BELLAMY'S ORGANIC

2018

Annual Report

BELLAMY'S AUSTRALIA LIMITED

For the year ended 30 June 2018

Corporate Directory

Bellamy's Australia Limited
ABN 37 124 272 108
ASX Code BAL

Directors

John Ho (Chair)
John Murphy (Deputy Chair)
Rodd Peters
Wai-Chan Chan
Shirley Liew

Principal registered office & Principal administration office

Bellamy's Australia Limited
115 Cimitiere Street
Launceston TAS 7250

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Facsimile:	(03) 6331 1583
Internet:	http://investors.bellamysorganic.com.au

Company secretary

Melinda Harrison

Location of share registry

LINK Market Services
Level 1, 333 Collins Street
Melbourne VIC 3000

External auditor

PricewaterhouseCoopers
2 Riverside Quay
Southbank VIC 3006

Contents

Message from the Chair

Letter to Shareholders from the Chairman and Deputy Chairman

28 August 2018

Dear Shareholders,

On behalf of the Board, we present to you the 2018 Annual Report for the financial year ended June 2018.

Last year, we and our fellow directors were focused on stabilising the business with our top priorities being recruitment and retention of the executive team and completion of the Board renewal process. These were in part achieved through implementing the 2017 turnaround long-term equity incentive plan.

This year, working closely with the executive team, the Board has focused on the Company's strategic direction, the turnaround plan implementation, risk management and establishing a range of targets to monitor performance and key outcomes. The Board has maintained close operational and financial oversight to ensure management are challenged to achieve high levels of performance. We remain focused on building a sustainable business model.

The Board is pleased to report that significant progress has been made in FY18 by management on building the key foundation capabilities of the business enabled by a way of working that is more agile and disciplined steadfastly focused on premium organic nutrition and a '*pure start to life*' including.

- development of a comprehensive long-term strategic plan
- embedding revenue management disciplines and reduction in key input and direct costs
- significant increase in brand building and marketing investment at consumer and channel level
- a step change in people bench-strength, including China capability
- deepening the use of our e-commerce, social and digital media platforms
- the submission of our application for PRC licence from the State Administration of Market Regulation (**SAMR**) (formerly the CFDA)

While there remains much work to be done and challenges to be navigated, we remain focused on maintaining a culture of transparent communication, thoughtful strategic decision-making and balanced risk-taking. We acknowledge the importance of our strategic partnerships and continue to deepen and nurture these relat ionships.

The long-term opportunity for Bellamy's is immense and this Board has the persistence and patience to realise the long-term enterprise value creation potential. On behalf of the Board and the team of Bellamy's, thank you for your ongoing support.

Yours sincerely

John Ho

Chairman

John Murphy

Deputy Chair

Message from the CEO

Letter to Shareholders from the CEO

28 August 2018

Dear Shareholders,

I am pleased to report that the Bellamy's turnaround plan continues to demonstrate results in terms of revenue growth, profitability, cashflow and the balance sheet:

- our sales and EBITDA results met upgraded guidance and set a new high for the business, delivering a 37% increase in sales and a 65% increase in EBITDA on a normalised basis;
- the 2H18 result included a materially higher gross margin and lower direct costs versus 2H17, setting the foundation for increased investment in marketing, capability and our products;
- the balance sheet has strengthened with $87.6m held in cash, zero debt and $39m in supply-chain investments including the strategic acquisition of our CNCA licenced Camperdown facility and establishment of a Tasmanian organic milk pool in partnership with Fonterra.

Beyond the numbers, the business has transformed over the period, in terms of process and disciplines, but more importantly in terms of culture and capability. Today, Bellamy's stands for a highly agile, passionate and commercial culture, underpinned by significantly stronger talent and capability. This is true at all levels, including the Board, management, in Australia, and most importantly for China.

Having stabilised the business, our team is now focused on a detailed 3 year growth strategy that recognises the significant opportunity for organic infant nutrition in China and Asia more broadly. Our brand is a pioneer and market leader in this fast-growing niche, underpinned by an Australian provenance, and an authentic belief in organic principles and the foundational purpose of '*a pure start to life*'.

The next year will see the rollout of a number of key initiatives in this plan, including a premium brand refresh that we believe will significantly increase our addressable market and brand equity across all geographies. Further,

- in 1H19 the food range will be refreshed and extended and include ranging in Woolworths in addition to existing Coles and pharmacy channels;
- in 2H19, the formula portfolio will be refreshed, nutritionally enhanced for functional ingredients DHA, ARA and GOS, extended to include Step 4 and pregnancy products, and will include Australian fresh milk supply;
- to prepare for these important changes and regulatory transition a $6m one-off inventory provision has been set aside impacting the FY18 statutory profit.

We remain confident in our application for SAMR registration (previously CFDA). This registration specifically relates to Chinese label product sold exclusively in offline channels in China. While this channel contributed less than 6% of Bellamy's sales in FY18, we believe it represents an important future platform for growth and continue to plan for a winning distribution model pending approval.

Although these initiatives will raise the sights of our business, it will take time to realise the benefits which are not expected until FY20. In the FY19 year we expect a number of challenges, including the existing delay in our SAMR registration, slowing China cross-border growth for infant formula, and recent changes in the availability and trade pricing of our Australian competitors. On this basis, we expect more moderated growth in FY19 while remaining confident in the medium-term outlook and our 3 year growth strategy.

The potential for our brand and size of the opportunity is clear. The management team remains focused on executing a long-term premium brand strategy in response.

We thank you for your ongoing support.

Andrew Cohen

Chief Executive Officer

Company Overview

Operating and Financial Review

Bellamy's is a leading infant nutrition brand in the Australian and Chinese markets. Following a challenging FY17 year, the stated turnaround plan has delivered tangible results in terms of revenue growth, profitability, cashflow and the balance sheet.

SAMR registration of Bellamy's Chinese-label formula is important to concluding the turnaround and Bellamy's remains confident in the technical merits of the application and prospects for registration. SAMR registration specifically relates to Chinese label product sold exclusively in offline channels in China, which contributed less than 6% of Bellamy's sales in FY18.

The FY18 year has further built on the restructure of overhead, supply-chain and distribution channels achieved in 2H17, including the necessary $58m capital raised to fund this restructure and acquire the China CNCA licenced Camperdown manufacturing facility at the beginning of the period.

