



# Corporate Governance Statement 2019

The a2 Milk Company Limited

# Corporate governance statement

**We are committed to maintaining the highest standards of corporate governance. Our corporate governance framework has been established to ensure that directors, officers and employees fulfil their functions responsibly, whilst protecting and enhancing the interests of shareholders.**

We believe that good corporate governance adds to the performance of the Company, creates shareholder value and engenders the confidence of the investment market.

This statement sets out the principal features of our corporate governance framework and governance practices which have been developed with regard to:

- the NZX Corporate Governance Code; and
- the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) (third Edition). The ASX Principles (fourth Edition) have been finalised and take effect for the Company from 1 July 2020. However, the Board intends to progressively adopt the ASX Principles (fourth Edition) during the financial year ending 30 June 2020.

For the financial year ended 30 June 2019 our corporate governance framework complied with the recommendations in the NZX Corporate Governance Code and the ASX Principles (third Edition), except where noted below.

## ASX Principles

Recommendation 2.5 of the ASX Principles states that the Chair of the Board should be an independent director and, in particular, should not be the same person as the CEO (recommendation 2.9 of the NZX Corporate Governance Code recommends that where the Chair of the Board is not independent, the Chair and CEO should be different people).

The roles of Chair and CEO are not exercised by the same individual. During the financial year from 16 July 2018, the role of CEO was held by the Managing Director, Jayne Hrdlicka.

However, the Board does not consider the Company's Chair, David Hearn, to be an independent director in this financial year for the purposes of the ASX Principles. This is because the CEO previously had the capacity to call on David from time to time to support the Company's business in Europe and the UK in a limited executive role. This executive role ceased in December 2018.

Considering his limited executive role during the first half of this financial year, the Board considered it appropriate that David should retain his non-independent status for now.

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

The Board considers there is an appropriate level of independent view and judgement exercised by directors, including by Julia Hoare as Deputy Chair, who is the lead independent director.

This Corporate Governance statement sets out our commitment to best practice corporate governance in compliance with the ASX Principles and the NZX Corporate Governance Code. It is current as at 30 June 2019 (except where otherwise specified) and has been approved by the Board.

## Role of the Board and delegation of authority

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

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

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

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

Detail of members of the Board, and director profiles including their skills, experience and expertise relevant to their position, and the period they have held office as a director, can be found in the 'Our directors' section of our 2019 Annual Report.

## Role of Chair

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

## Role of Chief Executive Officer

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

## Role of Company Secretary

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

## Board size, skills and structure

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

The Board has developed a board skills matrix which sets out the diversity of skills and experience that it has. The matrix, set out in its collective form reflecting current Board composition, can be found on page 43 of our 2019 Annual Report.

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

## Director independence

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

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

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

In determining the independence of its directors, the Board considers guidance for independence, set out in the ASX Principles, the NZX Listing Rules and the NZX Corporate Governance Code. Based on those rules and recommendations, a director is considered to be independent by the Board if he or she is a non-executive director and free of any interest, position, association or relationship that could reasonably influence, or could reasonably be perceived to influence, in a material respect, his or her capacity to bring an independent view to decisions in relation to the Company, act in the best interests of the Company and represent the interests of the Company's security holders generally.

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

Until 31 December 2018, Peter Hinton was a Special Counsel at Simpson Grierson, a New Zealand law firm which provided legal services to the Company during the year. Peter was not involved in providing legal advice to the Company during the year. The Board considers him to be independent and is satisfied that Peter's role with Simpson Grierson does not interfere with his independence.

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

## Board committees

The Board has three standing committees (the Committees) to facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The composition of the Committees as at, and throughout, the financial year ended 30 June 2019 was as follows:

Members	Independent	Non-executive
<b>Audit and Risk Management Committee</b>		
Julia Hoare (Chair)	✓	✓
Warwick Every-Burns	✓	✓
Jesse Wu	✓	✓
<b>Nomination Committee</b>		
Peter Hinton (Chair)	✓	✓
Julia Hoare	✓	✓
David Hearn	x	✓*
<b>Remuneration Committee</b>		
Warwick Every-Burns (Chair)	✓	✓
Peter Hinton	✓	✓
Jesse Wu	✓	✓

\* David Hearn ceased to be an executive director on 18 December 2019.

