneration framework

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

The design of the ELT remuneration framework is based on our reward principles and is comprised of three components:

- Fixed Annual Remuneration (FAR) (base salary and statutory superannuation contribution where relevant)
- Short-term Incentive (STI)
- Long-term Incentive (LTI)

		Variable remuneration	
	FAR	**STI**	**LTI**
Purpose	Provides market competitive remuneration to attract and retain talent while reflecting role scope, impact and accountabilities	Incentivises annual achievement of short-term performance measures against the Company balanced scorecard	Aligns reward with the creation of sustainable, longer-term shareholder value
Link to strategy and performance	– Based on skills and experience relevant to the role, individual performance and current level of remuneration relative to remuneration benchmarks – FAR is reviewed on an annual basis with reference to independent external surveys and, where appropriate, is adjusted based on consideration of individual performance and market remuneration benchmarks	– Performance is assessed against a balanced scorecard, comprising financial performance measures and non-financial performance measures which align with the Company's value creation model (covering four key areas: People, Planet, Consumers and Shareholders)	– Aligns selected executives' remuneration with the Company's strategy and ambition, designed to create long-term shareholder value through sustained growth in revenue and earnings

Remuneration mix

The following table illustrates the relative percentages of FAR and at-risk STI and LTI for FY23.

	FAR	STI (at target)	LTI (face value)
CEO	27%	32%[1]	41%
ELT (excluding the CEO)	29% – 43%	26% – 33%	32% – 43%

1. 25% of the CEO's Actual FY23 STI is deferred as cash.

Executive Minimum Shareholding Requirement (Executive MSR)

The Executive MSR Policy applies to all members of the ELT. From time-to-time, additional employees may be identified to whom the Executive MSR Policy will apply. The purpose of the Executive MSR Policy is to strengthen the alignment between the interests of the ELT and the interests of shareholders and encourage a focus on building long-term shareholder value.

Each member of the ELT is required to acquire and hold a minimum shareholding equivalent to 100% of their FAR (before any tax or social security deductions) by the end of five annual vesting periods for LTI grants.

All ELT members are currently expected to achieve the Executive MSR within the timeframe required by the policy.

FY23 Short-Term Incentive (STI) plan

STI values and performance targets are approved by the Committee and Board each financial year. Payments made under the STI plan are in the form of cash. For FY23, the CEO's STI will be 75% cash and 25% deferred as cash for one year.

The FY23 STI plan provides that the amount payable will be determined by reference to:

Opportunity				Group Performance Outcome		Individual Performance Modifier		Outcome
FAR $	x	Target STI opportunity %	x	FY23 Group performance scorecard result % (detailed below)	x	Individual performance modifier %	=	STI award $

The STI plan incorporates a comprehensive assessment of Group performance, encompassing both financial and non-financial measures. The FY23 Group Performance Scorecard includes financial measures with a weighting of 60% and non-financial measures with a weighting of 40%, as set out in the table below. For each objective there are threshold, target and maximum metrics (as shown in the table below) to assess the Group's performance against. The outcomes are determined by the Board (excluding the CEO).

FY23 Group Performance Scorecard

	FY23 strategic objectives	Metric	Outcome	Weighting at target
Financial measures				**60%**
			THRESHOLD TARGET MAXIMUM	
	Shareholders	Net sales revenue		**30%**
		Earnings before interest, tax, depreciation and amortisation (EBITDA)		**30%**
Non-financial measures				**40%**
	People	Safety performance and employee engagement score		**5%**
	Planet	Employee rating of a2MC sustainability impact, and progress on packaging and Scope 3 GHG emissions goals		**5%**
Consumers	**Brand health**	China unprompted brand awareness, Australian fresh milk loyalty and USA household penetration (with most weight placed on China outcomes)		**5%**
Consumers	**Market share**	China label IMF (MBS and DOL), English label IMF (CBEC, Daigou, O2O), Australian fresh milk and USA premium liquid milk (with most weight placed on China outcomes)		**5%**
Consumers	**Innovation**	China label new GB formulation registration, progress on innovation pipeline and sales from new products (China, ANZ, USA)		**10%**
Consumers	**Supply chain**	Market access, CL and EL inventory management, MVM insourcing, quality outcomes and supply chain efficiency		**10%**
Scorecard outcome (% of target)			**95%**	

The FY23 STI plan provided threshold to maximum potential metrics for the Group Performance Scorecard with outcomes ranging from 0% to 130%, with the target at 100%. The outcome of the FY23 Group Performance Scorecard determined by the Board for all ELT members (including the CEO) was 95%, reflecting that an outcome of 55% (of 60%) was achieved against financial measures and an outcome of 40% (of 40%) was achieved against non-financial measures. This reflects the outcomes determined by the Board in relation to the individual Group Performance Scorecard measures set out in the table above.

Management commentary
(no financial statements)

FY23 Long-Term Incentive (LTI) plan

The table below outlines key features of the FY23 LTI for the CEO and ELT.

<table>
<tr><th>Features</th><th>Approach</th></tr>
<tr><td>Purpose</td><td>– The LTI plan is designed to reward performance in support of the achievement of the Company's growth strategy: targeting profitable, long-term revenue and EPS growth, which requires appropriate investment</td></tr>
<tr><td>Participants</td><td>– Participation in the LTI plan is by invitation only, at the sole and absolute discretion of the Board
– In FY23, the CEO, ELT and selected senior leaders participated</td></tr>
<tr><td>Opportunity</td><td>– The maximum face value of the LTI that can be granted for the CEO is 150% of FAR, and for the ELT, ranges from 75% to 150% of FAR. The minimum potential outcome value is zero</td></tr>
<tr><td>Performance/vesting period</td><td>– Three years from 1 July 2022 to 30 June 2025
– There is no retesting of performance if performance conditions are not met at the end of the performance period</td></tr>
<tr><td>Instrument</td><td>– Performance rights – each performance right entitles the participant to receive one fully paid share in the Company (or cash equivalent, at the election of the Company), subject to meeting performance measures
– It is currently intended that, where possible in accordance with relevant laws, the Company will satisfy its obligation to allocate ordinary shares upon the vesting of performance rights by instructing the trustee of the a2MC Group Employee Share Trust to transfer existing shares held in the trust to each participant, where such existing shares were previously purchased by the trustee on-market</td></tr>
<tr><td>Allocation approach</td><td>– The Company uses a maximum face value allocation approach. The number of rights granted were calculated as follows:
<table>
<tr><th colspan="3">Grant opportunity</th><th></th><th>Share price</th><th></th><th>Number of rights</th></tr>
<tr><td>FAR
$</td><td>x</td><td>Maximum LTI opportunity %</td><td>/</td><td>Share price[1]
(no discount applied)</td><td>=</td><td>Number of performance rights granted</td></tr>
</table>
1. The share price used was the volume weighted average share price of ordinary shares in the Company in accordance with the ASX listing rules based on the ten trading days up to and including 19 September 2022.</td></tr>
<tr><td>Dividend payments</td><td>– No dividends or dividend equivalent payments are provided on performance rights</td></tr>
<tr><td>Board discretion</td><td>– The Board may forfeit performance rights for fraud, dishonesty or wilful breach of duties</td></tr>
</table>

Management commentary
(no financial statements)

Performance conditions	The performance rights vest subject to achievement of both: – EPS CAGR (compound annual growth in diluted earnings per ordinary share); and – Revenue CAGR (compound annual growth in revenue), performance hurdles over the performance period. **Vesting Framework** For any vesting to occur, both of the following must be achieved: – EPS CAGR of at least 10%; and – Revenue CAGR of at least 6%, in each case, from 1 July 2022 to 30 June 2025. If these performance hurdles are achieved, the proportion of performance rights that may vest will be determined on a straight-line basis per the table below:

Revenue - CAGR	Vesting % (if EPS CAGR of at least 10%)
Less than 6%	Nil
6%	50%
Between 6% and 8%	Pro-rata vesting on a straight-line basis between 50% and 85%
8%	85%
Between 8% and 10%	Pro-rata vesting on a straight-line basis between 85% and 100%
10% and above	100%

Calculation approach

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and are subject to adjustment to remove the impact of material items as the Board may determine, as further noted below.

Performance rights granted in FY23

During the year the Board authorised the grant of 2,472,270 performance rights to the CEO, ELT and senior leaders under the LTI plan in respect of FY23.

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

The Board also considered the impact of the on-market share buyback completed in March 2023 when setting the FY23 LTI grant EPS CAGR performance hurdle, which was determined to be immaterial.

Normalisation adjustments

Relevant STI and LTI metrics are adjusted to remove the impact of material items as the Board may determine in its absolute discretion to normalise results (up or down) to more appropriately reflect underlying performance. Without limitation, adjustments may be made to exclude the impact of unusual or one-off items, discontinued operations, acquisitions and disposals, and capital management. No normalisation adjustments were made to STI and LTI metrics in FY23.

Management commentary
(no financial statements)

Remuneration of CEO – David Bortolussi

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

Term

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

Fixed Annual Remuneration

A$1,867,666 per annum (inclusive of superannuation), to be reviewed annually.

STI

On an annual basis, David participates in the Company's STI plan. For FY23, his STI incentive target is 120% of his FAR, subject to the achievement of the Group Performance Scorecard and individual performance objectives both determined by the Board (excluding David). In FY23, the Group Performance Scorecard outcome range is from 0% to 130% and David's individual performance multiplier range is from 0% to 130% which is consistent with the prior year.

In FY23, the Board revised the Company's STI plan structure, for the CEO, to include a percentage of deferral for the CEO's STI. In FY23, payment of 25% of the amount awarded to the CEO is deferred as cash for one year. No remuneration adjustment was applied to the CEO's total remuneration package to compensate for this change.

David's STI payment in FY23 is determined in accordance with the following:

FAR $	x	Target STI opportunity 120%	x	FY23 Group Performance Scorecard result %	x	Individual performance modifier %	=	STI award $

75% of David's STI payment will be paid in cash shortly following the Board's determination and the remaining 25% paid in cash after one year.

LTI

Subject to Board discretion, on an annual basis David will be invited to be granted performance rights under the Company's LTI plan. To date, performance rights issued to David have been issued on the basis that they may only be satisfied on exercise with ordinary shares purchased on-market.

As noted above, the Board will also be submitting the CEO's LTI grant for the FY24 LTI plan to shareholders as a non-binding vote at the Annual Meeting in 2023.

Allowance

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

Notice period

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

Leave

Five weeks per annum paid annual leave.

Other terms

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

Management commentary
(no financial statements)

Remuneration received in FY23

The remuneration received by David Bortolussi in the financial year is outlined in the table below. We believe presenting this information provides shareholders with greater clarity and transparency as to the CEO's remuneration. This table differs from the statutory accrued remuneration table (further below) which presents remuneration in accordance with accounting standards (i.e., on an accruals basis).

Remuneration received	2023 A$	2022 A$
FAR	1,867,666	1,795,082
STI paid	2,251,031	630,000
Allowance	226,416	226,416
LTI	–	–
Other equity	1,042,795	916,731
Total remuneration received	**5,387,908**	**3,568,229**

The remuneration accrued for David Bortolussi in the financial year was as follows:

Statutory remuneration accounting expense	2023 A$	2022 A$
FAR	1,867,666	1,795,082
Cash STI	2,129,140	2,251,031
Allowance	226,416	226,416
LTI	3,583,205	2,013,392
Other equity	476,748	1,772,585
Total remuneration	**8,283,175**	**8,058,506**

As noted above, for FY23, David is entitled to receive an STI payment at target of 120% of his FAR modified for Group and individual performance. The Board has determined that the Group Performance Scorecard outcome is 95% and David's individual performance multiplier is 100%. As a result, a payment in the amount of A$2,129,140 is to be made to David under the FY23 STI plan representing 95% of target, with 25% to be deferred and paid as cash after one year.

LTI – granted in FY23

In FY23, 501,180 performance rights vesting in August 2025 were granted to David under the Company's LTI Plan.

Time-based rights – transition benefits

In FY21, David was granted 311,283 time-based rights as a transition benefit, when the share price was NZ$11.07, being partial compensation for vested and unvested entitlements that he forfeited on resigning from his previous employment.

Of these time-based rights, 155,642 vested on 21 February 2022, when the share price was NZ$6.31; and the remaining 155,641 rights vested on 1 February 2023, when the share price was NZ$7.52.