A more sustainable business model and profit structure has now been established, underpinned by a number of key changes:

- Sales and Channels: Sales and distribution channels have been consolidated, leading to stable trade pricing and margins, the removal of excess trade inventory and stronger price realisation.
- Procurement: Ingredient procurement has been diversified to establish competitive tension with greater capacity to support growth, while minimising minimum annual volumes (**MAV**) commitments.
- Processing: Manufacturing and production decisions have been optimised and our logistics network has been restructured for lower cost, greater flexibility and a significantly reduced inventory position and ageing profile.
- Marketing: Investment in marketing and brand is more effective and increased materially. Spend has been redirected from low ROI agency retainers and media, to integrated brand campaigns and social activation. Additionally, the development of a future brand refresh and investment in local China sales and marketing capability has created a strong platform for FY19 investment.
- Supply-chain: Investment, control and the provenance of the supply-chain has also improved, including the acquisition and integration of the Camperdown facility, establishment and investment in an Australian organic milk pool, and transition to full control of product intellectual property.
- Portfolio Growth: Finally, a number of important future growth engines have been initiated, including establishment of a food business unit, pending application for SAMR registration, Vietnam market entry, and new product development including Step 4 and Pregnancy formulas and the nutritional enhancement of existing formulas for DHA, ARA and GOS.

Together these initiatives have driven improved growth, profitability, and balance sheet strength. This includes 37% annual group revenue growth (48% for the Australian label business), a 5.6 percentage point increase in gross margin percentage for 2H18 versus 2H17, a 65% increase in normalised EBITDA and cash of $87m with zero net debt.

An important step to finalising the turnaround is transition to refreshed branding, enhanced and extended product portfolio, country of origin labelling (**CoOL**) compliant packaging in Australia, and SAMR registered product in China on approval. To this end, a one-off $6m inventory provision has impacted the statutory FY18 result and is adjusted for in the normalised earnings table below.

Financial Performance

The Company achieved revenue of $328.7m (FY17: $240.2m), EBITDA of $64.6m (FY17: $1.4m) and NPAT of $42.8m (FY17: loss of $0.8m). Revenue growth was predominantly volume driven and included a $8.7m contribution (from external customers) from the Camperdown manufacturing business (**Camperdown**).

Company Overview

Normalised financial performance compares to FY17 in the table below:

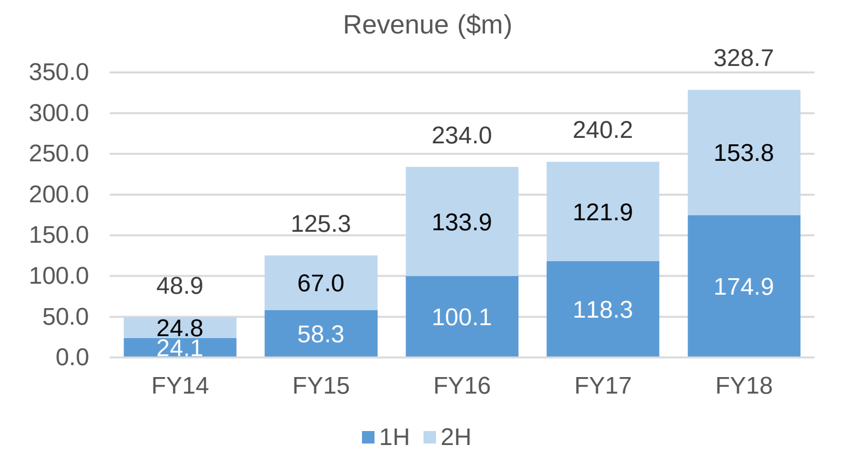
Group $m	FY18(1) Statutory	One-offs(2)	Normalised	FY17(1) Statutory	One-offs(2)	Normalised
Revenue	328.7		328.7	240.2		240.2
Gross Profit	128.9		128.9	91.5		91.5
Gross Margin %	39.2%		39.2%	38.1%		38.1%
Other Income	0.6		0.6	0.2		0.2
Overhead	-64.9	6.0	-58.9	-90.3	41.4	-48.9
EBITDA	64.6	6.0	70.6	-1.4	41.4	42.8
EBITDA %	19.6%		21.5%			17.8%
D&A	4.3		4.3	0.8		0.8
Net Profit/Loss After Tax	42.8	4.2	47.0	-0.8	29.0	28.2
Net Profit %	13.0%		14.3%	0.0%		11.7%

(1) Bellamy's has followed the guidance for underlying profit as issued by the ASIC regulator guide RG230 'Disclosing non-IFRS information'. The profit and loss summary with a prior period comparison in the table above, has been sourced from the accounts but has not been subject to separate review or audit. The directors believe that the presentation of the unaudited non-IFRS profit and loss summary in the table above is useful for users as FY18 and FY17 includes significant items that are not expected to be repeated in future years. The table reflects the normalised earnings of the business.

(2) Refer Note 6 for details of individually significant items. In FY18, a one-off expense of $6.0m to provide for inventory write-downs relating to the transition to SAMR registered products in China and CoOL compliant labelling in Australia as reported above.

Revenue and Profitability

Bellamy's group revenue grew 37% on FY17. Growth was predominantly driven by volume and a contribution from Camperdown. Price realisation has improved, with promotional discounts minimised to support the brand and its premium position.



Group revenue in FY18 was $328.7m (FY17: $240.2m).

The core business (which excludes Camperdown) revenue was $320.0m (FY17: $240.2m) representing an increase of 33.2% growth on prior year.

Camperdown revenue from external sources was $8.7m.

Camperdown revenue from external customers was $8.7m generating an EBITDA loss for the year of $1.4m. Importantly, Camperdown EBITDA for 2H18 improved to breakeven with material operational progress in the last quarter.

<u>Core Business</u>

Revenue growth excluding Camperdown was 33.2%. On a like-for-like basis the Australian label portfolio including Food grew 24% versus FY17, and Chinese label revenue declined by 51% impacted by delayed SAMR registration.

Gross profit margin for FY18 was 39.6% (FY17: 38.1%). This increased to 42.5% in 2H18. The margin increase was driven mostly by lower cost of goods sold from improved ingredient purchasing and manufacturing arrangements. Stronger revenue management disciplines also contributed, including reduced promotional discounts and minor price increases.

Company Overview

Expenses

To enable a more balanced analysis, this commentary refers to comparative costs on a normalised basis. Overhead costs increased $9.9m (20.2%) on FY17 due primarily to the inclusion of Camperdown overhead costs of $3.7m plus $3.7m additional investment in marketing in line with our long-term growth plan.

