

Dear Shareholders, as per **RESOLUTION 2** Bellamy's is pleased to present the Company's Remuneration Report for the 2015/16 financial year (FY16) for your approval.

Bellamy's delivered exceptional financial returns and growth for its shareholders with an EBIT growth of 342% and share price growth of 134% for the period 1 July 15 to 30 June 16 (FY16).

The Board believes a strong and effective remuneration strategy & framework is critical to grow Bellamy's and provide long term growth in shareholder returns.

As the business grows a key focus area is to build the Company's leadership and executive team to increase and improve the capabilities within Bellamy's. This allows our CEO Laura McBain to focus on the overall growth strategy and international opportunities for Bellamy's.

Accordingly, during FY16 Bellamy's appointed Katherine Henry as Executive Director People & Culture and Andrew Cohen as Chief Operations & Strategy Officer. Both these appointments build the strength and diversity of Bellamy's leadership.

The Board is committed to having a remuneration strategy & framework that attracts, rewards, and retains executives and aligns their interests with those of our shareholders. This is done by providing a fixed remuneration component together with appropriate short-term and long-term incentives.

A few shareholders have raised some concerns about Mrs McBain's fixed remuneration, short term incentive, and long term incentive. We welcome the feedback and as a result I would now like to address the concerns.

There has been some concern raised about the size of the increase in Mrs McBain's fixed remuneration since listing. The Board and Mrs McBain agreed prior to listing that it would be prudent to retain a modest level of fixed remuneration which existed at the time the Group was substantially private.

The intention was to then adjust to market reward levels in accordance with the growth in Bellamy's.

The executive remuneration levels are market-aligned by comparison to similar roles in ASX-listed companies that have comparable market capitalisation, revenues, and financial metrics relevant to the skills and experience the executive brings to the role.

At the end of the 2014 calendar year the company's market capitalisation was around \$165 million and today has grown to almost \$1.2 billion. To ensure that Mrs McBain's total remuneration package was commensurate with the growth in the organisation's profit, revenue and market capitalisation the Board sought advice from external consultants to understand the market position of Mrs McBain's total remuneration package.

As a result of this advice it was established that Mrs McBain's total remuneration package was well below median amounts paid to sector and market capitalisation peers.

Whilst Mrs McBain's total remuneration package was below that of her peers, it is not the only reason for the increase. The Board also took in to account:

- The financial success of Bellamy's since the IPO under the stewardship of Mrs McBain;
- The progress Bellamy's has made as a serious player in the baby food and infant formula market;
- Her time in the role of CEO; and
- Her experience running a successful consumer goods company.

Accordingly, for FY16 Mrs McBain's fixed remuneration was increased to give her a base remuneration of \$600,000 and a total remuneration package of up to \$1,380,000 at maximum short term and long term incentive levels.

Bellamy's has a short term incentive plan that rewards the CEO and those executives reporting to her (including the KMP executives) for performance against a pre-determined scorecard of measures linked to Bellamy's short-term business performance (12 months) and individual performance.

The specific performance measures may vary from year to year depending on the business's objectives, but are chosen on the basis that they will increase financial performance, market share, and shareholder returns.

For FY16 Mrs McBain's measures were split between:

1. Financial (60%); and
2. Non-financial (40%).

The opportunity for Mrs McBain in FY16 was 30% of TFR for at-target performance and 50% of TFR for outperformance.

For FY16 the Board wanted Mrs McBain to focus on EBIT, rather than sales as was the case for FY15, in order to shift the focus from revenue growth to profitability and ultimately the return to our shareholders.

Based on the financial performance of Bellamy's in FY16 (EBIT growth of 342%) the payout provided to the CEO was 153% of her at-target opportunity.

In FY16 the target EBIT for Mrs McBain was \$25 million and she achieved \$54 million.

The Board also recognises the importance of non-financial measures and for FY16 the CEO's non-financial measures were:

1. People and Culture;
2. Market/Business Development and Brand;
3. New Product Development;
4. Overall Business Management; and
5. Board.

These measures were chosen on the basis that as Bellamy's builds its leadership and executive team these were the important areas of focus for Mrs McBain in FY16.