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

Management commentary
(no financial statements)

Non-executive directors' remuneration policy and structure

Non-executive director fees are paid from an aggregate annual fee pool of $1,365,000, as approved by shareholders at the Annual Meeting on 20 November 2018. Non-executive directors do not receive variable pay.

The table below provides a summary of FY23 Board and Committee fees:

	Position	Fees per annum $
Board of Directors	Chair	265,000[1]
	Deputy Chair	210,000[2]
	Member	165,000
Audit & Risk Management Committee	Chair	35,000
	Member	16,500
People & Remuneration Committee	Chair	35,000
	Member	16,500
Nomination Committee	Chair	22,000
	Member	11,000

1 No additional fees are paid to the Board Chair for Committee roles.

2 Following the current Deputy Chair's retirement on 30 June 2023, from 1 July 2023, there will no longer be a Deputy Chair.

Remuneration paid to non-executive directors of the Company for the year ended 30 June 2023 was as follows:

		Committee fees			
	Board fees	Audit & Risk Management	People & Remuneration	Nomination	Total fees
	$	$	$	$	$
David Hearn (Chair)	265,000	–	–	–	**265,000**
Julia Hoare (Deputy Chair)	210,000	35,000	–	11,000	**256,000**
Pip Greenwood	165,000	–	16,500	22,000	**203,500**
Warwick Every-Burns	165,000	16,500	35,000	–	**216,500**
Sandra Yu	165,000	16,500	16,500	–	**198,000**
David Wang[1]	137,500	13,750	13,750	–	**165,000**
Kate Mitchell[2]	13,750	1,375	–	–	**15,125**
Total	**1,121,250**	**83,125**	**81,750**	**33,000**	**1,319,125**

1 David Wang was appointed as a non-executive director with effect from 1 September 2022.

2 Kate Mitchell was appointed as a non-executive director with effect from 1 June 2023.

No other benefits such as share options or special exertion payments were paid to directors.

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

Director Minimum Shareholding Requirement

A Minimum Shareholding Requirement (Director MSR) Policy applies to all directors. The purpose of this MSR Policy is to strengthen the alignment between the interests of directors and the interests of shareholders and encourage a focus on building long-term shareholder value. Under this policy, directors are required to acquire and hold, for the duration of their tenure on the board, a minimum shareholding equivalent in value (at the time of purchase) to 100% of their fixed annual director fees (including committee fees) before any tax or social security deductions. Directors are expected to achieve the Director MSR within three years of becoming a director.

Management commentary
(no financial statements)

Financial statements

Directors' approval of the financial statements

for the year ended 30 June 2023

The directors of The a2 Milk Company Limited are pleased to present the consolidated financial statements for The a2 Milk Company Limited (the Company) and its subsidiaries (together the Group) for the year ended 30 June 2023.

The directors are responsible for preparing and presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly the financial position of the Group as at 30 June 2023 and the results of its operations and cash flows for the period ended on that date.

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

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

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

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

Signed on behalf of the Board by:

David Hearn
Chair

David Bortolussi
Managing Director and CEO

20 August 2023

Independent auditor's report

for the year ended 30 June 2023

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The a2 Milk Company Limited (the "Company") and its subsidiaries (together the "Group") on pages 83 to 134, which comprise the consolidated statement of financial position of the Group as at 30 June 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 83 to 134 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2023 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

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

Key audit matters

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

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

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

Customer rebates and promotional allowances

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

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the annual report, which includes information other than the consolidated financial statements and auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Maris.

Ernst & Young

Ernst & Young
Sydney
20 August 2023

Independent ESG Assurance Report

for the year ended 30 June 2023

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Limited Assurance Report to the Management and Directors of The a2 Milk Company Limited

Our Conclusion:

Ernst & Young ('EY', 'we') were engaged by The a2 Milk Company Limited ('a2MC') to undertake a limited assurance engagement as defined by Australian Auditing Standards, hereafter referred to as a 'review', over the Subject Matter defined below for the year ended 30 June 2023. Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe the Subject Matter has not been prepared, in all material respects, in accordance with the Criteria defined below.

What our review covered

We reviewed the following Subject Matter listed below and disclosed within a2MC's 2023 Annual Report (the 'Report').

Sustainability Performance Data	Value
Climate – greenhouse gas (GHG) emissions	
Total Scope 1 emissions in tonnes of carbon dioxide equivalent (tCO_2-e)	24,343
Total Scope 2 emissions (tCO_2-e) as calculated using the location-based method	3,356
Total Scope 2 emissions (tCO_2-e) as calculated using the market-based method	153
Total Scope 3 emissions (tCO_2-e)	476,595
Environmental indicators – Manufacturing Facilities	
Total water usage ('000 litres)	290,908
Water efficiency (litres/litre of milk)	1.7
Wastewater diverted to beneficial land application (litres)	2,780,010
Waste produced (tonnes)	100
Waste diversion (%)	96.7%
Energy consumption (kWh)	16,700,000
Environmental indicators – Sustainable packaging	
Recyclable packaging (%)	87.1%
People – Supporting a diverse and inclusive workplace	
Gender diversity – Female (%)	51%
Community – Enriching communities	
Cash and stock donations (NZ$)	$2.84m

We also reviewed a2MC's reporting with reference to the Global Reporting Initiative ('GRI') Standards (2021).

Criteria applied by a2MC

In preparing the sustainability performance data relating to GHG emissions, a2MC applied the following Criteria:

- The Greenhouse Gas (GHG) Protocol, as well as the National Greenhouse Accounts Factors for Australia, the UK DEFRA GHG conversion factors and a range of other country-specific and source-specific references utilised for determining GHG emissions.

In preparing the remaining sustainability performance data, a2MC applied the following Criteria:

- a2Mc's own publicly disclosed criteria stated in the Report and informed by the GRI Standards.

In preparing the sustainability disclosures within the Report for the purposes of reporting with reference to the GRI Standards, a2MC applied the following Criteria:

- The GRI Standards 2021.

Key responsibilities

EY's responsibility and independence

Our responsibility is to express a conclusion on the Subject Matter based on our review.

We have complied with the independence and relevant ethical requirements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

a2MC's responsibility

a2MC's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

Our approach to conducting the review

We conducted this review in accordance with the Australian Auditing and Assurance Standards Board's *Australian Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ('ASAE 3000'), *Assurance Engagements on Greenhouse Gas Statements* ('ASAE3410') and the terms of reference for this engagement as agreed with a2MC on 6th June 2023. That standard requires that we plan and perform our engagement to express a conclusion on whether anything has come to our attention that causes us to believe that the Subject Matter is not prepared, in all material respects, in accordance with the Criteria, and to issue a report.

Summary of review procedures performed

A review consists of making enquiries, primarily of persons responsible for preparing the Subject Matter and related information and applying analytical and other review procedures.

The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risk of material misstatement, whether due to fraud or error. The procedures we performed included, but were not limited to:

- Conducted interviews with key personnel to understand the business and reporting process
- Conducted interviews with key personnel to understand the process for collecting, collating and reporting the Subject Matter during the reporting period
- Checked that the calculation criteria have been correctly applied in accordance with the methodologies outlined in the Criteria
- Undertook analytical review procedures to support the reasonableness of the data
- Identified and tested assumptions supporting calculations
- Tested, on a sample basis, underlying source information to check the accuracy of the data
- Checked the aggregation of selected disclosures and transcription to the Report
- Checked the appropriateness of the presentation relating to the Subject Matter in the Report.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our review conclusion.

Inherent limitations

Procedures performed in a review engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a review engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to assessing aggregation or calculation of data within IT systems.

The GHG quantification process is subject to scientific uncertainty, which arises because of incomplete scientific knowledge about the measurement of GHGs. Additionally, GHG procedures are subject to estimation and measurement uncertainty resulting from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

Other matters

We have not performed assurance procedures in respect of any information relating to prior reporting periods, including those presented in the Subject Matter. Our report does not extend to any disclosures or assertions made by a2MC relating to future performance plans and/or strategies disclosed in the Report.

Use of our Assurance Report

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than Management and the Directors of a2MC, or for any purpose other than that for which it was prepared.

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Nicky Landsbergen

Ernst & Young

Ernst & Young

Sydney, Australia

20 August 2023

Consolidated statement of comprehensive income

for the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Sales	B1	1,591,088	1,443,740
Cost of sales		(851,925)	(780,222)
Gross margin		739,163	663,518
Other revenue	B1	1,782	2,489
Distribution expenses		(50,832)	(48,854)
Marketing expenses		(260,229)	(230,019)
Administrative and other expenses		(228,663)	(209,725)
Operating profit		201,221	177,409
Interest income		26,733	6,569
Finance costs	B4	(5,092)	(2,591)
Net finance income		21,641	3,978
Profit before tax		222,862	181,387
Income tax expense	B6	(78,021)	(66,646)
Profit for the year		144,841	114,741
Profit/(loss) for the year attributable to:			
Owners of the Company		155,638	122,624
Non-controlling interests		(10,797)	(7,883)
		144,841	114,741
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation (loss)/profit		(6,448)	11,073
Cash flow hedges fair value profit/(loss)		12,368	(14,113)
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	C7	(63,295)	(22,543)
Total other comprehensive loss		(57,375)	(25,583)
Total other comprehensive (loss)/income attributable to:			
Owners of the Company		(58,270)	(24,471)
Non-controlling interests		895	(1,112)
		(57,375)	(25,583)
Total comprehensive income		87,466	89,158
Total comprehensive income/(loss) attributable to:			
Owners of the Company		97,368	98,153
Non-controlling interests		(9,902)	(8,995)
		87,466	89,158
Earnings per share			
Basic (cents per share)	B5	21.23	16.49
Diluted (cents per share)	B5	21.13	16.49

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2023

	Attributable to owners of the Company										
Year ended 30 June 2023	**Foreign currency translation reserve $'000**	**Fair value revaluation reserve $'000**	**Employee equity settled payments reserve $'000**	**Treasury shares reserve $'000**	**Hedging reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Share capital $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance 1 July 2022	(332)	(153,521)	46,311	(15,798)	(13,001)	(136,341)	1,167,561	149,157	1,180,377	13,583	1,193,960
Profit after tax for the period	–	–	–	–	–	–	155,638	–	155,638	(10,797)	144,841
Foreign currency translation differences - foreign operations	(6,065)	–	–	–	–	(6,065)	–	–	(6,065)	–	(6,065)
Changes in cash flow hedges taken to equity	–	–	–	–	(2,559)	(2,559)	–	–	(2,559)	(167)	(2,726)
Cash flow hedges reclassified to profit or loss	–	–	–	–	17,449	17,449	–	–	17,449	1,062	18,511
Listed investment - fair value movement	–	(63,295)	–	–	–	(63,295)	–	–	(63,295)	–	(63,295)
Income tax	(383)	–	–	–	(3,417)	(3,800)	–	–	(3,800)	–	(3,800)
Total comprehensive income for the period	(6,448)	(63,295)	–	–	11,473	(58,270)	155,638	–	97,368	(9,902)	87,466
Transactions with owners in their capacity as owners:											
Share buyback	–	–	–	–	–	–	–	(149,057)	(149,057)	–	(149,057)
Treasury shares transferred	–	–	(2,196)	2,196	–	–	–	–	–	–	–
Share-based payments	–	–	17,132	–	–	17,132	–	–	17,132	–	17,132
Total transactions with owners	–	–	14,936	2,196	–	17,132	–	(149,057)	(131,925)	–	(131,925)
Balance 30 June 2023	(6,780)	(216,816)	61,247	(13,602)	(1,528)	(177,479)	1,323,199	100	1,145,820	3,681	1,149,501