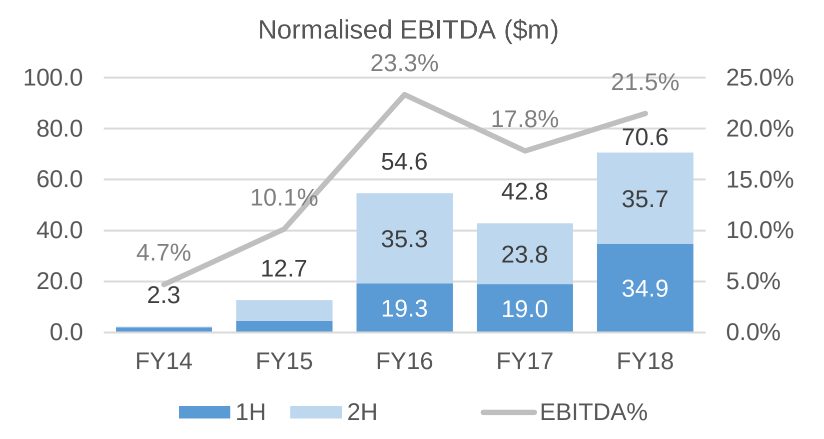
<u>Core Business</u>

Key changes in normalised costs for the core business (excluding Camperdown) are:

- direct costs which include logistics and warehousing costs reduced $1.2m to $14.2m despite a 33.2% increase in revenue (and a similar volume increase). Direct costs reduced to 4.4% of Revenue (FY17: 6.4%) as distribution logistics were restructured and streamlined;
- marketing investment increased 33.5% and effectiveness improved considerably with a shift to direct brand investment from agency fees and retainers. Expenditure was 4.6% of Revenue and is progressing to our target level of +5%;
- employee costs increased $0.6m from FY17 as the investment in capability continues, with a particular focus on a renewed leadership team and China sales and marketing capability;
- at-risk equity remuneration, issued as part of the turnaround plan, contributed to the cost increase and is non-cash. Equity remuneration saw an additional increase as the probability of achieving legacy equity plans (which included non-market conditions) were revised;
- admin & other costs increased $1.4m compared to FY17 reflecting investment in systems and increases in other costs including insurance.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Total normalised Overhead reduced from 20.4% of Revenue in FY17 to 17.9% in FY18 including Camperdown.



Improvements in gross margin and overhead costs as a proportion of revenue results in an increase in the EBITDA ratio to 21.5% (FY17: 17.8%).

In 2H18, Group EBITDA was 23.2% showing strong growth over the 19.9% in 1H18.

Core business EBITDA was 22.6% (FY17:17.8%) and was 23.9% in 2H18.

Balance Sheet

Cash at 30 June 2018 was $87.6m (FY17: net debt of $7.8m). The strong cash conversion resulted from the combined impact of a net profit after tax of $42.8m and net proceeds from the retail tranche of the capital raise of $45.1m less investments $18.0m, and other working capital improvements.

Inventory reduced $3.0m to $90.5m noting a $4.4m increase in provision. The balance includes $56.9m of finished goods which represents approximately 4.0 months of sales (FY17: 6.6 months) based on historical selling rates. The level of inventory fluctuates monthly based on production and sales patterns, however a level of 4-5 months is considered acceptable in the context of business growth, but has been impacted by lower than anticipated sales in 2H18 in a more competitive trading environment.

The inventory carrying value is stated net of a provision of $10.0m (30 June 2017: $5.6m).

Acquisition Accounting

The cost to acquire 90% of Camperdown was $32.1m. The fair value of net tangible assets acquired was negative $2.5m, and finite life intangible assets were $6.8m. Finitie life intangible assets will be amortised over 2-3 years. Amortisation of $2.9m was expensed in FY18.

Goodwill is $28.2m as at 30 June 2018.

Cash Flow

Net cash generated from operating activities was $68.2m. This was generated from $42.8m profit after tax plus other working capital improvements.

Bellamy's invested $32.1m in Camperdown ($10.5m cash and $21.6m in equity) and $5.5m in the Tasmanian milk pool and other upgrades. Total investment was $39.0m, $18.0m of which was funded with cash.

Cash at 30 June 2018 was $87.6m with no debt. Bellamy's retains a $40m debt facility which is not drawn on at 30 June 2018.

Manufacturing / Camperdown

Camperdown had its CNCA licence suspended in July 2017. It is normal practice to suspend CNCA licences while the authority reviews potential non-compliance. The licence suspension was lifted in August 2017 after compliance was re-affirmed. The event resulted in a number of lost orders from external customers and impacted the 1H18 result resulting in a net EBITDA loss of $1.4m for the half. Operational improvements and a return to production resulted in a breakeven result for 2H18.

Prior to a capital upgrade Camperdown remains sub-scale and is not expected to contribute incremental profit to the Group business.

Capital Expenditure

The capital expansion plans are expected to cost $12-15m. It will take more than 12 months to implement due the pending SAMR registration timelines, equipment ordering lead-times and the need to sequence the upgrade into the production schedule.

The facility has sufficient production capacity to meet forecast demand of Chinese label product until the expansion is completed.

SAMR Brand Registrations

As advised, a SAMR registration is required to sell Chinese label products in offline retail stores in China. The application for this licence was submitted by Camperdown for the Bellamy's brand in December 2017 and Bellamy's remain confident it will be achieved.

Camperdown has already received SAMR registration for one other external customer and began manufacturing SAMR compliant product for this customer in 2H18.

Conditional Acquisition of remaining 10% Shareholding

Bellamy's will acquire the remaining 10% of Camperdown conditional on the success of the SAMR application. The transaction structure provides the vendors with continued financial exposure to the success of Bellamy's. The original ownership structure retained financial incentive for both former and new shareholders to collaborate through the ownership and licencing transition phase. This structure has proven successful, however post SAMR registration is an appropriate time to implement ownership change. The change provides Bellamy's with greater flexibility to adapt and manage its manufacturing operations.

The strategic rationale behind the Camperdown acquisition was to provide a pathway to sell to stores in China post 1 January 2018. This strategic rationale remains intact.

Outlook

Looking forward to FY19, Bellamy's expects more moderated sales growth and notes the impact of a more difficult trading environment over the last quarter, including slower Chinese cross-border market growth for infant formula and a change in the availability, and ecommerce pricing, of Bellamy's primary Australian and New Zealand competitors.