Peter Hinton retired as a director on 30 June 2019. Pip Greenwood, appointed as a director on 1 July 2019, was appointed Chair of the Nomination Committee and member of the Remuneration Committee from that date.

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

The Committees make recommendations to the Board. They have no decision-making power except where expressly authorised by the Board. The relevant qualifications and experience of individual Committee members are set out in the 'Our directors' section, page 38 of our 2019 Annual Report.

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

## Attendance at Board and Committee meetings

Details of director attendance at Board and Committee meetings during the year ended 30 June 2019 are provided on page 44 of our 2019 Annual Report.

## Audit and Risk Management Committee

The Audit and Risk Management Committee's responsibilities are set out in its Charter, including to:

- ensure the Company meets its financial reporting requirements, including the preparation and release of yearly and half-yearly financial statements;
- review the scope and outcome of the external audit;
- review the effectiveness of the Company's internal controls regarding all matters affecting the Company's financial performance and financial reporting, including information technology security and control;
- advise the Board on accounting policies, practices and disclosures;
- review, with management, the adequacy of the Company's systems for identifying, managing and monitoring the Company's key risks in accordance with the Company's Risk Management Policy;
- keep the Board informed of all significant business risks by reviewing whether the Group has any material exposures to strategic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks; and
- review any incident which indicates a breakdown in the Company's risk management framework

The Committee may have in attendance such members of management (including the CEO and the CFO) or such other persons (including the Company's external auditors) as it considers necessary to provide appropriate information and explanations. The Committee meets a minimum of four times each year.

A working group of senior managers reviews and reports to the Committee on the integrity of all information reported in the Annual Report.

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

## Remuneration Committee

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

- review the remuneration of the CEO and other senior executives as the Board may determine; and
- make recommendations to the Board in relation to the remuneration of the non-executive directors.

The Charter stipulates that the Committee will make recommendations to the Board, but all decision-making authority in relation to remuneration remains with the Board.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive packages. A member of the Committee must not be present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration. Management may attend meetings only at the invitation of the Committee.

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

The Company's remuneration policies for directors and senior executives and managers are set out in the 'Remuneration' section of our 2019 Annual Report.

## Nomination Committee

The Nomination Committee meets as required to advise the Board on the matters outlined in its Charter, including the recommendation of new appointments to the Board.

Every new director appointment that is approved by the Nomination Committee is considered and decided by the Board as a whole, considering the range of skills and experience (including matters such as independence and diversity) that a potential new director may offer the Board and the ability to fully commit the time needed to be effective as a director of the Company.

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

## Nominations, appointments and ongoing education

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

The objectives of the Nomination Committee include to:

- assist the Board in planning the Board's composition and that of the Committees;
- advise and assist the Chair and the Board (as applicable) to review the performance of the Board, the Committees, the Chair and individual directors;
- evaluate the competencies required of prospective directors, identify those prospective directors and establish their degree of independence;
- develop succession plans for the Board; and
- periodically review the Company's Diversity Policy and annually review and report to the Board on the Company's progress in meeting its current measurable objectives with respect to diversity, and the effectiveness of the Company's current measurable objectives with respect to diversity, including providing the Board with recommendations as to any updates that should be made to the measurable objectives for ensuing reporting periods.

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

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

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

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

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

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

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

## Performance review of the Board, Board Committees and individual directors

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

During the reporting period the Board engaged a suitably qualified and highly experienced consultancy firm to undertake an extensive performance review of the Board, its committees and individual directors. The Board sought the review to assist the Board to enhance its preparedness for the future, optimise its performance and fulfil its key functions across all areas of the Board's responsibilities, including through its oversight of:

- strategic and operational planning and performance;
- risk management and compliance;
- financial management and external reporting; and
- Board development, planning and culture.

The review had regard to relevant recommendations of regulatory bodies, as well as emerging regulatory and stakeholder issues. The Board is currently working through the recommendations as set out by the consultant.