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2023

Year ended 30 June 2022	Foreign currency translation reserve $'000	Fair value revaluation reserve $'000	Employee equity settled payments reserve $'000	Treasury shares reserve $'000	Hedging reserve $'000	Total reserves $'000	Retained earnings $'000	Share capital $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owners of the Company										
Balance 1 July 2021	(11,405)	(130,978)	36,058	(3,773)	–	(110,098)	1,044,937	149,121	1,083,960	–	1,083,960
Profit after tax for the period	–	–	–	–	–	–	122,624	–	122,624	(7,883)	114,741
Foreign currency translation differences - foreign operations	10,454	–	–	–	–	10,454	–	–	10,454	–	10,454
Changes in cash flow hedges taken to equity	–	–	–	–	(21,632)	(21,632)	–	–	(21,632)	(1,727)	(23,359)
Cash flow hedges reclassified to profit or loss	–	–	–	–	4,872	4,872	–	–	4,872	615	5,487
Listed investment - fair value movement	–	(22,543)	–	–	–	(22,543)	–	–	(22,543)	–	(22,543)
Income tax	619	–	–	–	3,759	4,378	–	–	4,378	–	4,378
Total comprehensive income for the period	11,073	(22,543)	–	–	(13,001)	(24,471)	122,624	–	98,153	(8,995)	89,158
Transactions with owners in their capacity as owners:											
Issue of ordinary shares	–	–	–	–	–	–	–	45	45	–	45
Share issue costs	–	–	–	–	–	–	–	(9)	(9)	–	(9)
Employee withholding tax payments	–	–	(250)	–	–	(250)	–	–	(250)	–	(250)
Treasury shares purchased	–	–	–	(13,306)	–	(13,306)	–	–	(13,306)	–	(13,306)
Treasury shares transferred	–	–	(1,281)	1,281	–	–	–	–	–	–	–
Share-based payments	–	–	11,701	–	–	11,701	–	–	11,701	–	11,701
Acquisition of subsidiary (Note E2)	–	–	–	–	–	–	–	–	–	22,578	22,578
Income tax	–	–	83	–	–	83	–	–	83	–	83
Total transactions with owners	–	–	10,253	(12,025)	–	(1,772)	–	36	(1,736)	22,578	20,842
Balance 30 June 2022	(332)	(153,521)	46,311	(15,798)	(13,001)	(136,341)	1,167,561	149,157	1,180,377	13,583	1,193,960

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2023

	Note	2023 $'000	2022 $'000
Assets			
Current assets			
Cash and term deposits	D3	802,234	887,308
Trade and other receivables	C1	79,216	83,510
Prepayments		45,682	54,537
Inventories	C2	193,440	140,044
Other financial assets	C7	1,536	–
Income tax receivable		–	5,841
Total current assets		1,122,108	1,171,240
Non-current assets			
Property, plant and equipment	C4	245,216	240,547
Right-of-use assets	D5	17,349	16,030
Investment property	C5	17,927	15,663
Intangible assets	C6	108,419	109,322
Other financial assets	C7	72,078	135,260
Prepayments		–	2,059
Deferred tax assets	B6	28,617	25,731
Total non-current assets		489,606	544,612
Total assets		1,611,714	1,715,852
Liabilities			
Current liabilities			
Trade and other payables	C3	313,212	379,253
Lease liabilities	D5	4,181	3,128
Loans and borrowings	D6	15,000	40,794
Income tax payable		43,314	–
Other financial liabilities	C8	3,501	16,999
Total current liabilities		379,208	440,174
Non-current liabilities			
Trade and other payables	C3	423	416
Lease liabilities	D5	15,309	14,224
Loans and borrowings	D6	67,038	66,206
Other financial liabilities	C8	235	872
Total non-current liabilities		83,005	81,718
Total liabilities		462,213	521,892
Net assets		1,149,501	1,193,960
Equity			
Share capital	D7	100	149,157
Retained earnings		1,323,199	1,167,561
Reserves	D8	(177,479)	(136,341)
Total equity attributable to owners of the Company		1,145,820	1,180,377
Non-controlling interests		3,681	13,583
Total equity		1,149,501	1,193,960

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		1,619,580	1,431,254
Payments to suppliers and employees		(1,492,140)	(1,207,386)
Interest received		22,420	4,341
Interest paid		(3,663)	(1,383)
Taxes paid		(34,914)	(23,026)
Net cash inflow from operating activities	D4	111,283	203,800
Cash flows from investing activities			
Payments for property, plant and equipment		(10,069)	(4,939)
Payments for investment property	C5	(3,535)	(1,071)
Payments for intangible assets	C6	(338)	(229)
Acquisition of subsidiary	E2	–	(213,746)
Payments for term deposits		(450,000)	(450,000)
Receipts from term deposits		450,000	–
Net cash outflow from investing activities		(13,942)	(669,985)
Cash flows from financing activities			
Payments for share buyback	D7	(149,057)	–
Payments of lease principal	D5	(3,578)	(4,089)
Purchase of treasury shares	D8	–	(13,306)
Proceeds from issue of equity shares	D7	–	36
Net (repayments of)/proceeds from borrowings		(25,794)	27,000
Net cash (outflow)/inflow from financing activities		(178,429)	9,641
Net decrease in cash and short-term deposits		(81,088)	(456,544)
Cash and short-term deposits at the beginning of the year		437,308	875,150
Effect of exchange rate changes on cash		(3,986)	18,702
Cash and short-term deposits at the end of the year	D3	352,234	437,308

The accompanying notes form part of these financial statements.

Notes to the financial statements

Contents

Basis of preparation

for the year ended 30 June 2023

A. Basis of preparation

The a2 Milk Company Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand. The consolidated financial statements of the Company for the year ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as the Group).

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

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

The consolidated financial statements were authorised for issue by the directors on 20 August 2023.

The consolidated financial statements:

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

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

Significant accounting policies have been:

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

Accounting policy: Foreign currency

Transactions

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

Foreign operations translation to reporting currency

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

Judgements, estimates and assumptions

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

- This may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- Estimates and underlying assumptions are reviewed on an ongoing basis.
- Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
- Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
  - Note B6: Income taxes – Recoverability and recognition of deferred tax assets and liabilities
  - Note C2: Inventories – Estimation of net realisable value
  - Note C4: Property, plant and equipment – Recoverability and determination of useful lives
  - Note C5: Investment property – Recoverability and determination of useful lives
  - Note C6: Intangible assets – Impairment review of goodwill and intangibles
  - Note C6: Intangible assets – Allocation of goodwill
  - Note C7 and C8: Other financial assets and liabilities – Fair value measurement of foreign currency forward contracts
  - Note D5: Leases – Determination of lease term

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2023.

New standards and interpretations not yet adopted

There are no new standards and interpretations that are issued, but not yet effective as at 30 June 2023, that are expected to have a material impact on the Group in current or future reporting periods.

Group performance

for the year ended 30 June 2023

B. Group performance

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

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

B1. Operating segments

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

For management purposes, the Group is organised into business units based on geographical location, and in the current financial year has four reportable operating segments as follows:

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

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

B1. Operating segments (continued)

2023	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Eliminations $'000	Total $'000
Consolidated sales	370,249	1,002,164	104,731	113,944	–	1,591,088
Other revenue	1,445	–	337	–	–	1,782
Total external revenue	371,694	1,002,164	105,068	113,944	–	1,592,870
Inter-segment revenue	–	–	–	32,270	(32,270)	–
Reportable segment revenue	371,694	1,002,164	105,068	146,214	(32,270)	1,592,870
Reportable segment results (Segment EBITDA)	93,506	254,055	(23,311)	(26,486)	–	297,764
Corporate EBITDA						(78,466)
Group EBITDA						219,298
Interest income						26,733
Interest expense						(4,972)
Depreciation and amortisation						(18,197)
Income tax expense						(78,021)
Consolidated profit after tax						144,841

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

1 Revenue for the year ended 30 June 2022 included one customer within the Australia and New Zealand segment that contributed revenue in excess of 10% of Group revenue of $175,391,000.

2 Mataura Valley Milk results for the year ended 30 June 2022 are for the eleven months from acquisition on 30 July 2021.

Group performance

for the year ended 30 June 2023

B1. Operating segments (continued)

Other segment information

2023	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Corporate $'000	Total $'000
Additions to non-current assets	7,716	5,118	17	6,289	7,197	26,337
Depreciation and amortisation	4,168	1,885	564	9,006	2,574	18,197
2022						
Additions to non-current assets	3,595	88	44	2,220	3,913	9,860
Depreciation and amortisation	5,098	2,223	505	8,420	2,683	18,929

Geographical information

	2023 $'000	2022 $'000
Revenue from external customers based on the location of the customer		
New Zealand[1]	129,798	138,874
Australia	355,841	498,203
China	985,257	714,133
Other	121,974	95,019
	1,592,870	1,446,229
Non-current assets based on the geographical location of assets[2]		
New Zealand	234,640	233,553
Australia	44,535	42,779
China	4,982	1,935
Other	2,407	2,886
	286,564	281,153

1 Mataura Valley Milk revenue for the year ended 30 June 2022, which is included in New Zealand revenue, is for the eleven months from acquisition on 30 July 2021.

2 Non-current assets exclude goodwill, financial instruments and deferred tax assets.

B2. Revenue

Disaggregation of revenue

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

2023	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Total $'000
Infant milk formula:					
China label	–	559,336	–	–	559,336
English and other labels[1]	162,508	386,226	–	–	548,734
Liquid milk	184,094	15,159	104,731	–	303,984
Other[2]	25,092	41,443	337	113,944	180,816
	371,694	1,002,164	105,068	113,944	1,592,870

2022	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Total $'000
Infant milk formula:					
China label	–	437,591	–	–	437,591
English and other labels[1]	328,819	255,761	–	–	584,580
Liquid milk	171,964	11,092	82,384	–	265,440
Other[2]	31,943	22,054	271	104,350	158,618
	532,726	726,498	82,655	104,350	1,446,229

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

2 Other predominantly consists of the sale of milk powders and other nutritional products.

Contract balances

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

	Note	2023 $'000	2022 $'000
Receivables	C1	57,731	67,411
Customer contract liabilities	C3	(7,487)	(3,171)

Customer contract liabilities are payments received in advance from customers. The amount of $3,171,000 recognised in customer contract liabilities at 30 June 2022 was recognised as revenue in the year ended 30 June 2023.

Remaining performance obligations at 30 June 2023 have an original expected duration of one year or less.

Group performance

for the year ended 30 June 2023

B2. Revenue (continued)

Recognition and measurement

Sales of products

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

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

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

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

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

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

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

Interest revenue

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

B3. Expenses

	2023 $'000	2022 $'000
Profit before income tax includes the following significant items:		
Salary and wage costs	98,366	84,246
Equity settled share-based payments (refer to Note F2)	17,132	11,701
Directors' fees	1,319	1,074
Audit fees (refer to Note F3)	1,515	1,695
Bad and doubtful debts (recovery)/expense	(78)	30
Insurance	24,514	22,069
Professional service fees	12,152	13,757
Depreciation and amortisation	18,197	18,929
Net foreign exchange (gains)/losses	(8,853)	6,436
Cash flow hedge losses	18,511	5,487

B4. Finance costs

	2023 $'000	2022 $'000
Interest expense – lease liabilities	640	592
Interest expense	4,332	1,875
Finance costs	120	124
	5,092	2,591

B5. Earnings per share (EPS)

	2023	2022
Profit attributable to members of the Company used in calculating basic and diluted EPS ($'000)	155,638	122,624
Weighted average number of ordinary shares ('000) for basic EPS	733,065	743,618
Effect of dilution due to time-based and performance rights ('000)	3,610	176
Weighted average number of ordinary shares ('000) for diluted EPS	736,675	743,794
Earnings per share		
Basic EPS (cents)	21.23	16.49
Diluted EPS (cents)	21.13	16.49

Recognition and measurement

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

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

B6. Income taxes

	2023 $'000	2022 $'000
Income tax recognised in profit and loss		
Current:		
Current year	88,947	45,482
Adjustment for prior years	(7,999)	(6,908)
Deferred:		
Temporary differences	(7,035)	19,872
Adjustment for prior years	4,108	8,200
Total tax expense	78,021	66,646
The prima facie income tax on pre-tax accounting profit from operations reconciles to:		
Accounting profit before income tax	222,862	181,387
Income tax expense calculated at 28% (2022: 28%)	62,401	50,788
Difference in income tax rates: Australia 30% (2022: 30%), USA 25% (2022: 25%), and China 25% (2022: 25%)	2,780	923
Non-deductible expenses and non-assessable income	2,687	2,377
Prior period adjustment to tax expense	(3,891)	1,292
Unutilised foreign tax credits	3,559	1,325
Deferred tax asset not recognised	10,485	9,941
Total tax expense	78,021	66,646
Income tax recognised directly in equity		
Current tax	–	(3,759)
Deferred tax	41	(702)
Tax expense/(benefit) in equity	41	(4,461)

Group performance

for the year ended 30 June 2023

B6. Income taxes (continued)

Deferred tax balances

2023	Opening balance $'000	Charge to comprehensive income $'000	Charge to equity $'000	Closing balance $'000
Gross deferred tax assets				
Patents	111	(34)	–	77
Provisions and accrued expenses	22,235	316	–	22,551
Tax losses	193	(71)	–	122
Property, plant and equipment	29	1,970	–	1,999
Employee share scheme	1,112	1,964	–	3,076
Hedging instruments	–	–	342	342
Other	2,051	(1,601)	–	450
Net deferred tax	25,731	2,544	342	28,617
Charge to profit or loss		2,927		
Charge to other comprehensive income		(383)		
		2,544		

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

B6. Income taxes (continued)

Tax losses

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

	2023 $'000	2022 $'000
USA	100,066	85,918
New Zealand	207,357	190,624
	307,423	276,542

Imputation and franking credits

The Company is a New Zealand company which has elected to maintain an Australian franking credit account. The imputation credit and franking credit balances represent the sum of the imputation credit and franking credit account balances of the Group on an accrual basis. The ability to use the imputation and franking credits is dependent upon the ability of the Group to declare dividends. The franking credit account balance is stated in AUD.