Company Overview

A longer than anticipated delay in SAMR registration will continue to impact Chinese-label formula sales and consequently given the uncertainty in timing guidance is provided for the Australian label business only, with a base of $302m in revenue in FY18.

On the basis FY19 Australian label revenue is expected to achieve up to 10% growth on comparative FY18 revenue. FY19 EBITDA to continue at 2H18 normalised levels of between 22-25%. Growth is expected to be predominantly achieved in 2H19 on the launch of a brand refresh. This revenue growth cycle reflects a very strong 1H18 with changed trading conditions in 1H19.

The contribution from Camperdown is not expected to change materially in FY19 as the facility upgrade is undertaken. MAV commitments with manufacturers and suppliers are expected to be in line with FY18. Both of these considerations have been taken into account in the above guidance.

The medium-term outlook remains compelling, supported by category fundamentals, a differentiated position, and future channel opportunities.

Strategic focus

Bellamy's continues to pursue a long-term premium brand strategy, targeting a balanced scorecard of volume growth and margin expansion over five years. Focus remains on developing the core business to its full potential in Australia, China, and South East Asia, in the product categories of organic infant and toddler formula and food. China, through both formal and informal channels, has particular significance to this growth strategy.

Winning in these markets and categories requires continued investment in brand, distribution channels, supply-chain and internal capability. The stated key investment themes are broadly outlined below:

Key Strategic Investment Themes:

BRAND MARKETING AND PRODUCT	TRADE PARTNERSHIPS AND DISTRIBUTION	STRATEGIC CAPABILITY (INCL. SUPPLY-CHAIN)
Brand Assets, Brand Premium & Packaging	SAMR Registration & China Offline	Strategic, Flexible Manufacturing
Local Milk Pools and Sourcing	Asian Rising Middle Class Markets	Quality, Traceability and Block-chain
NPD, Upgrades, IP and licences	Daigou Relations & Organic Education	Government and Regulatory Affairs
Food as an Incubated Business	Strategic Trade Partnerships	Capability & Performance Culture

Directors and Executive Team

Directors

Board of Directors	
John Ho **Non-Executive Chair** *(appointed 13 April 2017)*	John founded Janchor Partners and serves as its Chief Investment Officer. Janchor Partners is a long-term industrialist investor in companies with superior long-term value creation potential in the Asia Pacific region. He also serves as Deputy Chairman of the Hong Kong Exchange Listing Committee, the regulatory body that provides independent oversight of listing rules and companies in Hong Kong and is a current director of the ASX listed company, Vocus Communications. John has extensive business and investment experience in consumer, technology and health related sectors, especially in Australia and China. He is an Australian citizen and holds a Bachelor of Science in Mathematics and Bachelor of Commerce in Finance (First Class Honours and University Medal) from the University of New South Wales.
John Murphy **Independent Non-Executive Director** **Deputy Chair** **Chair of Remuneration & Nomination Committee** *(appointed 18 May 2017)*	John has over 35 years' experience in Australia and internationally in the beverage, food and packaging industry. He has held numerous senior leadership roles at large multinational companies, including Managing Director of Coca-Cola Amatil Australia, CEO of Visy Packaging and Recycling for Australasia and Managing Director of Fosters Australia/Carlton & United Breweries. John currently sits on the advisory board of a number of private companies including PFD Food Services and Bladnoch Distillery, and also advises a range of companies internationally. He previously served as Chairman of the Lantern Hotel Group.
Rodd Peters **Non-Executive Director** *(appointed 28 February 2017)*	Rodd has more than 30 years' experience as a commercial transactions lawyer and litigation lawyer. For the first 7 years of his career he was a barrister and he then established his own law firm in partnership in 1993. He is admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. Rodd holds a Bachelor of Laws from University of Tasmania and also a Master of Laws (Hons) from Trinity Hall, University of Cambridge. After being voted onto Bellamy's board at the EGM in February 2017, Rodd oversaw the initial transition of Bellamy's turnaround plan and Board renewal and thereafter he has remained as a non-executive director of Bellamy's.
Wai-Chan Chan **Independent Non-Executive Director** *(appointed 28 February 2017)*	Wai-Chan was appointed as a Non-Executive Director in February 2017. He brings 25 years of consulting and operating experience in the consumer products and retailing sectors, with a focus on Asia, in particular China. He advises clients in the grocery, health and beauty, apparel and food and beverages industries on issues related to strategy, operations, organisation, and digital. He currently works for Oliver Wyman where he is a partner and the Global Leader of the Consumer Goods Practice. He was also previously at the retailer Dairy Farm, where he was the Regional North Asia Director, responsible for some 2,500 stores across multiple formats. He was also a partner at McKinsey & Company in Greater China. Wai-Chan holds a Ph.D. from the University of Cambridge, an M.B.A from the Harvard Graduate School of Business Administration, and a Bachelor of Science. from Imperial College, London.
Shirley Liew **Independent Non-Executive Director** **Chair of Audit & Risk Committee** *(appointed 13 December 2017)*	Shirley has over 25 years' experience in international, listed and world class organisations in Australia as well as the UK and Asia. She has held senior commercial finance roles and lead advisory/audit partner roles in top-tier Chartered Accounting firms, including Grant Thornton and Ernst & Young. Shirley currently serves on a number of advisory boards and is Chair and non-executive Director of Outset Group (Amber Tiles Franchise) as well as both non-executive Director and Committee Chair for audit, finance and risk for each of Lantern Hotels Group Limited, Amber Group Australia, Hunter United Employees Credit Union Limited and Bridge Housing Limited. She also serves as independent advisor and member of various audit and risk committees including Transport NSW Trains and the NSW Local Health Districts of Central Coast.

