



29 August 2013

Record performance in Australia, NPAT above expectation

FY13 Highlights

- Group Sales of \$94.304 million, an increase of 51% over the prior year
- Net Profit After Tax of \$4.120 million, above company and market forecasts
- Increased market share in Australia with sales up 48% over the prior year
- a2™ brand fresh milk launched into the UK market
- First sale of a2™ branded infant formula to China in June 2013 with ANZ launch imminent
- Strong balance sheet and no debt

A2 Corporation Limited (A2C) has successfully pursued its strategy for growth during the FY13 consistent with the Strategic Review outcomes announced in October 2012.

Revenue growth exceeded expectations driven by the continued strong growth of a2™ brand fresh milk in the Australian market. The strategic growth initiatives around infant formula into China and the sale of a2™ brand fresh milk in the UK have progressed at pace during the year. The balance sheet remains strong to fund current initiatives with cash on hand at year-end of \$20.2 million and no bank debt. Cash flow from operating activities totalled \$3.6 million.

Managing Director, Geoffrey Babidge says the above expectation trading performance in Australia enabled the Company to provide additional funding to the establishment of the a2™ brand milk business in the UK, incur higher income tax and still over-achieve the NPAT expectation for the year.

“The Board is delighted with the continuing standout performance of the Australian business and encouraged with the development of the new initiatives for the markets in the UK and China. The prospects of the Company’s business units are in aggregate consistent with the revenue projections contained in the 2012 Private Placement Memorandum (PPM) with additional product and market opportunities being pursued. The imminent launch of a2™ branded infant formula in Australia and New Zealand is one example of this, with more to come.” said Geoffrey Babidge.

Chairman, Cliff Cook said “The strong balance sheet position following the successful equity raising in December 2012 and increased investor interest as a consequence of the subsequent move to the NZX main board provides the funding platform to support further growth initiatives over time. In addition, the Board continues to consider the merits of a dual listing on the Australian Securities Exchange”.

For the 12 months ended 30 June 2013, A2C achieved Net Profit after Tax of \$4,120,000, well exceeding the Company’s target and compares to \$4,405,000 for the 12 months ended 30 June 2012. Prior year Net Profit benefitted from settlement of a legal dispute of \$1,101,000 and an income tax credit of \$287,000. Preliminary audit clearance has been obtained for these results pending finalisation of the 2013 annual report.

The trading result comprised the following key items:

- Operating EBITDA (before share of associate earnings and unusual items) of \$10,640,000 an increase of \$5,903,000 (125%) over the prior year;
- Share of associate earnings for A2 Milk (UK) Limited of (\$3,719,000);
- International Business Development Expenses of \$1,141,000;
- Non-recurring costs associated with a Group Strategic Review of \$824,000;
- Income tax charge of \$1,044,000.

Strategic Review

The Company completed and announced the outcomes of a comprehensive strategic review in October 2012. The outcome is that the Company will dedicate additional resources to initiatives previously announced and prioritise opportunities identified during the review. This includes:

- Further developing the strong suite of IP and uniqueness of a2™ brand dairy products;
- Further growing the Australian and New Zealand fresh milk businesses;
- Accelerating investment in the UK fresh milk market;
- Accelerating investment in the China infant formula market;
- Entering new international markets in particular in North America and Europe;
- Entering new categories with UHT milk and Yoghurt a priority.

Operational Review

Australia and New Zealand

The Australian fresh milk business performed very strongly in 2013 with sales growth and operational profit well ahead of expectations.

The increase in a2™ fresh milk sales represented a record increase on the prior year of 48%. a2™ brand fresh milk continued to be the fastest growing dairy brand in the Australian grocery market. Ongoing investment in marketing and communication and increased engagement with health care professionals contributed to the growth in both sales and brand recognition. Further gains in distribution also aided sales growth. We estimate the market share of a2™ brand milk by value in grocery in the last quarter of FY13 year to approximate 7.4%.

The Company's new milk processing facility in south west Sydney performed very well for the year with volumes and efficiencies ahead of plan. This together with the absence of one off costs resulted in an increase in gross margin as a percentage of sales when compared to the prior year. In the second half, we commenced a project to review supply chain processes given volumes building ahead of plan and established a new logistics management structure. The Company continues to work closely with and support its contract processors and entered into extended arrangements with two earlier in the year.

Now the fresh milk business is well established, we are working to broaden the product range with a2™ Platinum™ infant formula planned for launch in Australia from September 2013, and soon after in New Zealand, with further products under development.

The Company continued discussions with the sole non-exclusive licensee for a2™ brand fresh milk in New Zealand given our objective to become more involved in the the sales and marketing activities in this market. The term of the current license runs until May 2017 and while we are keen to become more involved, the timing now rests with the licensee.