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

	2023 $'000	2022 $'000
Imputation credits	49,310	49,939
Franking credits	517,273	457,715

Group performance

for the year ended 30 June 2023

B6. Income taxes (continued)

Recognition and measurement

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

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

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

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

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

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

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

Key estimates and judgements

Recoverability of deferred tax assets

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

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

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

Pillar Two model rules

Internationally, jurisdictions are at various stages of implementing the Pillar Two model rules published by the Organisation for Economic Co-operation and Development including tax law that implements qualified domestic minimum top-up taxes described in those rules (Pillar Two legislation). Due to the complexities of the Pillar Two model rules and the uncertainties surrounding the impact of Pillar Two legislation on deferred taxes, no deferred tax assets or liabilities have been recognised under the Pillar Two model rules.

Operating assets and liabilities
for the year ended 30 June 2023

C. Operating assets and liabilities

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

C1. Trade and other receivables

	2023 $'000	2022 $'000
Trade receivables from contracts with customers	57,731	67,411
Allowance for expected credit losses	(45)	(125)
Goods and services tax	10,699	9,711
Other receivables	10,831	6,513
	79,216	83,510

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note D1: Financial risk management.

Recognition and measurement

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

C2. Inventories

	2023 $'000	2022 $'000
Raw materials	26,727	17,974
Finished goods	161,706	119,505
Goods in transit	5,007	2,565
Total inventories at the lower of cost and net realisable value	193,440	140,044

At year end $10,964,000 (2022: $12,227,000) was recognised as an expense in cost of sales for inventories written down or written off, with $3,458,000 (2022: $4,838,000) relating to Mataura Valley Milk (MVM) inventory.

Recognition and measurement

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

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

Key estimates and judgements

Estimation of net realisable value

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

Operating assets and liabilities

for the year ended 30 June 2023

C3. Trade and other payables

	2023 $'000	2022 $'000
Current		
Trade payables	54,719	83,107
Rebates and promotional allowances	104,707	99,771
Accrued charges	119,698	164,797
Employee entitlements	26,601	28,407
Customer contract liabilities	7,487	3,171
	313,212	379,253
Non-current		
Employee entitlements	423	416

Recognition and measurement

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

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

Customer contract liabilities are payments received in advance from customers.

Employee entitlements

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

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

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

C4. Property, plant and equipment

2023	Land $'000	Buildings $'000	Office & computer $'000	Furniture & fittings $'000	Leasehold improvements $'000	Plant & equipment $'000	Total $'000
Carrying amount 1 July 2022	8,763	50,183	2,360	733	3,541	174,967	240,547
Additions	–	67	398	34	3	16,026	16,528
Disposals	–	–	(31)	–	–	–	(31)
Depreciation	–	(1,290)	(1,012)	(177)	(1,017)	(8,111)	(11,607)
Net foreign currency exchange differences	–	–	19	(5)	(29)	(206)	(221)
Carrying amount 30 June 2023	8,763	48,960	1,734	585	2,498	182,676	245,216
Cost	8,763	51,427	5,071	1,331	6,043	207,287	279,922
Accumulated depreciation	–	(2,467)	(3,337)	(746)	(3,545)	(24,611)	(34,706)
Carrying amount 30 June 2023	8,763	48,960	1,734	585	2,498	182,676	245,216

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

Operating assets and liabilities

for the year ended 30 June 2023

C4. Property, plant and equipment (continued)

Recognition and measurement

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

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

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

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

Key estimates and judgements

Recoverability and determination of useful lives

If indicators of impairment are present, property, plant and equipment will be subject to impairment testing, which involves estimates and judgements made with respect to assessing the recoverability of the carrying amount of property, plant and equipment. Judgement is also involved in determining the useful lives of property, plant and equipment which are reviewed and adjusted, where required, annually.

C5. Investment property

The Kyvalley Dairy Group (Kyvalley) is the Group's long-term fresh milk supplier in Victoria. Kyvalley continues to operate the facility under a long-term operating lease and a long-term supply agreement. Under the agreement the Group has commenced an expansion and upgrade of the facility, to be subsidised by increased rent.

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

2023	Land $'000	Buildings $'000	Plant & equipment $'000	Work in progress $'000	Total $'000
Carrying amount 1 July 2022	498	4,568	9,177	1,420	15,663
Additions	–	–	–	3,535	3,535
Depreciation	–	(285)	(792)	–	(1,077)
Net foreign currency exchange differences	(15)	46	(220)	(5)	(194)
Carrying amount 30 June 2023	483	4,329	8,165	4,950	17,927
Cost	483	5,291	11,468	4,950	22,192
Accumulated depreciation	–	(962)	(3,303)	–	(4,265)
Carrying amount 30 June 2023	483	4,329	8,165	4,950	17,927

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

Profit arising from investment property

	2023 $'000	2022 $'000
Rental income	1,152	1,088

Operating assets and liabilities

for the year ended 30 June 2023

C5. Investment property (continued)

Future minimum rentals receivable under operating lease

	2023 $'000	2022 $'000
Not longer than 1 year	1,144	1,132
Longer than 1 year and not longer than 5 years	4,578	4,529
Longer than 5 years	16,975	16,797
Total undiscounted lease payments to be received	22,697	22,458

Measurement of fair value

The investment property was purchased in September 2020. The Group has not engaged an independent valuer for the current period. At reporting date, the Directors have determined a fair value of $18,600,000 based on a capitalisation of rent valuation approach, adopting a capitalisation rate of 8%. Directors consider that this calculation represents a reasonable approximation of fair value as at 30 June 2023.

Recognition and measurement

Investment property

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

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

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

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

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

Rental income

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

Key estimates and judgements

Recoverability and determination of useful lives

If indicators of impairment are present, investment property will be subject to impairment testing, which involves estimates and judgements made with respect to assessing the recoverability of the carrying amount of investment property. Judgement is also involved in determining the useful lives of investment property which are reviewed and adjusted, where required, annually.

C6. Intangible assets

2023	Patents $'000	Trade marks $'000	Software $'000	Goodwill $'000	Total $'000
Carrying amount 1 July 2022	883	3,905	2,066	102,468	109,322
Additions	68	90	180	–	338
Amortisation	(34)	–	(1,073)	–	(1,107)
Net foreign currency exchange differences	–	–	(13)	(121)	(134)
Carrying amount 30 June 2023	917	3,995	1,160	102,347	108,419
Cost	1,595	3,995	5,147	102,347	113,084
Accumulated amortisation and impairment	(678)	–	(3,987)	–	(4,665)
Carrying amount 30 June 2023	917	3,995	1,160	102,347	108,419

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

Trade marks are allocated to the following cash-generating units (CGUs) for the purpose of impairment testing: Australia and New Zealand $318,000 (2022: $304,000); China and Other Asia $3,503,000 (2022: $3,436,000); USA $174,000 (2022: $165,000).

During the year the total value of research and development costs expensed was $6,307,000 (2022: $4,389,000).

Recognition and measurement

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

Patents

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

Trade marks

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

Software

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

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

Goodwill

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

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

Operating assets and liabilities

for the year ended 30 June 2023

C6. Intangible assets (continued)

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

Goodwill allocation

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

	2023 $'000	2022 $'000
Australia and New Zealand	50,617	50,738
China	51,730	51,730
	102,347	102,468

Impairment testing of non-financial assets

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

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

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

Key estimates and judgements

Goodwill and intangibles

Judgements are made with respect to identifying and valuing intangible assets on acquisitions of new businesses and the allocation of goodwill to the cash-generating units.

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

C6. Intangible assets (continued)

Annual impairment testing as at 30 June 2023

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

As at 30 June 2023, the recoverable amount of the Group's CGUs exceeds their carrying amounts. The directors believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of these CGUs to be less than their carrying values. Based on this assessment, no impairment write downs are considered necessary.

Key assumptions

Gross margins

Gross margins are based on budgeted margins for FY24, and estimates for future years, adjusted where appropriate to account for expected future trading conditions. Consideration has been given to the growth profile of each CGU when forecasting future margin returns.

Discount rates

Discount rates (post-tax): 9.3% (2022: 8.9%)

Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC). The WACC considers both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors.

Revenue growth

Revenue projections have been constructed with reference to the FY24 budget and four-year forward plans and adjusted for recent performance trends across the regions (where necessary).

Terminal growth rate

A terminal growth rate of 2.0% (2022: 2.0%) has been used for future cash flow growth beyond the forecast period.

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

Sensitivity to change in assumptions

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

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

Operating assets and liabilities

for the year ended 30 June 2023

C7. Other financial assets

	2023 $'000	2022 $'000
Current		
Foreign currency forward contracts	1,536	–
Non-current		
Foreign currency forward contracts	113	–
Listed investment at fair value	71,965	135,260
	72,078	135,260

The listed investment is a 19.8% holding in shares in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on NZX and ASX) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the year (2022: $nil).

Shareholding in Synlait Milk Limited

Movements in the period

	Shares '000	Cost $'000	Share price at report date $	Market value $'000	Mark to market $'000
Balance 30 June 2022	43,353	288,781	3.12	135,260	(153,521)
Balance 30 June 2023	43,353	288,781	1.66	71,965	(216,816)
Fair value loss in period				(63,295)	

A fair value loss of $63,295,000 (2022: $22,543,000) was recognised in other comprehensive income for the year.

Recognition and measurement

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

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

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

C8. Other financial liabilities

	2023 $'000	2022 $'000
Current		
Foreign currency forward contracts	3,501	16,999
Non-current		
Foreign currency forward contracts	235	872

Recognition and measurement

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

Key estimates and judgements

Fair value measurement of foreign currency forward contracts

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

Financial risk and capital management

for the year ended 30 June 2023

D. Financial risk and capital management

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

D1. Financial risk management

Financial risk management objectives

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

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

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

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

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

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

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations.

	2023 $'000	2022 $'000
Maximum exposures to credit risk at balance date:		
Cash and term deposits (counterparty risk)	802,234	887,308
Trade receivables (customer credit risk)	57,731	67,411
Foreign currency forward contracts (counterparty risk)	1,649	–
	861,614	954,719

Counterparty risk

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

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

The Group does not have any other concentrations of counterparty credit risk.

D1. Financial risk management (continued)

Credit risk management (continued)

Customer credit risk

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

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

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

There are significant concentrations of business within the Group. In 2023, 28% of sales with credit terms were to three customers (2022: 23% of sales to three customers). There is no history of default for these customers.

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

Ageing of trade receivables at reporting date

	2023 $'000	2022 $'000
Not past due	54,827	48,009
Past due up to 90 days	2,460	16,612
Past due 91 to 180 days	–	2,339
Past due 181 days to one year	412	449
More than one year	32	2
	57,731	67,411
Allowance for expected credit losses	(45)	(125)
	57,686	67,286

The average credit period on sales is 14 days (2022: 15 days). No interest is charged on trade receivables outstanding.

Movement in impairment allowance for expected credit loss

	2023 $'000	2022 $'000
Balance at beginning of year	125	107
Amount (reversed)/charged to the Consolidated statement of comprehensive income	(78)	30
Provisions reversed and net foreign exchange differences	(2)	(12)
Balance at end of year	45	125

Market risk management

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings in financial instruments. The Group's activities expose it primarily to the financial risks of change in foreign currency exchange rates to the NZ dollar, and to interest rate risk. Prices charged by manufacturers (including pricing of whole and skim milk powders) are subject to movements in commodity milk pricing. The Group's holding of a listed investment also exposes it to equity price risk.