Directors and Executive Team

Executive Team

Executive Team	
Andrew Cohen **Chief Executive Officer**	Andrew was appointed as Chief Executive Officer in April 2017 having been appointed as acting Chief Executive in January 2017 and had previously held the position of Chief Operating Officer and Chief Strategy Officer from July 2016. Andrew brings extensive experience in grocery, retail and FMCG, including successful and extensive China go-to-market experience in vitamins, infant formula and dairy. Prior to joining Bellamy's, Andrew worked as a Partner with Bain & Company where he held a leadership role in their Consumer Products and Retail practice and has over 15 years in the sector in management and consulting roles. Andrew holds a Bachelor of Commerce and Arts from University of Melbourne and an M.B.A. from Cambridge University (Dux).
Nigel Underwood **Chief Financial Officer**	Nigel was appointed as Chief Financial Officer in April 2017, having been appointed acting Chief Financial Officer of the Group in January 2017. Prior to joining Bellamy's Nigel had experience in senior finance roles in several leading companies and was most recently Chief Financial Officer of transport operator, Keolis Downer. Nigel holds a M.B.A., is a fellow of the Chartered Accountants Australia and New Zealand and is a graduate member of the Australian Institute of Company Directors.
Melinda Harrison **General Counsel, Company Secretary & Head of Regulatory Affairs**	Melinda was appointed as General Counsel and Company Secretary in May 2017. She has over 20 years' experience in law, risk and governance in listed and privately held companies both in Australia and internationally. Most recently, Melinda was General Counsel at Carter Holt Harvey, one of Australia's largest wood manufacturing business where she lead the legal function in Australia as well as being chair of the risk committee. Prior to that Melinda held senior legal and governance roles in a US listed group of companies based in Hong Kong, conducting significant work in China and throughout Asia. Melinda started her career in private practice in Corporate Advisory including at King Wood Mallesons. She holds an M.B.A. (Hons) from the University of Hull (U.K.), a Bachelor of Laws (Hons) from Melbourne University, a Bachelor of Arts(Hons) from Melbourne University and recently graduated from the Australian Institute of Company Directors course with an Order of Merit. She has also completed a certificate of Governance Practice from the Governance Institute of Australia.
Peter Fridell **Director of Operations**	Peter joined Bellamy's in February 2017. He has fifteen years of strategy, operational improvement and senior finance experience. Prior to joining Bellamy's, he gained extensive fast-moving consumer goods experience as Strategy Director and Supply Finance General Manager at Carlton & United Breweries. He has previously worked with A.T. Kearney management consultants and as a mechanical design engineer. Peter holds an M.B.A. (Dean's list), INSEAD (France), a Bachelor in Mechanical & Manufacturing Engineering (first-class honours), University of Melbourne, and a Bachelor of Commerce, University of Melbourne.
David Jedynak **Director of Sales & Marketing**	David joined Bellamy's in July 2016 and was a key advisor during the restructure of the business. He was appointed as acting Director of Sales and Marketing in January 2017 and confirmed in the role in June 2017. David has 13 years of experience in strategy, private equity and venture investing, across both developed and emerging markets. He has worked as a Principal with Bain & Company where he focused on consumer/retail businesses, managed investment portfolios focused on high-growth small-cap businesses and built and advised several tech start-ups. David holds a Bachelor of Engineering (Mechatronics) and Bachelor of Computer Science from the University of Melbourne.

Directors’ Report

Your Directors present their report on the consolidated entity consisting of Bellamy’s Australia Limited and the entities it controlled (the **Group,** the **Company** or **Bellamy’s**) at the end of, or during, the year ended 30 June 2018 as follows:

1 Information about the Directors

1.1 Names and particulars

The names of the Directors in office at any time during or since the end of the financial year are:

Director	Role
John Ho	Non-Executive Chair
Rodd Peters	Non-Executive
Wai-Chan Chan	Independent Non-Executive Director
John Murphy	Independent Non-Executive Director
Shirley Liew	Independent Non-Executive Director (appointed 13 December 2017)

1.2 Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship
John Ho	-	-
Rodd Peters	-	-
Wai-Chan Chan	-	-
John Murphy	Lantern Hotel Group	2015-2016
Shirley Liew	Lantern Hotel Group	2016-current

1.3 Director shareholdings

The following table sets out each Director’s relevant interest in Bellamy’s shares and options as at the date of this report.

Director	Fully paid ordinary shares (No.)	Share options (No.)
John Ho	8,752,182	-
Rodd Peters	43,600	36,257
Wai-Chan Chan	-	36,257
John Murphy	-	193,373
Shirley Liew	-	20,878

1.Appointed 13 December 2017. Grant of options is subject to shareholder approval at the 2018 AGM.

Refer to the Tables C and D of the Remuneration Report for further details.

1.4 Directors’ Meetings

The number of Directors’ meetings held, and the number of meetings attended during the financial year were:

Directors	Board of Directors	
	Attended A	Held B
Rodd Peters	14	14
Wai-Chan Chan	14	14
John Ho	14	14
John Murphy	14	14
Shirley Liew[1]	8	8

A. Number of meetings attended during the year

B. Number of meetings held during the time the Directors held office during the year

1.Appointed 13 December 2017

Attendances at the Audit & Risk Committee and the Remuneration & Nominations Committee meetings during the financial year were as follows:

Directors	Audit & Risk Committee		Remuneration & Nominations Committee	
	Attended A	Held B	Attended A	Held B
Rodd Peters	4	4	1	2
Wai-Chan Chan	4	4	2	2
John Ho	4	4	2	2
John Murphy	4	4	2	2
Shirley Liew[1]	2	2	1	1

1.Appointed 13 December 2017

2 Share options granted to senior management

October 2017 Grant

On 2 October 2017, in accordance with the employee Long Term Incentive Plan (as approved by the shareholders at the AGMon 26 October 2017), the group issued 50,000 conditional vesting options to new senior management as part of their remuneration.

The exercise price for the 2 October 2017 options grant is $7.82, however the options can only be exercised if specific performance hurdles are met. These options expire four years after the date of the grant which should be no later than 2 October 2021.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate.

January 2018 Grant

On 15 January 2018, in accordance with the employee Long Term Incentive Plan (as approved by the shareholders at the AGMon 26 October 2017), the Group issued 36,585 conditional vesting options to new senior management as part of their remuneration.

The exercise price for the 15 January 2018 options grant is $10.34, however the options can only be exercised if specific performance hurdles are met. These options expire four years after the date of the grant which should be no later than 15 January 2022.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate.

April 2018 Grant

On 20 April 2018, in accordance with the employee Long Term Incentive Plan (as approved by the shareholders at the AGMon 26 October 2017), the Group issued 38,143 conditional vesting options to existing senior management as part of their remuneration.

The exercise price for the 20 April 2018 options grant is $20.56, however the options can only be exercised if specific performance hurdles are met. These options expire four years after the date of the grant which should be no later than 20 April 2022.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate.

The details of grant of options during the year are set out below:

Directors and KMP Executive Team	No. of options granted in FY18	Total No. of ordinary shares under option at 30 June 2018
Directors		
John Ho	-	-
John Murphy	-	193,373
Wai-Chan Chan	-	36,257
Rodd Peters	-	36,257
Shirley Liew[1]	20,878	20,878

Further details about share based payments to Directors and key management personnel are included in the Remuneration Report.