For FY17 Mrs McBain's measures will be a mix of Financial 60% and Non-financial 40%.

The financial measures for FY17 will be a mix of EBIT, Gross Profit Margin, Sales/Revenue which the Board considers important as the Bellamy's business matures. There will also be non-financial measures of strategy and people.

The Board considers the Bellamy's Long Term Incentive Plan as an effective means of motivating, retaining and attracting high quality executives' and aligning their interests with those of our shareholders.

The measures and targets for the CEO's FY15, FY16, and FY17 LTI grants were approved by shareholders at the 2014 AGM. These were:

1. earnings per share compound annual growth (**EPS CAGR**); and
2. share price growth (**SPG**)

| Percentage of Grant | Performance Measure | Target |
|---------------------|---------------------|----------|
| 50% | EPS (CAGR) | 7% – 12% |
| 50% | SPG | 8% – 12% |

In recognition of Bellamy's better than expected financial performance and share price growth since the 2014 AGM and to ensure that the relevant executives were only rewarded for achieving challenging performance targets it was decided that:

1. for the FY15 grant the maximum vesting targets for both EPS CAGR and SPG would be increased from 12% to 15%; and
2. for the FY16 grant the threshold targets for both EPS CAGR and SPG would be increased to 12%.

The levels of EPS CAGR required to attract full vesting of the options under the Board approved long-term plan are commercially sensitive and, therefore, have not be disclosed at this time.

The applicable EPS CAGR targets will be, however, disclosed on a retrospective basis in the Remuneration Report following the end of the performance period to ensure transparency for our shareholders.

Now moving on to RESOLUTION 3

The Board believes that retaining Mrs McBain as CEO and providing commitment to that process is critical. The retention of Mrs McBain is a matter that has been brought to our attention by a number of significant investors.

We were aware of this challenge at the time of listing and sought approval for the issue of 2,550,000 options for the FY15, FY16, and FY17.

That approval has proved to be highly beneficial in enabling the Board to manage the past three grants to Mrs McBain in a prudent and contemporary manner.

Whilst shareholders approved the granting of up to 2,550,000 options only 1,595,949 options were allocated for the 3 grants; approximately 1 million less than was approved by our shareholders.

The Board believes that the way it has set the targets and managed the grants for the last three grants is evidence that your Board has not offered the CEO reward without significant stretch targets and consideration of the Bellamy's share price growth.

As we did at the 2014 AGM the Bellamy's Board is seeking shareholder approval for the grant of up to 1,050,000 options to Mrs McBain, CEO, as part of her

long term incentive (**LTI**) award for the financial years ending:

- 30 June 2018 (FY18);
- 30 June 2019 (FY19); and
- 30 June 2020 (FY20).

These awards will be subject to an earnings per share and an absolute total shareholder return measure.

The Board has previously used EPS CAGR and SPG measures to assess Mrs McBain's performance.

As the Company continues to mature the Board reviews the measures it uses and has determined to continue to use an EPS CAGR measure but replace the SPG measure with an absolute total shareholder return (TSR) measure. Whilst the Company has been very successful since listing and there has been strong growth; there is still the need to actively manage profitable growth.

This raises specific challenges, e.g., building the team, sourcing material to meet demands, and building production capacity. This makes finding the right, and meaningful, comparator group unlikely as most peer companies are established businesses and, therefore, will not provide a like-for-like comparison.

As a result, the Board considers that an absolute TSR will create a strong focus on the needs of the business in this high growth phase of Bellamy's and the targets will be set to reflect this and ensure the appropriate returns to shareholders.

The setting of EPS CAGR and TSR targets will be determined by the Board at the time each annual grant is made to ensure that they reflect the economic environment, market expectations, business phase, bottom-line growth, return on capital, growth strategy, and profit forecasts at the time.

The Board believe it is in the best interests of shareholders if they are in a position within the parameters of those two performance measures to determine the targets progressively, though advise shareholders at the following Annual General Meeting, in accordance with the organisation's business plans and three to five-year outlook.

Your support is critical so that your Board has flexibility whilst retaining its focus to ensure its objectives are achieved in the years ahead.

For the reasons outlined above we seek your approval for resolutions 2 and 3.