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

Financial risk and capital management

for the year ended 30 June 2023

D1. Financial risk management (continued)

Interest risk management

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

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

Fixed and variable rate exposure

	2023 $'000	2022 $'000
Fixed rate instruments		
Financial assets	450,000	500,000
Financial liabilities	(52,038)	(63,206)
	397,962	436,794
Variable rate instruments		
Financial assets	176,170	55,663
Financial liabilities	(30,000)	(30,000)
	146,170	25,663

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rate at the reporting date would have increased or decreased profit or loss by $1,462,000 (2022: $257,000). This analysis assumes all other variables remain the same.

Foreign currency risk management

The Group's exposure to foreign currency risk arises principally from its operations in Australia, the USA, and China; and the resultant movements in the currencies of those countries against the NZ dollar.

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

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

D1. Financial risk management (continued)

Foreign currency risk management (continued)

Hedging currency risk

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

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

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

	Carrying amount	Carrying amount		Notional amount NZ dollars		Weighted average exchange rate	
	2023 $'000	**2022 $'000**	**Term**	**2023 $'000**	**2022 $'000**	**2023 $'000**	**2022 $'000**
AUD							
Buy NZD/sell AUD	(1,041)	(110)	One year or less	72,232	66,632	0.8999	0.9005
EUR							
Buy AUD/sell EUR	(117)	–	One year or less	2,933	–	0.6287	–
USD							
Buy NZD/sell USD	3,122	17,109	One year or less	173,574	266,570	0.6222	0.6640
Buy NZD/sell USD	123	872	More than one year	43,371	40,950	0.6110	0.6349

The carrying amount of foreign currency forward contracts is recognised in Other financial assets (refer to Note C7) and Other financial liabilities (refer to Note C8).

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

Expressed in NZ dollars, the table below indicates exposure and sensitivity to movements in exchange rates on the pre-tax equity of the Group based on closing exchange rates as at 30 June 2023, applied to the Group's foreign currency forward contracts at 30 June 2023. Exchange rates and foreign currency forward contracts will fluctuate over the course of normal operations.

	Impact on pre-tax equity gain or (loss)	
2023	**$'000**	**$'000**
Movement on exchange rate	**+10%**	**–10%**
US Dollar	(24,011)	18,933
AU Dollar	(7,777)	6,358
Euro	305	(291)

Financial risk and capital management

for the year ended 30 June 2023

D1. Financial risk management (continued)

Foreign currency risk management (continued)

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

The analysis is performed consistently from year to year.

2023	Net exposure on reporting date $'000	Impact on pre-tax profit or (loss) $'000	Impact on pre-tax profit or (loss) $'000
Movement on exchange rate	–	+10%	–10%
AU Dollar	(1,631)	(181)	148
US Dollar	62,608	6,956	(5,692)
Chinese Yuan Renminbi	(131,333)	(14,593)	11,939

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

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

Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2023	2022	2023	2022
AU Dollar	0.9153	0.9379	0.9191	0.9058
US Dollar	0.6168	0.6813	0.6079	0.6248
Chinese Yuan Renminbi	4.2856	4.3958	4.4066	4.1860

Equity price risk

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

The Group monitors this risk exposure by comparing the movement in the quoted share price of this long-term investment against movements in the S&P/NZX 50 index over the same period.

As at 30 June 2023, the exposure to the listed investment at FVOCI was $71,965,000 (2022: $135,260,000). A 10% increase or decrease in the share price of this listed investment would result in an increase or decrease of $7,197,000 (2022: $13,526,000) in the fair value revaluation reserve through other comprehensive income, with no effect on profit or loss.

Liquidity risk management

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

D1. Financial risk management (continued)

Liquidity risk management (continued)

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

Loans and borrowings within the Group are specific to the operations of Mataura Valley Milk Limited (refer to Note D6). No other entities within the Group have borrowings (2022: $nil).

Contractual maturities of financial liabilities

The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements are set out below. No interest is payable on trade and other payables.

		Contractual cash flows					
2023	Carrying amounts $'000	Total $'000	6 months or less $'000	6 to 12 months $'000	1 to 2 years $'000	2 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities							
Secured bank loans	45,000	47,472	16,278	1,025	30,169	–	–
Unsecured loan from MVM's non-controlling shareholder	37,038	42,021	–	–	–	42,021	–
Lease liabilities	19,491	21,867	2,410	2,421	4,442	8,526	4,068
Trade and other payables - excluding employee entitlements and customer contract liabilities	279,124	279,124	279,124	–	–	–	–
Derivative financial liabilities							
FX hedging contracts:							
Carrying amount at fair value	3,736						
Outflow		217,136	85,945	104,893	26,298	–	–
Inflow		(213,400)	(83,789)	(103,548)	(26,063)	–	–
	384,389	394,220	299,968	4,791	34,846	50,547	4,068

2022	Carrying amounts $'000	Total $'000	6 months or less $'000	6 to 12 months $'000	1 to 2 years $'000	2 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities							
Secured bank loans	57,000	59,377	27,662	538	1,088	30,089	–
Unsecured loan from MVM's non-controlling shareholder	50,000	55,834	–	13,794	–	–	42,040
Lease liabilities	17,352	19,249	2,075	1,603	2,578	7,116	5,877
Trade and other payables - excluding employee entitlements and customer contract liabilities	347,675	347,675	347,675	–	–	–	–
Derivative financial liabilities							
FX hedging contracts:							
Carrying amount at fair value	17,871						
Outflow		392,023	159,206	190,996	41,821	–	–
Inflow		(374,152)	(148,752)	(184,450)	(40,950)	–	–
	489,898	500,006	387,866	22,481	4,537	37,205	47,917

Financial risk and capital management

for the year ended 30 June 2023

D1. Financial risk management (continued)

Change in liabilities arising from financing activities

	2022 $'000	Cash flow $'000	Non-cash $'000	2023 $'000
Secured bank loans	57,000	(12,000)	–	45,000
Unsecured loan from MVM's non-controlling shareholder	50,000	(13,794)	832	37,038
Lease liabilities	17,352	(4,218)	6,356	19,490
	124,352	(30,012)	7,188	101,528

Carrying amounts versus fair value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated statement of financial position, are as follows:

		2023		2022	
	Hierarchy level	Carrying amount $'000	Fair Value $'000	Carrying amount $'000	Fair Value $'000
Cash and term deposits		802,234	802,234	887,308	887,308
Trade and other receivables		79,216	79,216	83,510	83,510
Foreign currency forward contract assets	2	1,649	1,649	–	–
Listed investment	1	71,965	71,965	135,260	135,260
Secured bank loans	2	(45,000)	(42,924)	(57,000)	(54,861)
Unsecured loan from MVM's non-controlling shareholder	2	(37,038)	(30,197)	(50,000)	(45,113)
Trade and other payables - excluding employee entitlements and customer contract liabilities		(279,124)	(279,124)	(347,675)	(347,675)
Foreign currency forward contract liabilities	2	(3,736)	(3,736)	(17,871)	(17,871)
		590,166	599,083	633,532	640,558

Fair value hierarchy

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

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

Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the Consolidated statement of financial position at fair value.

Estimation of fair value

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

- Listed investment - closing share price on NZX.
- Foreign currency forward contracts - calculated by reference to current forward exchange rates for contracts with similar maturity profiles, adjusted to reflect the credit risk of the various counterparties.
- Loans and borrowings - present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date.
- Cash and term deposits, trade and other receivables and payables - carrying amount approximates fair value.

D2. Capital management

The Group's objective when managing its capital is to safeguard the Group's ability to continue as a going concern and to continue to generate value for stakeholders. The Group is not subject to externally imposed capital requirements, and currently has no debt, other than loans and borrowings specific to Mataura Valley Milk Limited (refer to Note D6).

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

The Board regularly assesses the Group's balance sheet position when considering how to deliver the optimum structure to enhance shareholder value in line with the Company's strategy and capital allocation framework. In accordance with the Company's Capital Allocation Framework, the Group has decided to prioritise investment in growth opportunities (focused on Supply Chain transformation) and balance sheet strength, ahead of returning further capital to shareholders as at 30 June 2023, but will continue to review this on a regular basis.

During the year, the Group undertook a capital return to shareholders through an on-market share buyback of $149,057,000 (2022: $nil). The buyback commenced in November 2022 and concluded in March 2023. Shares bought back were cancelled on acquisition. (Refer to Note D7).

D3. Cash and term deposits

	2023 $'000	2022 $'000
Cash at banks and on hand	176,064	331,646
Short-term deposits	176,170	105,662
Cash and short-term deposits	352,234	437,308
Other current term deposits	450,000	450,000
Cash and term deposits	802,234	887,308

Expressed in the relevant currency, cash at banks and on hand includes:

	2023 '000	2022 '000
AU dollars	27,789	84,460
US dollars	40,154	54,709
Chinese Yuan Renminbi	341,872	229,639

Bank balances and cash comprise cash held by the Group. Cash and short-term deposits earn interest at floating rates based on daily bank deposit rates. The carrying value of cash assets and term deposits approximates their fair value.

Other current term deposits comprise term deposits with a maturity greater than three months and less than twelve months, having an average maturity of eight months and a weighted average interest rate of 5.57% per annum.

Term deposits are presented as cash equivalents in the Consolidated statement of cash flows if they have a maturity of three months or less and are readily convertible to known amounts of cash with no significant risk of changes in value.

For the purposes of the Consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2023 $'000	2022 $'000
Cash at banks and on hand	176,064	331,646
Short-term deposits	176,170	105,662
Cash and short-term deposits	352,234	437,308

Financial risk and capital management

for the year ended 30 June 2023

D4. Cash flow information

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

	2023 $'000	2022 $'000
Net profit for the year	144,841	114,741
Adjustments for non-cash items:		
Depreciation and amortisation	18,197	18,929
Share-based payments	17,132	11,701
Net foreign exchange gain	(1,917)	(8,787)
Changes in working capital:		
Trade and other receivables	4,294	(3,562)
Prepayments	10,912	(20,852)
Inventories	(53,396)	(19,679)
Trade and other payables	(71,633)	69,504
Tax balances	42,853	41,805
Net cash inflow from operating activities	111,283	203,800

D5. Leases

Group as lessee

The Group has entered into leases for office and industrial premises, motor vehicles and equipment. There are no financial restrictions placed upon Group entities by entering into these leases. The Group has the option, under some leases, to lease the assets for additional terms. All lease contracts with options to renew contain market review clauses in the event that an option to renew is exercised.

Right-of-use assets

Carrying amounts of right-of-use assets recognised and movements during the period:

2023	Leased property $'000	Office & computer $'000	Plant & equipment $'000	Total $'000
Carrying amount 1 July 2022	15,334	102	594	16,030
Additions	5,228	–	708	5,936
Depreciation	(3,890)	(46)	(470)	(4,406)
Net foreign currency exchange differences	(201)	–	(10)	(211)
Carrying amount 30 June 2023	16,471	56	822	17,349
Cost	28,789	189	1,978	30,956
Accumulated depreciation	(12,318)	(133)	(1,156)	(13,607)
Carrying amount 30 June 2023	16,471	56	822	17,349

2022	Leased property $'000	Office & computer $'000	Plant & equipment $'000	Total $'000
Carrying amount 1 July 2021	15,039	101	162	15,302
Acquisition of subsidiary	88	17	537	642
Additions	3,308	24	289	3,621
Depreciation	(3,688)	(41)	(396)	(4,125)
Net foreign currency exchange differences	587	1	2	590
Carrying amount 30 June 2022	15,334	102	594	16,030
Cost	23,684	188	1,297	25,169
Accumulated depreciation	(8,350)	(86)	(703)	(9,139)
Carrying amount 30 June 2022	15,334	102	594	16,030

Financial risk and capital management

for the year ended 30 June 2023

D5. Leases (continued)

Lease liabilities

Carrying amounts of lease liabilities and movements during the period:

	2023 $'000	2022 $'000
Balance at beginning of the year	17,352	16,498
Acquisition of subsidiary	–	642
Additions	5,936	3,621
Accretion of interest	640	592
Payments	(4,218)	(4,681)
Net foreign currency exchange differences	(220)	680
Balance at end of the year	19,490	17,352
Current	4,181	3,128
Non-current	15,309	14,224
	19,490	17,352

Amounts recognised in profit or loss

	2023 $'000	2022 $'000
Depreciation expense - right-of-use assets	4,406	4,125
Interest expense - lease liabilities	640	592
Expenses relating to short-term leases (included in administrative and other expenses)	978	461
Expenses relating to low-value assets (included in administrative and other expenses)	33	5
Total amount recognised in profit or loss	6,057	5,183

Cash flows for leases

	2023 $'000	2022 $'000
Total cash outflows:		
Lease interest	640	592
Payment of lease principal	3,578	4,089
	4,218	4,681
Non-cash additions to right-of-use assets and lease liabilities	5,936	3,621

D5. Leases (continued)

Recognition and measurement

A right-of-use asset and a lease liability are recognised at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost, less accumulated depreciation as the asset is written off over the term of the lease, impairment losses, and any adjustments for remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments payable from the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised.