Directors and KMP Executive Team	No. of options granted in FY18	Total No. of ordinary shares under option at 30 June 2018
KMP Executives		
Andrew Cohen	-	2,495,720
Nigel Underwood	-	475,000
Melinda Harrison	-	200,000
David Jedynak	-	475,000
Peter Fridell	-	440,000
Other executives	124,728	993,016

1.Appointed 13 December 2017. Grant of options is subject to shareholder approval at the 2018 AGM.

3 Company Secretary

Melinda Harrison was appointed Company Secretary of Bellamy's Australia Limited on 5 May 2017, held the position at the end of the financial year and continues to hold this position.

4 Corporate Governance

Bellamy's Australia Limited ACN 124 272 108 (**Company**) and its associated entities are committed to upholding a high standard of corporate governance. This corporate governance statement sets out the key features of the Group's governance framework and practices.

The Group has adopted corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Group and that are based on the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**).

The Company was largely compliant with the ASX Recommendations for the year ended 30 June 2018. The Board believes that its current composition is appropriate for positioning the Company to realise the significant, long-term opportunities that are available in Australia, China and other markets. However, the Board will review and consider the Company's corporate governance practices, including the composition of the Board, on an ongoing basis with a view to making changes as the Company's circumstances evolve. Detailed information regarding the Company's compliance with the ASX Recommendations is set out in this Corporate Governance Statement.

This statement is current at 28 August 2018 and has been approved by the Company's Board. The Company's Board and Committee charters, Code of Conduct and various policies referred to in this corporate governance statement are available on the Corporate Governance section of the Company's website.

Refer also to the Corporate Governance Statement below.

5 Principal activities

The Company is an ASX-listed Tasmanian food brand business. The Company offers a range of organic food and formula products for babies and toddlers. The Company's products are all Australian-made and certified organic.

The Company offers over 30 products that are tailored to the needs of babies and toddlers.

There were no significant changes to the principal activities during the year.

6 Review of operations

A comprehensive review of operations is set out in the in the front section of this Annual Report under Operating and Financial Review.

Since the acquisition of Camperdown, the Group has greater ownership and therefore responsibility for production of infant milk formula. There is also greater risk associated with operating a manufacturing environment.

Changes to licensing requirements in China require infant formula sold in China after 1 January 2018 to be licensed. Bellamy's does not yet have its licence to sell Chinese label products within China. Bellamy's remains confident of obtaining this licence, however cannot estimate when the application will be assessed and determined.

7 Events since the end of the financial year

There are no material subsequent events.

8 Future developments

The Group's strategy is to continue to focus investment, capacity and capability on bringing the core business of infant formula and baby food in Australia and China to full potential. The Chinese market is particularly important to the Group due to its size and projected growth rate, driven by demographics and changing consumer wealth and preferences.

In the near term, the Group is focused on achieving the required SAMR registration to enable importation and sale of Chinese label product to recommence in China. Bellamy's will then focus on taking greater control of its marketing and distribution in China and growing the revenue from Chinese label products sold in China. Anticipated changes to the distribution model in China will increase revenue and increase marketing and distribution costs. It is anticipated this will have a neutral impact on profit initially and contribute to greater long-term profitability.

In the medium term, the priority will be to strengthen the Bellamy's consumer proposition within the organic baby food and formula category. This will require investment in both the brand and in updating and expanding the product range.

The Group is continually evaluating new markets and laying early foundations for longer-term growth beyond the core business.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report as the disclosure of the information is likely to result in unreasonable prejudice to the Group.

9 Risk

Bellamy's is subject to several risks, which may either individually or in combination adversely affect the future operating and financial performance of Bellamy's. Bellamy's takes a proactive approach to managing these risks. Bellamy's has included some examples of risk mitigations in place to assist in managing these.

This section does not purport to list every risk, however provides a selection of risks that may impact future operating or financial performance.

9.1 'Chinese label' product regulatory risk

Government policy and regulation may change and restrict or limit the ability to sell existing product into key markets. This risk is most pronounced in China's infant formula market. Currently, the Chinese government requires a manufacturing facility to be registered with the CNCA and 'Chinese label' products imported and sold in retail channels in China require SAMR (formerly CFDA) registration after 1 January 2018.

Bellamy's submitted its SAMR application in late December 2017 and is awaiting the outcome of the assessment. If registration with SAMR is unsuccessful, the valuation of Camperdown will be reassessed and sales of 'Chinese label' infant formula products will be affected. The sale of Bellamy's 'Chinese label' products accounted for less than 6% of total group revenue in FY18.

In addition, it should also be noted that any future regulatory changes continue to be a business risk.

To mitigate this risk, Bellamy's:

- acquired the Camperdown manufacturing facility which had its CNCA licence granted in July 2015 with an expected renewal date in July 2019;
- lodged its SAMR registration application through Camperdown in December 2017;

- will manage the renewal process of Camperdown's CNCA licence closely;
- continues to diversify revenues across multiple products, markets and channels.

9.2 'Australian label' product regulatory risk

Bellamy's currently sells 'Australian label' formula through cross border e-commence (**CBEC**) platforms in China.

Although the majority of 'Australian label' product consumed in China is 'direct mailed' and not distributed through the CBEC channel, if the Group is unable to comply with any future change in regulation relating to the CBEC channel this may negatively impact financial performance. There is also a risk of future change to regulations governing the 'direct mail' channel. This could include the imposition of taxes and/or prohibitions or measures taken to constrain the ability to undertake direct mail activity.

To mitigate this risk, Bellamy's:

- continues to educate itself of regulatory changes and routes to market in China;
- maintains multi-channel routes to market for the sale of its products in China;
- closely monitors changes to regulation and its compliance with regulatory requirements;
- continues to diversify revenues across multiple products, markets and channels.

9.3 Import testing

All food product imported into China is subjected to a sample-based quality testing, known as China Inspection and Quarantine (**CIQ**) tests governed by SAMR. Should a product in a shipment fail a CIQ test, Chinese law prevents the entire shipment from entering China, even if the affected product forms only part of the shipment. If the Group's products, or third-party products produced by Camperdown, fail a CIQ test, this could have a material adverse impact on the Group's business, financial performance and operations.

To mitigate this risk, Bellamy's has:

- maintained rigour around testing its products at several stages including at the ingredient procurement stage, throughout the manufacturing process and at the finished goods stage;
- in addition, Bellamy's tests formula products at a Chinese state-owned testing lab in China before CIQ testing.