United Kingdom

A2C is encouraged with the development of the A2 Milk (UK) business during the past year. The focus in the first half was on completing the establishment of the business and launching our brand into the UK retail trade. The management structure now comprises a motivated small team near London who manage the sales, marketing and health care professional activities with other support functions outsourced to our joint venture partner. A key strategic priority has been to develop a strong farmer supplier base to provide access to commercial quantities of a2™ milk and support volume growth in the medium term. As part of this, the business committed to a one-off incentive scheme to support aggregation of a2™ herds by a number of farmers by 2014. During FY13 our share of testing and conversion costs totalled £463,000.

The product launch commenced from October 2012 initially with three retailer groups and around 700 retail outlets from January 2013. The launch was supported by a public relations and print campaign followed by television advertising featuring the profile celebrity Dannii Minogue, herself a convert to the benefits of a2™ brand milk. Our share of marketing costs for the year totalled £1,057,000.

Since launch, the key priority has been to build trial and rate of sale to support existing ranging and increased distribution over time. As part of this strategy, the business implemented a promotional pricing program with key accounts, reflecting the promotionally driven nature of the UK retail market. By year end the distribution had grown to five retailer groups and around 1000 retail outlets.

As previously stated, the pace of development in this market is dependent on progressively building consumer awareness of the product and its benefits and further expanding distribution. The business is continuing to refine its marketing and communication strategies taking account of changes to European regulations around messaging and claims for food and beverage products which took effect from January 2013.

A2C is committed to the successful development of a2™ brand milk in the UK. As part of this the Company is continuing to assess the future level of investment and the appropriate capital structure and shareholding of the business in conjunction with its joint venture partner. The initial capital contribution of £2 million by each partner was fully expended by year end and A2C has provided a further £2 million facility to be progressively drawn during FY2014.

Compared to the financial projections in the PPM, the Company currently projects revenue of approximately NZ\$65 million for A2 Milk (UK) JV for FY16, based on an assumed fresh milk retail value share of approximately 1.8% and other assumptions primarily unchanged.

Infant Formula into China

The Company progressed its plan for the launch of a2™ Platinum™ infant formula into China consistent with the strategic review.

In October 2012, the Company announced the appointment of China State Farm Holding Shanghai Company (CSF) as the exclusive distributor of a2™ infant formula in Greater China and a marketing structure to jointly develop and implement the marketing and communication activities within the territory. Together with the strategic supply agreement with Synlait Milk Limited, this provides the Company an integrated model for the supply of high quality New Zealand packaged infant nutrition products into China. The farmer base able to supply a2™ milk in Canterbury has grown to 12 accredited farmers, with interest from others to join.

To support the development of this business, the Company has established a new management team with experience in infant formula marketing, quality processes and supply chain and appointed an in-market manager located in Shanghai. This team will also develop further growth opportunities such as UHT milk and in time infant formula products into other Asian markets. Consistent with this, the

company has agreed the terms of a proposed UHT supply agreement with Freedom Foods Group Limited and associates to be put to shareholders at the next annual general meeting.

The a2™ Platinum™ proposition is about providing mothers the right nutrition for an infant's system to naturally support growth and development with the unique attributes of an infant formula that contains only the A2 type beta-casein protein. The entry strategy involves targeting the baby maternity store channel and high end supermarkets in priority regions. CSF is building the distribution network and sales structure to support the plan and also on- line sales and fulfilment capability.

The first packaging run of a2™ Platinum™ infant formula was completed in May 2013 and the first shipment to China invoiced in June 2013. Sales to consumers in China are planned from November 2013.

Equity raisings, move to the NZX

In December 2012 the Company undertook a NZ\$20 million equity raising in conjunction with a sell down by the Company's three largest shareholders to provide additional funding and increase liquidity. As a result, the Company migrated to the main board of the NZX and in March 2013 was admitted to the NZX50 Index. At year end, the number of shareholders totalled 2,823.

Receipts associated with the exercise of partly paid shares during the year also contributed additional share capital totalling \$1,582,000 for the year.

For further information contact:

Geoffrey Babidge
Managing Director
A2 Corporation Limited
+61 2 9697 7008

Editor's note:

A2 Corporation Limited

A2 Corporation is a differentiated, premium-priced dairy company which is building a global business based on unique intellectual property relating to a2™ brand milk and related products.

A2 Corporation has operations in Australia, New Zealand, the UK and China and is pursuing growth opportunities in Asia, North America & Europe.

A2 Corporation is listed on the NZX market and trades under the code ATM.