Key estimates and judgements

Determination of the lease term

Judgement is applied to determine the lease term for those lease contracts that include renewal or termination options. This assessment impacts the lease term, which may significantly affect the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term consideration is given to all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Group as lessor

Refer to Note C5: Investment property

Financial risk and capital management

for the year ended 30 June 2023

D6. Loans and borrowings

	2023 $'000	2022 $'000
Current		
Secured:		
Bank loans	15,000	27,000
Unsecured:		
Loan from MVM's non-controlling shareholder	–	13,794
	15,000	40,794
Non-current		
Secured:		
Bank loan	30,000	30,000
Unsecured:		
Loan from MVM's non-controlling shareholder	37,038	36,206
	67,038	66,206

All of the loans and borrowings are specific to Mataura Valley Milk Limited (MVM) and are interest bearing.

The bank loans are secured against MVM's property at Pease Street, Gore, New Zealand, and are subject to compliance with financial covenants requiring the maintenance of specified financial ratios, related solely to MVM. All borrowing covenant ratios and limits have been complied with as at 30 June 2023.

The non-current bank loan matures in July 2024. The interest rate applicable as at 30 June 2023 was 6.85%.

The average interest rate applicable at 30 June 2023 for the current bank loans was 6.37%.

Finance facilities available to MVM:

- Total bank debt facilities of $75 million, of which $45 million was drawn as at 30 June 2023.
- A performance guarantee facility of $10 million, fully drawn as at 30 June 2023.

The unsecured subordinated loan is provided by MVM's non-controlling shareholder. The non-current loan has an initial term through to FY27, to be repaid thereafter at a time to be agreed by the shareholder lenders. The current loan was repaid during the year. The interest rate applicable as at 30 June 2023 was 2.56%.

Other Group entities have access to bank guarantee facilities totalling $1,783,000 of which $1,246,000 was drawn as at 30 June 2023.

Recognition and measurement

Interest bearing loans and borrowings are initially recognised at fair value at transaction date, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

D7. Share capital

	2023		2022	
	Number of shares	Share capital $'000	Number of shares	Share capital $'000
Movements in contributed equity:				
Fully paid ordinary shares:				
Balance at beginning of year	743,656,528	149,157	743,410,790	149,121
Movements in the period:				
Vesting of time-based rights	–	–	201,636	–
Gift shares	–	–	29,778	–
Share match programme	–	–	6,038	45
Vesting of matching share rights	–	–	8,286	–
Share issue costs	–	–	–	(9)
Share buyback	(21,680,314)	(149,057)	–	–
	(21,680,314)	(149,057)	245,738	36
Balance at end of year	721,976,214	100	743,656,528	149,157

Share buyback

When the Company re-acquires its own ordinary shares as the result of a share buyback, those shares are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs is recognised directly in equity. On 29 August 2022, the Company announced an on-market buyback of shares with an aggregate value of up to $150 million, which commenced on 7 November 2022. From 7 November 2022 to 17 March 2023 the Company purchased and cancelled 21,680,314 ordinary shares at a total cost of $149,057,000 including brokerage costs at an average price of $6.87 excluding brokerage costs.

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

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

Financial risk and capital management

for the year ended 30 June 2023

D8. Nature and purpose of reserves

Employee equity settled payments reserve

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

Fair value revaluation reserve

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

Foreign currency translation reserve

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

Treasury shares reserve

The treasury shares reserve comprises the cost, net of any tax effects, of the Company's shares purchased and held by the trustee of the a2MC Group Employee Share Trust to be available solely for participants in Group employee share plans. When treasury shares subsequently vest to employees under employee share plans, the carrying value of the vested shares is transferred to the employee equity settled payments reserve.

	2023		2022	
	Number of shares	$'000	Number of shares	$'000
Movements in treasury shares reserve:				
Balance at beginning of year	2,372,842	15,798	362,823	3,773
Movements in the period:				
On-market purchases	–	–	2,200,000	13,306
Vesting of matching share rights	(14,011)	(93)	–	–
Vesting of time-based rights	(261,505)	(1,741)	(178,526)	(1,189)
Gift shares	(54,378)	(362)	(11,455)	(92)
	(329,894)	(2,196)	2,010,019	12,025
Balance at end of year	2,042,948	13,602	2,372,842	15,798

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss when the associated hedged transactions are recognised in profit or loss.

Movements on these reserve accounts are set out in the Consolidated statement of changes in equity.

D9. Capital expenditure commitments

	2023 $'000	2022 $'000
Contracted but not yet provided for and payable		
Property, plant and equipment	21,277	5,575

D10. Contingent liabilities

On 6 October 2021, the Company announced that group proceedings had been filed in the Supreme Court of Victoria by Slater & Gordon Lawyers, which named the Company as the defendant. The proceeding relates to the period from 19 August 2020 to 9 May 2021 (Relevant Period) and makes allegations that the Company engaged in misleading and deceptive conduct and breached its disclosure obligations by failing to disclose certain information to the market. The claim filed by Slater & Gordon Lawyers is said to be brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the Australian Securities Exchange (ASX) or NZX Main Board (NZSX) between 19 August 2020 and 9 May 2021 (inclusive).

On 24 November 2021, the Company was served with a representative proceeding filed in the Supreme Court of Victoria by Shine Lawyers, which names the Company as the defendant. The proceeding makes allegations which are broadly similar to those advanced by the class action proceeding filed by Slater & Gordon Lawyers on 5 October 2021. The claim filed by Shine Lawyers is said to be brought on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZSX: (1) prior to 19 August 2020, and retained those shares until a date after 28 September 2020; or (2) during the Relevant Period.

On 14 June 2022, the Supreme Court of Victoria approved the proposal to consolidate the proceedings filed by Slater & Gordon Lawyers and Shine Lawyers (the Australian Proceedings). The consolidated claim is brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the ASX or the NZSX: (1) during the Relevant Period; and (2) prior to 19 August 2020 and retained those shares until a date after 28 September 2020. The claim makes allegations under both Australian and New Zealand law. On 28 November 2022, the Supreme Court of Victoria ruled that it has jurisdiction to hear and determine the claims brought under New Zealand law.

On 18 May 2022, the Company announced that a representative proceeding had been filed in the High Court of New Zealand which names the Company as the defendant (the New Zealand Proceeding). The New Zealand Proceeding, filed by Thorn Law and funded by CHC Investment Fund III Pty Limited relates to the same period (19 August 2020 to 9 May 2021) and makes allegations under New Zealand law only which are substantially the same as those advanced in the Australian Proceedings. The claim is commenced on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZSX: (1) during the Relevant Period; and (2) prior to the Relevant Period and continued to hold some or all of those shares for part or all of the Relevant Period.

The Company filed an interlocutory application for a stay of the New Zealand Proceeding under the Trans-Tasman Proceedings Act 2010 (NZ) on 23 June 2022. On 23 January 2023, the Auckland High Court granted the Company's application for a stay of the New Zealand Proceeding, pending judgment on liability or a final settlement of the Australia Proceeding, whichever occurs first.

The Company considers that it has at all times complied with its disclosure obligations, denies any liability and will vigorously defend the proceedings. The Company filed its defence in the Australian Proceedings on 8 November 2022. The Company has not filed a defence in the New Zealand Proceeding, which is stayed.

As at 30 June 2023, a date for the next case management conference in the Australian Proceedings has not been set by the Court.

The claims of group members have not yet been and are not required to be quantified. Based on the current status of the Australian Proceedings and the New Zealand Proceedings, it is not practicable to provide: (a) an estimate of the financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; or (c) the possibility of any reimbursement.

Group structure

for the year ended 30 June 2023

E. Group structure

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

E1. Consolidated entities

Details of the Company's subsidiaries at 30 June 2023 are as follows:

	Parties to Deed of Cross Guarantee (note E3)*	Principal place of business	Proportion of ownership interest 2023	2022
Parent entity:				
The a2 Milk Company Limited	✓	New Zealand	–	–
Subsidiaries:				
The a2 Milk Company (Export) Limited	–	New Zealand	100%	100%
a2 Holdings UK Limited	–	New Zealand	100%	100%
a2 Infant Nutrition Limited	✓ #	New Zealand	100%	100%
The a2 Milk Company (New Zealand) Limited	–	New Zealand	100%	100%
Mataura Valley Milk Limited	–	New Zealand	75%	75%
a2 Australian Investments Pty. Limited	✓	Australia	100%	100%
a2 Botany Pty Ltd	–	Australia	100%	100%
The a2 Milk Company (Australia) Pty Ltd	✓	Australia	100%	100%
a2 Exports Australia Pty Limited	✓	Australia	100%	100%
a2 Infant Nutrition Australia Pty Ltd	✓	Australia	100%	100%
The a2 Milk Company (Nutrition) Pty Ltd	✓	Australia	100%	100%
a2MC Group Employee Share Trust	–	Australia	100%	100%
The a2 Milk Company Limited	–	UK	100%	100%
The a2 Milk Company LLC	–	USA	100%	100%
The a2 Milk Company	–	USA	100%	100%
The a2 Milk Company Limited	–	Canada	100%	100%
a2 Infant Nutrition (Shanghai) Co., Ltd	–	China	100%	100%
The a2 Milk Company (Singapore) Pte. Ltd	–	Singapore	100%	100%

* Each party to the Deed of Cross Guarantee is a member of the 'closed group' under the *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

a2 Infant Nutrition Limited is the subject of an ASIC declaration under section 601 CK(7) of the *Corporations Act 2001* (Cth, Australia), providing relief from the requirement to prepare and lodge an audited financial report in Australia.

There were no entities over which the Company gained or lost control during the year.

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

Recognition and measurement

Subsidiaries

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

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

Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in preparing the consolidated financial statements.

E2. Business combinations

During the year ended 30 June 2023

There were no business combinations during the year ended 30 June 2023.

During the year ended 30 June 2022

Acquisition of subsidiary: Mataura Valley Milk Limited

On 30 July 2021, The a2 Milk Company Limited (a2MC) acquired a 75% controlling interest in Mataura Valley Milk Limited (MVM), a dairy nutrition business, located in Southland, New Zealand.

Fair value of net identifiable assets acquired, goodwill and total cash outflow

	$'000
Net identifiable assets acquired	90,312
Less: non-controlling interests	(22,578)
a2MC's share of net identifiable assets acquired	67,734
Loan payable to a2MC in net assets acquired	106,694
	174,428
Goodwill	94,078
Total cash outflow	268,506

Total goodwill of $94,078,000 was allocated to the following CGUs: Australia and New Zealand: $42,348,000; China $51,730,000. The net outflow of cash on acquisition of $213,746,000 consisted of the total cash outflow of $268,506,000, less cash balances acquired of $54,760,000.