9.4 Brand damage, product quality issues

Any actual or perceived contamination, spoilage or other adulteration, product misbranding, failed product testing or tampering may lead to a material erosion of the Group's brand reputation in China, regardless of its merits.

The Group's failure to detect counterfeiting and imitation of its products and trademarks or a failure to mitigate their impact could result in a material adverse impact to the Group's sales in China.

Publication of reports of contaminated or tainted dairy products by other non-Chinese manufacturers that supply the Chinese market could negatively impact the Group's business even if there is no direct connection with Bellamy's products. Regardless of merit, such reports could also lead to additional scrutiny and testing by regulators which could impact the Group's business, financial performance and operations.

To mitigate this risk, Bellamy's:

- continues to maintain high quality controls throughout its supply chain;
- partners with certified third-party manufacturers with a proven record of product safety and quality;
- maintains comprehensive product quality audits of suppliers and manufacturers and testing and batch release procedures;
- actively manages and investigates customer complaints;
- continues to adopt the latest techniques to improve product security;
- continues to proactively manage, monitor and enforce IP breaches.

9.5 Complex distribution channels

Sales of the Group's 'Australian label' products to persons in Australia who on-sell to Chinese consumers via e-commerce and social media platforms cannot reliably be estimated by the Group but is thought to be substantial and the Group is highly reliant on this channel.

Accordingly, Bellamy's has an exposure to changes in consumer demand for its products in China. A failure by Bellamy's to predict or respond to changes in consumer preferences in China or a decrease in demand for the Group's products in China could materially adversely impact the Group's financial and operating performance.

To mitigate this risk, Bellamy's:

- continues to ensure the Group has a deep understanding of end consumers, key channels and routes to market where possible;
- continues to diversify revenues across multiple products, markets and channels including its food business and direct channels with greater transparency;

9.6 Market concentration and political risk

A material proportion of the Company revenue is derived from sales in China. With any international market, potential geo-political risks should be considered. To mitigate this risk, Bellamy's continues to invest into the local market and enter into other appropriate South East Asian markets, for example, most recently Vietnam.

9.7 Shortfall payments

Bellamy's has two material manufacturing agreements that guarantee long-term access to high quality production facilities in Australia. The two manufacturing arrangements have minimum annual volume commitments which run for a number of years. Where the Group is not able to fulfil minimum annual volume commitments, it is required to make production shortfall payments. Some contracts provide rebates for exceeding specified volumes.

Bellamy's also enters ingredient supply contracts with minimum volume commitments. Beyond FY19, shortfall payments may continue over the term of the contacts and could increase or decrease depending on the level of production.

To mitigate this risk, Bellamy's actively manages manufacturing commitments between its facilities and manages production allocation to achieve a variety of outcomes including to minimise shortfall payments.

9.8 Workplace health & safety

Actual or potential harm to all workers and other persons in the workplace could have a reputational and financial impact on the Group including increase in insurances, penalties and decrease in staff morale and productivity.

To mitigate this risk, Bellamy's:

- maintains a robust governance and reporting framework including continuous review of the risk register for identification of new risks/hazards and mitigation strategies;
- maintains focus on Workplace Health & Safety initiatives and ensure regular stakeholder training;
- continues to upgrade equipment (where appropriate) to improve automation and reduce manual handling exposures;
- uses qualified external consultants to review practices and implement continuous improvements.

9.9 Loss of key people

Loss of key management personnel could have a material impact on the Group's operating and financial performance during the period until suitable replacements are found.

To mitigate this risk, Bellamy's:

- ensures effective employee retention strategies including adequate remuneration, appropriate incentives, culture, employment policies, succession planning and spread of duties are adopted;
- ensures appropriate short and long-term incentive programs are implemented;
- undertakes regular 'gap' analysis to continue to build capability and support future growth.

10 Environmental regulations

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

11 Dividends

No dividend will be paid with respect to the year ended 30 June 2018 (2017: $nil).

12 Indemnification and insurance of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the Group, the Group Company Secretary and all executive officers of the Group and of any related body corporate against a liability incurred as a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

13 Audit

13.1 Independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 46 and forms part of the Directors' report for the year ended 30 June 2018.

13.2 Statutory auditors

For the year ended 30 June 2018 PricewaterhouseCoopers (**PwC**) acted as the Group's external auditor. A representative from PwC will be available to the AGMto answer shareholder questions about the conduct of the audit.

13.3 Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 28 to the financial statements.

The Board of Directors has considered the position and, in accordance with written advice provided by resolution of the Audit & Risk Committee, is satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 28 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- all non-audit services have been reviewed and ratified by the Audit & Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

14 Rounding of amounts

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, related to the 'rounding off' of amounts in the Directors' Report and the Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that ASIC Instrument.

Sustainability

Sustainability Report

Overview

Sustainability Risk Management (**Sustainability**) is about embracing opportunities and managing business risks related to non-financial resources. This includes identifying opportunities to reduce dependency on limited resources, reduce waste in their use, and ultimately reduce the cost to the Group for utilising precious resources. Sustainability evaluates how fragile environmental assets are managed over the long term, ensuring an appropriate balance between consumption and conservation. Bellamy's focus on sustainability encompasses:

- health and safety of employees and customers;
- responsible marketplace interactions with suppliers, customers and industry;
- employee diversity and talent;
- environment protection and improvement; and
- community support

The long-term success of Bellamy's is impacted by the effective management of Sustainability risks and on the willingness of stakeholders to continue to support it. This includes an appreciation of the Company's relationship with a broad range of stakeholders, including governments, regulators, media, bankers, share analysts, environmental analysts, non-government organisations, the not-for-profit sector, families of employees and community organisations which are collectively known as Society.

Bellamy's believes a Company that successfully balances the competing interests of the Society in which it operates will foster a favourable public opinion and in return receive a social licence to operate. It is therefore important that Bellamy's policies align with and protect that social licence.

Ingredient Production

Bellamy's only produces certified organic products. Being organic is a lifestyle increasingly understood by consumers and producers. At its core, organic produce already sets a high benchmark for environmental sustainability.

The production of organic ingredients requires adherence to stringent sustainable organic farming and processing practices and standards. Organic farming practices are by their very nature sustainable, blending farming with the natural environment in which they are produced. The methods and resources used are designed to have minimal impact on the environment with an emphasis on utilising natural resources in the most efficient way possible. This is achieved through a focus on livestock welfare, conservation of energy, carbon emission reduction, soil and water conservation, and production of organic produce without the use of artificial fertilisers and chemicals.