## Internal financial control

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

The CFO is responsible to the CEO for ensuring that all operations within the Company comply with the Board approved financial control policies.

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

## External auditor

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

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

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

## Internal audit function

Deloitte Touche Tohmatsu acts as the Company's internal auditor, reporting to the Audit and Risk Management Committee. The internal audit programme is focused on evaluating the effectiveness of risk management, control and governance processes.

## CEO and CFO annual declaration

In line with ASX Principle 4.2, the Audit and Risk Management Committee and the Board receive a declaration for each reporting period from the CEO and CFO in relation to the Company's financial statements, that in their opinion:

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

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

## Corporate governance policies

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

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

## Code of Ethics

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

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

## Continuous Disclosure Policy

The Company has adopted a set of procedures and guidelines to ensure that it complies with its disclosure obligations in accordance with all applicable legal and regulatory requirements, including the NZX Listing Rules and the ASX Listing Rules. Subject to recognised exceptions, this ensures the timely disclosure to the ASX and the NZX of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

## Risk Management Policy

The Company recognises that risk management is an inherent part of growing and developing the business, and that the Company's ability to identify and address risk is central to achieving its corporate objectives. Effective risk management anticipates risk, develops strategies to manage risk and enables the Company to capitalise on opportunities that bring value to shareholders. The Company's risk management programme assists the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile.

Ongoing risk management is a core component of the management of the Company. The Company's risk management approach is supported by:

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

Under its Charter, the Audit and Risk Management Committee is responsible for providing assessments to the Board of the adequacy, effectiveness and efficiency of the Company's risk management and internal control process. The Board must also annually, under the Risk Management Policy, review the effectiveness of the Company's risk management and internal control system. A review of the Company's risk management framework has been conducted in the reporting period by the Audit and Risk Management Committee. While no significant changes were made to the framework or policy, a number of enhancements have been adopted relating to risk categorisation and the risk assessment criteria; and by prescribing actionable mitigations.

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

Identification of significant sources of risk and our response to those risks can be found in the 'Risk management' section on page 32 of our 2019 Annual Report.

## Shareholder Communication Policy

The Company has adopted a Shareholder Communications Policy which outlines the Company's approach and commitment to effective communication with shareholders. The Company uses numerous modes of communication, including electronic communication, to ensure that its communications with shareholders are timely, clear and accessible. The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at [www.thea2milkcompany.com](http://www.thea2milkcompany.com). The website includes copies of past annual reports, results announcements, other NZX and ASX announcements, media releases and general Company information.

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

## Diversity policy

The Company's Diversity Policy, including gender diversity goals, is discussed in the 'Putting people first' section on page 26 of our 2019 Annual Report.

## Securities Trading Policy

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

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

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

Under the terms of the policy, directors, officers, senior executives and their associates are prohibited from entering into hedging transactions which operate to limit the economic risk of their securities in the Company (including under any equity-based remuneration scheme) without first obtaining written approval and must notify the Company and receive written clearance before engaging in any margin or securities lending arrangements or granting a security interest or other encumbrance over Company securities.

## Health and safety

The Company is committed to the health, safety and wellbeing of its people. This commitment starts with the Board. The directors visit the Company's sites to gain first-hand understanding of the systems in place, and health and safety reports are reviewed at each Board meeting. Reporting is focused not only on injuries but also safety observations, which are an important part of an improving health and safety management system. During the year, there were two lost time injuries and one medical treatment injury, arising from two incidents.

The Company's workplace health and safety regime includes:

- a framework to assist the Board and senior management with the identification, control, reporting, investigation and monitoring of health and safety risks to the Group;
- use of qualified external consultants to ensure compliance with relevant laws in each jurisdiction and to identify improvement opportunities;
- Board prioritisation of health and safety performance, facilitated through monthly formal review and Board updates, to ensure a strong focus on health and safety in the workplace is maintained; and
- health and safety training and supervision for employees.

## Indemnities and insurance

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

## Protocols in the event of a takeover offer

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



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