Recognition and measurement

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Acquisition-related costs are expensed as incurred and included in profit or loss as administrative and other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Group structure

for the year ended 30 June 2023

E3. Deed of cross guarantee

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

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

A Consolidated statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are parties to the Deed of Cross Guarantee (each party being a member of the closed group as listed in Note E1), after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2023 are set out as follows:

Consolidated statement of comprehensive income and retained earnings for the year ended 30 June 2023

	2023 $'000	2022 $'000
Revenue	1,400,813	1,273,571
Expenses	(1,158,508)	(1,058,365)
Finance income (net)	30,874	8,140
Profit before tax	273,179	223,346
Income tax expense	(69,032)	(59,291)
Profit after tax	204,147	164,055
Other comprehensive income	6,929	(654)
Total comprehensive income for the year	211,076	163,401
Retained earnings at beginning of the year	1,212,969	1,048,914
Transfers to and from reserves	(6,929)	654
Retained earnings at end of year	1,417,116	1,212,969

E3. Deed of cross guarantee (continued)

Consolidated statement of financial position as at 30 June 2023

	2023 $'000	2022 $'000
Assets		
Current assets		
Cash and short-term deposits	713,042	797,296
Trade and other receivables	192,998	153,906
Prepayments	40,009	49,229
Inventories	164,112	95,678
Other financial assets	1,291	–
Income tax receivable	–	12,648
Total current assets	1,111,452	1,108,757
Non-current assets		
Property, plant and equipment	23,251	15,802
Right-of-use assets	10,967	12,460
Investment property	17,927	15,663
Intangible assets	13,723	14,441
Other financial assets	606,522	565,047
Deferred tax assets	20,892	18,424
Total non-current assets	693,282	641,837
Total assets	1,804,734	1,750,594
Liabilities		
Current liabilities		
Trade and other payables	286,230	338,987
Lease liabilities	2,141	832
Other financial liabilities	6,524	12,553
Income tax payable	35,220	–
Total current liabilities	330,115	352,372
Non-current liabilities		
Trade and other payables	421	416
Lease liabilities	235	12,517
Other financial liabilities	10,396	872
Total non-current liabilities	11,052	13,805
Total liabilities	341,167	366,177
Net assets	1,463,567	1,384,417
Equity		
Share capital	100	149,157
Retained earnings	1,417,116	1,212,969
Reserves	46,351	22,291
Total equity	1,463,567	1,384,417

Other disclosures

for the year ended 30 June 2023

F. Other disclosures

F1. Related party transactions

Ultimate Parent

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

Key management personnel

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

Key management personnel compensation:

	2023 $'000	2022 $'000
Short-term employee benefits	9,160	6,802
Other long-term benefits	–	1
Share-based payments	6,560	6,358
	15,720	13,161

Other than non-executive directors, key management personnel in FY23 include the following senior executives:

Managing Director and CEO

Chief Financial Officer (from 18 October 2022)

Interim Chief Financial Officer (to 17 October 2022)

Chief Executive, Greater China

Transactions with key management personnel and their related parties

During the year there were no related party transactions with key management personnel or their related parties (2022: $nil).

Loans to key management personnel and their related parties

No loans were outstanding or made to key management personnel and their related parties at any time during the 2023 and 2022 financial years.

F2. Share-based payments

Long-term incentives (LTI)

The LTI plan is designed to retain and motivate senior management to achieve the Group's long-term strategic goals by providing rewards that align the interests of management with shareholders.

During the period the Board authorised the issue of 2,472,270 performance rights to senior management under the LTI plan.

The performance rights vest subject to:

- Continuing employment; and
- Achieving the following performance hurdles over the performance periods:

			Revenue CAGR hurdles		
Performance rights grants:	**Performance period**	**EPS CAGR**	**50% vest**	**85% vest**	**100% vest**
FY22 plan					
5,000 rights	3 years to 30 June 2024	20%	6%	8%	10%
FY23 plan					
2,467,270 rights	3 years to 30 June 2025	10%	6%	8%	10%

Both the minimum EPS CAGR (compound annual growth in diluted earnings per share) and minimum Revenue CAGR (compound annual growth in revenue) must be achieved for any vesting of performance rights. The minimum vesting proportion is 50%; thereafter, vesting is on a straight-line basis.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and are subject to adjustment to remove the impact of material items as the Board may determine in its absolute discretion to normalise results (up or down) to more appropriately reflect underlying performance. Without limitation, adjustments may be made to exclude the impact of unusual or one-off items, discontinued operations, acquisitions and disposals, and capital management.

No amount is payable upon vesting of the performance rights and conversion to shares. Each exercised right is an entitlement to one fully paid ordinary share in the Company.

Fair value of performance rights

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

Fair value of performance rights granted during the period and assumptions

Grant date	**30 Sept 22**	**6 Dec 22**	**13 June 23**
Fair value at measurement date	$6.12	$6.77	$5.63
Share price at grant date	$6.12	$6.77	$5.63
Performance rights life	2.9 years	2.7 years	2.2 years

Other disclosures

for the year ended 30 June 2023

F2. Share-based payments (continued)

Performance rights granted in previous years

In FY22 performance rights were issued in two tranches to accommodate the deferral of the LTI programme in FY21. They have differing performance periods and performance hurdles as set out below.

The performance rights vest subject to:

– Continuing employment; and
– Achieving the following performance hurdles over the performance periods:

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

Both the minimum EPS CAGR (compound annual growth in diluted earnings per share) and minimum Revenue CAGR (compound annual growth in normalised sales) must be achieved for any vesting of performance rights. The minimum vesting proportion is 50%; thereafter, vesting is on a straight-line basis.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and are subject to adjustment to remove the impact of material items as the Board may determine in its absolute discretion to normalise results (up or down) to more appropriately reflect underlying performance. Without limitation, adjustments may be made to exclude the impact of unusual or one-off items, discontinued operations, acquisitions and disposals, and capital management.

No amount is payable upon vesting of the performance rights and conversion to shares. Each exercised right is an entitlement to one fully paid ordinary share in the Company.

The average fair value of the Tranche 1 and Tranche 2 awards at grant date was $7.18.

LTI outstanding as at 30 June 2023	**Number**	**Grant Dates**	**Vesting Dates**	**Expiry Dates**
Performance rights – FY22 grants Tranche 1 (FY21 plan)	1,752,286	22-Oct-21	21-Aug-23	21-Aug-23
Performance rights – FY22 grants Tranche 2 (FY22 plan)	2,080,611	22-Oct-21	21-Aug-24	21-Aug-24
Performance rights – FY23 grants	2,261,612	30-Sep-22	21-Aug-25	21-Aug-25
	6,094,509			

F2. Share-based payments (continued)

	Number 2023	Number 2022
Performance rights movements:		
Outstanding at the beginning of the year	4,690,064	881,060
Forfeited during the period	(1,067,825)	(546,310)
Granted during the period	2,472,270	4,355,314
Vested during the period	–	–
Outstanding at the end of the year	6,094,509	4,690,064

The weighted average remaining contractual life of performance rights is 1.2 years (2022: 1.5 years)

	Number 2023	Number 2022
Time-based rights movements:		
Outstanding at the beginning of the year	261,505	685,336
Forfeited during the period	–	(3,080)
Granted during the period	–	–
Vested during the period	(261,505)	(420,751)
Outstanding at the end of the year	–	261,505

Other employee equity schemes

In the period, employees not participating in the LTI plan were invited to participate in a gift offer scheme in which employees each received Company shares to the value of approximately A$1,000.

Amounts recognised in the Consolidated statement of comprehensive income

During the year ended 30 June 2023, a $17,132,000 expense was recognised in the Consolidated statement of comprehensive income for equity settled share-based payment awards (2022: $11,701,000).

Recognition and measurement

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

Other disclosures

for the year ended 30 June 2023

F3. Auditor's remuneration

The auditor of the Company is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young for:	2023 $'000	2022 $'000
Fees to Ernst & Young (Australia):		
Fees for auditing the statutory financial statements of the parent covering the Group and auditing the statutory financial statements of any controlled entities	1,400	1,586
Fees for other assurance and agreed-upon-procedures services	177	118
Fees for other services:		
Market research[1]	178	240
Total fees to Ernst & Young (Australia)	1,755	1,944
Fees to other overseas member firms of Ernst & Young:		
Total fees to other overseas member firms of Ernst & Young for local statutory audits	115	109
	1,870	2,053

1 The market research reports prepared are solely for the Group's internal use and contents of these reports are not subject to Ernst & Young audit.

F4. Subsequent events

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

Company disclosures

For the year ended 30 June 2023

Contents

1. Substantial product holders

The shares of the Company are quoted on NZX, ASX and Cboe Australia.

According to substantial product holder notices and the Company's records, the following persons were substantial product holders in respect of the ordinary shares of the Company as at 30 June 2023 (such disclosure being required by the Financial Markets Conduct Act 2013 (NZ)) and as at 1 August 2023 (such disclosure being required by the ASX Listing Rules):

	As at 30 June 2023		As at 1 August 2023	
Name	**Number of ordinary shares in the Company in which a Relevant Interest is held**	**% of ordinary shares held[1]**	**Number of ordinary shares in the Company in which a Relevant Interest is held**	**% of ordinary shares held[1]**
Perpetual Limited and subsidiaries	51,749,373	7.167	51,749,373	7.167
The Goldman Sachs Group, Inc	38,857,882	5.382	38,857,882	5.382

1 Based on issue share capital of 721,976,214 as at 30 June 2023 and 1 August 2023.

The total number of voting shares on issue as at 30 June 2023 was 721,976,214 and the total number of voting shares on issue as at 1 August 2023 was 721,976,214.

2. Voting rights

During the period 1 July 2022 to 30 June 2023, each fully paid ordinary share of the Company gave the holder the right to cast one vote per shareholder on a show of hands and one vote per share on a poll on any resolution. All votes cast at shareholder meetings are by way of poll.

Management commentary
(no financial statements)

3. Twenty largest fully paid equity security holders

The names of the 20 largest holders of ordinary shares in the Company as at 1 August 2023 are listed below:

Rank	Investor name	Number of shares	% Issued capital
1	HSBC Custody Nominees (Australia) Limited	102,193,637	14.15
2	J P Morgan Nominees Australia Pty Limited	42,678,694	5.91
3	Citicorp Nominees Pty Limited	41,070,224	5.69
4	Bnp Paribas Nominees NZ Limited Bpss40*	32,248,620	4.47
5	Tea Custodians Limited*	25,502,735	3.53
6	HSBC Nominees (New Zealand) Limited*	22,757,500	3.15
7	HSBC Nominees (New Zealand) Limited*	22,307,717	3.09
8	Citibank Nominees (Nz) Ltd*	20,759,419	2.88
9	Accident Compensation Corporation*	19,790,745	2.74
10	JPMORGAN Chase Bank*	19,756,171	2.74
11	New Zealand Superannuation Fund Nominees Limited*	15,948,875	2.21
12	New Zealand Depository Nominee	15,850,202	2.20
13	National Nominees Limited	13,975,179	1.94
14	Bnp Paribas Noms Pty Ltd	10,635,729	1.47
15	Premier Nominees Limited*	8,734,699	1.21
16	HSBC Custody Nominees (Australia) Limited Gsco Eca	7,146,025	0.99
17	JBWERE (Nz) Nominees Limited	6,784,269	0.94
18	Public Trust*	6,316,029	0.87
19	HSBC Custody Nominees (Australia) Limited	6,000,490	0.83
20	Custodial Services Limited	4,931,622	0.68
	Total	**445,388,581**	**62.00**

* These shares are held through New Zealand Central Securities Depository Limited (NZCSD), a depository system which allows electronic trading of securities to members.

Management commentary
(no financial statements)

4. Spread of security holders as at 1 August 2023 and number of holders

a) Fully paid ordinary shareholders

Size of Shareholding	Number of holders	Number of shares	%
1 – 1,000	54,584	19,418,165	65.39
1,001 – 5,000	21,705	52,693,474	26.00
5,001 – 10,000	4,146	30,773,605	4.97
10,001 – 100,000	2,861	68,990,542	3.43
100,001 shares or more	174	550,100,428	0.21
Total	**83,470**	**721,976,214**	**100**

As at 1 August 2023, and based on the closing market price on that date, the number of holders with 181 or less ordinary shares (being less than a minimum holding of NZ$1,000 under the NZX Listing Rules) was 1,718 and the number of holders with 97 or less ordinary shares (being less than a marketable parcel of A$500 under the ASX Listing Rules) was 10,511.

