

A2 Milk Annual meeting voting intentions

Meeting Date: Tuesday 22 November (NZ time)

Location: Aerial UTS Function Centre, Ultimo, NSW, Australia

A2 Milk (ATM) has had strong growth over the last couple of years since it really got into the baby formula market. Sales to China have increased dramatically and some modest progress has been made in the USA and Britain. However, the vast bulk of revenue remains centered on Australia and New Zealand. A2 does not do its own processing and is essentially a marketing operation. The most recent figures show growth has continued. Never-the-less A2 remains a small (FY16 revenue \$336m) fish in a large pond. The company has never paid a dividend although that is expected to change in 2017.

ATM is seeking a large increase in director's fees. **These are in our opinion out of line and we will be opposing them.** See below.

Resolutions

1. Considering the Re-appointment of Auditors

This is an administrative resolution. We will vote discretionary proxies **IN FAVOUR**

2. Re-election of Director - David Hearn

Mr Hearn is experienced English based director and current Chairman of A2 Milk. We think he has mis-read the mood of shareholders in regard to the fee increase below. However, the company is doing well under his chairmanship and he does open doors in Britain. His unusual pay arrangements will need to be unwound at some point.

We will vote discretionary proxies **IN FAVOUR** of his re-election.

3. Election of Director - Peter Hinton

Mr Hinton is a lawyer and acts for A2 milk at times. While we do not have concerns about his ability, we are disturbed that he can be classed as independent. In our view, there is a clear conflict. Unless the company announces that it will reverse the intention to class him as independent, we will vote undirected proxies **AGAINST** his appointment. If he is to be classed as non-independent, then we will support his election.

4. Election of Director - Warwick Every-Burns

Mr Every-Burns has a long history in consumer packaged goods and is a suitable candidate for the A2 Milk board. He is Chair of the remuneration committee and like the chairman needs to moderate his recommendations on both director and executive remuneration. Despite that concern, we will vote undirected proxies **IN FAVOUR** of his election.

5. Increase in Non-Executive Director Remuneration. (That the total amount of remuneration payable per annum to Non-Executive Directors of the Company be increased by NZ\$350,000 from NZ\$600,000 to

NZ\$950,000, to be paid and allocated amongst the Non-Executive Directors as the Board considers appropriate.

NZSA has real issues with the very large increase being sought. In the absence of being able to see the survey that ATM commissioned, we looked at a range of NZ companies, most with significant offshore operations in multiple jurisdictions and a number of whom also face significant regulatory requirements.

NZSA prefers a holistic approach to fees (what is the job worth when balancing a wide range of factors) rather than the comparison with what others are getting approach favoured by boards – which of course has resulted in the ridiculous upward spiral in recent years. However, as that is the approach ATM has taken, then the research we have done is on the same basis.

The nine comparators had an average market cap of \$NZ1.72B which is slightly higher than ATM. The base fees that ATM are seeking are 35-40% ahead of the current market and in particular, the committee fees are totally out of line, being about 70% above our comparator group. While the company may claim ATM is very complex, we consider our comparators to be equally so. Consequently, we will be voting discretionary proxies **AGAINST** this resolution.

How to attend the Virtual Meeting

A2 Milk is holding its meeting in Australia, but as it is a hybrid meeting, shareholders can watch, participate and vote online. Full instructions are on the company's website. <https://thea2milkcompany.com/> or on the NZX notices attached to A@ Milk (Code: ATM) at www.NZX.com.

Note that if you have already voted and want to change your mind or have not yet done so, you can log in and vote at this meeting. The last vote is the one which will count.

Note also that proxies needed to be notified to Link market services prior to 1pm on Sunday 20th of November, so NZSA can no longer be appointed to represent you if you have not already done so.

The NZSA Team.