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

Size of holding	Number of Holders	Number of rights	%
1 – 5,000	1	4,234	0.069
5,001 – 10,000	5	38,916	0.639
10,001 – 100,000	39	1,583,045	25.975
100,001 performance rights or more	15	4,468,314	73.317
Total	**60**	**6,094,509**	**100**

Management commentary
(no financial statements)

5. Directors' relevant interests and share dealings

Directors of the Company reported the following acquisitions and disposals of relevant interests in financial products of the Company during the period 1 July 2022 to 30 June 2023:

Registered holder	Beneficial/ Non-beneficial	Acquired/ (Disposed)	Class of financial product	Date	Consideration paid/(received) NZD
David Bortolussi					
DMZSK Super Pty Ltd	Beneficial	501,180	Performance Rights	30 September 2022	N/A
DMZSK Pty Ltd	Beneficial	(155,641)	Time-based rights	2 February 2023	N/A
DMZSK Pty Ltd[1]	Beneficial	155,641	Ordinary shares	2 February 2023	N/A
Pip Greenwood					
The New Zealand Guardian Trust Company Limited as the supervisor for Craigs KiwiSaver Scheme	Beneficial	30,000	Ordinary shares	29 November 2022	187,905.90

1 Reflects the issue of ordinary shares to David Bortolussi following the vesting and automatic exercise of time-based rights.

Directors of the Company as at 30 June 2023 held the following relevant interests in the financial products of the Company as at that date:

Registered holder	Beneficial/Non-beneficial	Balance held No.	Class of financial product
David Hearn			
David Lovat Gordon Hearn	Beneficial	1,055,000	Ordinary shares
David Bortolussi			
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	311,283	Ordinary shares
DMZSK Pty Ltd as trustee of D&M Bortolussi Family Trust	Beneficial	969,483	Performance rights
DMZSK Super Pty Ltd as trustee for D&M Bortolussi Superannuation Fund	Beneficial	501,180	Performance rights
Warwick Every-Burns			
Warwick Every-Burns as trustee of Wake Super Fund	Beneficial	75,000	Ordinary shares
Kathryn Every-Burns	Beneficial	25,000	Ordinary shares
Pip Greenwood			
The New Zealand Guardian Trust Company Limited as the supervisor for Craigs KiwiSaver Scheme	Beneficial	30,000	Ordinary shares
Julia Hoare[1]			
Julia Cecile Hoare	Beneficial	50,000	Ordinary shares
Kate Mitchell			
Forsyth Barr Custodian Limited	Beneficial	1,000	Ordinary shares

1 Retired on 30 June 2023.

Management commentary
(no financial statements)

6. Credit rating status

Not applicable.

7. NZX Waivers

There were no waivers granted and published by NZX following an application by the Company or relied upon by the Company during the reporting period ended 30 June 2023.

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 2023 as follows:

- The Company has arranged and paid for policies for directors' liability insurance which ensure that the directors are protected against liabilities and costs for acts or omissions by them in their capacity as directors of the Company and its subsidiaries.
- The Company has provided Deeds of Indemnity to all directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiaries.
- Directors' relevant interests and share dealings as outlined in section 5, above.
- Julia Hoare, who retired as a director of the Company at the end of the reporting period, is a director of Meridian Energy Limited, which is expected to supply electricity to MVM under a new power purchase agreement following completion of the project to convert MVM's current coal-fired boiler to a high-pressure electric boiler. While Ms Hoare had no involvement in the matters which are the subject of discussion between Meridian and MVM, the Company and Ms Hoare have a protocol whereby Ms Hoare abstained from all Board discussions and decisions involving the supply of electricity to MVM in connection with the boiler conversion project, and did not receive relevant Board papers or parts of any Board papers, where this occurred.
- During the reporting period ended 30 June 2023, directors advised the Company of the following changes or additional entries in the Company's interests register:

Name of Director	Entity	Position
Pip Greenwood	Vulcan Steel Limited	Ceased to be a director
Warwick Every-Burns	Treasury Wine Estates Limited	Ceased to be a director
Julia Hoare	Primeport Timaru Limited	Appointed as a director
Julia Hoare	Northport Limited	Appointed as a director
Julia Hoare	Comvita Limited	Appointed as a director
Kate Mitchell	Chambers @ 151 Limited	Director and shareholder
Kate Mitchell	Christchurch International Airport Limited	Director
Kate Mitchell	Farmright Limited	Director
Kate Mitchell	Firsttrax Limited	Director and shareholder
Kate Mitchell	Heartland Bank Limited	Director
Kate Mitchell	Heartland Group Holdings Limited	Director
Kate Mitchell	Helping Hands Holdings Limited	Director and shareholder
Kate Mitchell	Link Engine Management International (NZ) Limited	Director
Kate Mitchell	Link Engine Management Limited	Director
Kate Mitchell	Morrison Horgan Limited	Director and shareholder
Kate Mitchell	The New Zealand Merino Company Limited	Director
David Wang	China's State Agriculture Technology Innovation Investment Consortium	Appointed as Vice President

No other entries were made in the interests registers of the Company's subsidiaries during the reporting period.

Management commentary
(no financial statements)

8.2 Directors of subsidiary companies

The following persons held office as directors of subsidiary companies during the year ended 30 June 2023.

Subsidiary	Jurisdiction	Directors (or equivalent)
The a2 Milk Company (Export) Limited	New Zealand	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
a2 Infant Nutrition Limited	New Zealand	David Bortolussi David Muscat (appointed 14 November 2022; resigned 28 May 2023) Ping Zhang (appointed 28 May 2023)
a2 Holdings UK Limited	New Zealand	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
The a2 Milk Company (New Zealand) Limited	New Zealand	David Bortolussi Julia Hoare (resigned 30 June 2023)
Mataura Valley Milk Limited	New Zealand	David Bortolussi (resigned 28 May 2023) Shareef Khan (resigned 5 December 2022) Deyong Zhang David Muscat (appointed 5 December 2022) Ping Zhang (appointed 5 December 2022) Mark Sherwin (appointed 22 July 2022; resigned 5 December 2022) Cao Siyuan (appointed 22 July 2022)
a2 Australian Investments Pty. Limited.	Australia	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
a2 Botany Pty Ltd	Australia	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
The a2 Milk Company (Australia) Pty Ltd	Australia	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
a2 Infant Nutrition Australia Pty Ltd	Australia	David Bortolussi David Muscat (appointed 14 November 2022)
a2 Exports Australia Pty Limited	Australia	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
The a2 Milk Company (Nutrition) Pty Limited	Australia	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
The a2 Milk Company Limited	British Columbia, Canada	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
The a2 Milk Company Limited	Scotland, UK	David Hearn
The a2 Milk Company	Delaware, USA	David Hearn David Bortolussi
The a2 Milk Company LLC	Delaware, USA	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022)
a2 Infant Nutrition (Shanghai) Co., Ltd.	China	Xiao Li
The a2 Milk Company (Singapore) Pte. Ltd.	Singapore	David Bortolussi Mark Sherwin (resigned 14 November 2022) David Muscat (appointed 14 November 2022) Shaun Singh

No employee of the Company appointed as a director of the Company or its subsidiaries receives remuneration or other benefits in their role as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed under Employee remuneration range in section 14.

8.3 Use of Company information

The Board received no notices during the reporting period ended 30 June 2023 from directors requesting to use Company information received in their capacity as directors which would not have been otherwise available to them.

9. Limitations on the acquisition of securities

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

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

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

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

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

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

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

10. On-market buyback

During the reporting period ended 30 June 2023, the Company completed its on-market share buyback programme. Over the course of the buyback programme, the Company acquired 21,680,314 shares, representing 2.9% of issued capital. The average price for the purchases was $6.87 per share (excluding brokerage costs), for a total consideration of approximately $149 million (including brokerage costs). The acquired shares have been cancelled.

11. On-market purchases

Other than the on-market buyback as set out above, no shares of the Company were purchased on-market during the reporting period ended 30 June 2023.

12. Donations

The Company and its subsidiaries have made donations of cash and products totalling $2,840,890 during the year ended 30 June 2023 (2022: $3,159,176).

Management commentary
(no financial statements)

13. Directors and officers

For the purposes of NZX Listing Rule 3.8.1(c), the quantitative breakdown as to the gender composition of the Company's directors and officers as at 30 June 2023 and 30 June 2022 is as follows:

	At 30 June 2023	At 30 June 2022
Directors	6	6
Females	3	3
Males	3	3
Gender diverse	–	–
Officers	10	12
Females	3	3
Males	7	9
Gender diverse	–	–

14. Employee remuneration range

The following table shows the number of employees and former employees of the Company and its subsidiaries (not being directors or former directors of the Company) who, in their capacity as employees, received remuneration and other benefits valued at or in excess of $100,000 during the year to 30 June 2023.

The remuneration bands are expressed in New Zealand Dollars.

Remuneration Range $ (gross)	Number of employees in the year ended 30 June 2023 (based on actual payments)	Value of exercised options and rights included in remuneration range $
$100,000 – $109,999	26	–
$110,000 – $119,999	24	–
$120,000 – $129,999	26	–
$130,000 – $139,999	16	–
$140,000 – $149,999	22	–
$150,000 – $159,999	11	–
$160,000 – $169,999	18	–
$170,000 – $179,999	11	–
$180,000 – $189,999	9	–
$190,000 – $199,999	12	–
$200,000 – $209,999	7	–
$210,000 – $219,999	8	–
$220,000 – $229,999	5	–
$230,000 – $239,999	3	–
$240,000 – $249,999	9	–
$250,000 – $259,999	2	–
$260,000 – $269,999	3	–
$270,000 – $279,999	4	–
$280,000 – $289,999	4	–
$290,000 – $299,999	7	–
$300,000 – $309,999	4	–
$310,000 – $319,999	5	–
$320,000 – $329,999	3	–
$330,000 – $339,999	5	–
$340,000 – $349,999	2	–
$350,000 – $359,999	2	–
$360,000 – $369,999	1	–
$370,000 – $379,999	2	–
$380,000 – $389,999	1	–
$400,000 – $409,999	1	–
$420,000 – $429,999	1	–
$430,000 – $439,999	1	–
$460,000 – $469,999	1	–
$480,000 – $489,999	1	–
$510,000 – $519,999	1	–
$530,000 – $539,999	2	–
$550,000 – $559,999	1	–
$560,000 – $569,999	1	–
$590,000 – $599,999	1	–
$630,000 – $639,999	1	–
$670,000 – $679,999	3	–
$680,000 – $689,999	1	–
$690,000 – $699,999	1	–
$700,000 – $709,999	1	–
$730,000 – $739,999	1	–
$780,000 – $789,999	1	–
$800,000 – $809,999	1	–
$810,000 – $819,999	1	–
$820,000 – $829,999	1	–
$830,000 – $839,999	1	–
$840,000 – $849,999	2	17,971
$970,000 – $979,999	1	–
$990,000 – $999,999	1	–
$1,080,000 – $1,089,999	1	–
$1,190,000 – $1,199,999	1	–
$1,350,000 – $1,359,999	1	–
$1,520,000 – $1,529,999	1	–
$1,750,000 – $1,759,999	1	–
$2,280,000 – $2,289,999	1	561,511
Total	**286**	**579,482**

Management commentary
(no financial statements)

The table includes base salaries, short-term incentives, contributions paid to an individual's superannuation fund, or, if an individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme, and exercised options and performance rights. The table does not include amounts paid after 30 June 2023 relating to FY24, and long-term incentives that have been granted and have not yet vested or been exercised (as applicable).

15. Principal activities

There were no significant changes to the nature of the business of the Company (or its subsidiaries) or to the classes of business in which the Company (or its subsidiaries) had an interest during the year ended 30 June 2023.

16. Reconciliation of EBITDA to net profit after tax

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

	2023 $'000	**2022 $'000**
Group EBITDA	219,298	196,214
Depreciation and amortisation	(18,197)	(18,929)
EBIT	201,101	177,285
Interest income	26,733	6,569
Interest expense	(4,972)	(2,467)
Income tax expense	(78,021)	(66,646)
Net profit after tax	144,841	114,741
Attributable to:		
Owners of the Company	155,638	122,624
Non-controlling interests	(10,797)	(7,883)
	144,841	114,741

Corporate directory

Company	The a2 Milk Company Limited
New Zealand share registry	Link Market Services Limited PO Box 91976 Victoria Street West Auckland 1142 New Zealand Telephone: +64 9 375 5998
Australian share registry	Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia Telephone: +61 1300 554 474
Registered offices	Level 10 51 Shortland Street Auckland 1010 New Zealand Level 4 182 Blues Point Road McMahons Point NSW 2060 Australia Telephone: +61 2 9697 7000
Auditor	Ernst & Young 200 George Street Sydney NSW 2000 Australia
Company Secretary	Jaron McVicar
Corporate website	www.thea2milkcompany.com

Management commentary
(no financial statements)

Management commentary
(no financial statements)

thea2milkcompany.com

Management commentary
(no financial statements)