Supply Chain, Logistics and Production

Bellamy's takes into account supplier carbon pollution programs and awareness, their policies on emissions and pollution, their policies on water consumption and contamination, and any corporate exposure to negative environmental impacts.

As part of the process to 'onboard' suppliers, the suppliers' organic values are evaluated for alignment with Bellamy's. Bellamy's major suppliers have global sustainability and social responsibility programs in place to ensure the sustainable and ethical sourcing and production of ingredients.

The sustainable nature of organic ingredients is at the heart of Bellamy's supply chain decisions.

Product safety is the highest priority and Bellamy's holds an ISO9001 certification. All manufacturers used have food safety certifications, and employees receive regular and on-going training to ensure the quality and safety of Bellamy's products remain uncompromised.

On 21 June 2018, Bellamy's announced a new strategic arrangement to increase the volume of Australian organic milk used in the production of infant formula. The initial investment of $5.5m affirms Bellamy's commitment to developing the local milk pool in Australia. From a long-term sustainability perspective, Bellamy's has committed to take the first 20 million litres of milk from the organic milk pool annually. Bellamy's will continue to investigate responsible organic dairy ingredient sourcing options.

Sustainability

Bellamy's is focused on improving supply chain and logistics, with an aim to reduce direct costs and environmental footprint. This is achieved by improved ingredient sourcing and enhancing distribution channels. The steps currently being undertaken are:

- minimising food miles by sourcing ingredients from local farms before sourcing from other avenues;
- purchase and incorporate more fresh milk which removes one full drying step from the production cycle, reducing energy usage and carbon emissions;
- minimise double handling by minimising finished good movement during the production cycle between drying, canning and warehousing whenever possible.
- continue to encourage and develop tools that enable and encourage Australian farmers to convert to organic farming and promote an increase in the Australian organic milk pool.

Focusing on the above areas can lead to medium and long term operational cost savings, as well as contributing to global efforts targeting the reduction of emissions.

Bellamy's is focused on the energy consumed in the production process. This cost is mostly incurred by production partners; however, it is acknowledged that energy consumption in the production process contributes to greenhouse gas emissions and the cost of finished goods. Maintaining a competitive process for marginal production allocations encourages production partners to contain all costs and create efficiency in the production process, including improving energy efficiency.

Packaging

Bellamy's are a signatory to the Australia Packaging Covenant (**APC**). The APC aims to reduce the harmful impact of packaging on the environment.

- Formula Packaging: the Bellamy's formula range packaging is 100% recyclable. The cardboard box, tin, scoop, lid, label and seal can all be recycled. For FY18 the total amount of packaging material that could be recycled and avoid landfill was 1,998 tonnes.
- Food Packaging: Bellamy's understands the importance of incorporating recyclable materials into packaging, however product safety (within economic bounds) is not to be compromised. The individual components of the food pouches are recyclable but when the components are cast together, they are not. Bellamy's is constantly exploring options to improve this. Due to the significant cost barriers involved in using alternative recyclable/biodegradable packaging, Bellamy's are yet to adopt this change. Bellamy's is continually monitoring and exploring new technologies that are both commercially viable and sustainable. For FY18, the total amount of packaging material that could be recycled and avoid landfill was 192 tonnes.

People

A diverse workplace has employees that can understand, appreciate and advocate for the needs of a diverse range of customers. A company that encourages diversity is able to recruit, retain and prosper from the depth of talent available from society.

Bellamy's Equal Employment Opportunity policy is aimed at attracting and retaining the most highly skilled employees, providing a safe and flexible work environment, free of discrimination. A risk management approach is used to remove the factors that limit diversity without compromising valid policies such as merit-based recruitment or promotion based on performance.

Bellamy's Diversity policy seeks to align Bellamy's management systems with its commitment to continue to develop a culture that values and achieves diversity in its workforce and on its Board. Bellamy's is committed to the development of sustainable and responsible business practices in order to achieve its diversity objectives.

Bellamy's employees are encouraged to be brave and think innovatively, with their opinions valued. Bellamy's values a patchwork of eccentric diversity that enables it to be positioned in a way to achieve something great.

Bellamy's is committed to complying with all legislative workplace requirements, providing on-going professional development and training, and achieving outcomes that enable Bellamy's employees to be the best version of themselves.

Sustainability

Governance

Bellamy's defines risk broadly, and it includes a focus on governance, climate change, greenhouse gas emissions, exposure to Environment, Social and Governance (**ESG**) obligations, changing stakeholder perception and customer preferences, legislative changes and water management.

All ESG areas are considered risks and failure to properly address them will compromise the sustainable growth of the business. The Board has delegated to executive management the responsibility to identify actual and emerging risks and set in place programs to appropriately mitigate those risks. The Board has established oversight of these programs through the Audit & Risk Committee who work with the executive team to determine risk tolerance.

The Risk policy is described in the Corporate Governance Statement of this Annual Report.

Bellamy's is aware of the potential introduction of the *Modern Slavery Bill 2018* (Cth), and although there is no evidence of modern slavery occurring within the supply chain of Bellamy's, Bellamy's will continue to build a strong governance framework and work with our suppliers and supply chain to gain visibility in this space.

Our organic supply chain is audited and certified by relevant organic certifying authorities. Bellamy's will seek Modern Day Slavery to be included in the assessment criteria used by the certifying authorities.

Community Engagement

Bellamy's firmly believes in being a responsible corporate citizen and developing lasting and meaningful engagement with the communities who support it. Bellamy's has a proud history of donating funds, time and resources to charities, research and community groups.

Some examples of recent community engagement include:

- Primary sponsorship with the Clown Doctors™ Australia;
- Financial support for the Launceston Tornadoes, a Tasmanian-based women's basketball team playing in the South East Australia Basketball League;
- Sponsorship of the Cancer Council Launceston Fun Run Walk; and
- Annual Gold Sponsorship of the Bellamy's Kid-I-Am event.

Bellamy's are constantly pursuing community engagement opportunities that align to Bellamy's values and have a positive impact on the community.

Continual Improvement

Bellamy's sustainability program ensures robust protection of future growth, as well as ensuring costs are not uneconomically exposed to sustainability risk factors.

Bellamy's will progressively extend coverage of its own sustainability programs, and to the extent commercially able, seek to align these practices with those of suppliers and production partners.

Additional Sustainability information is provided on page 96.

Corporate Governance

Corporate Governance Statement

Bellamy's Australia Limited ACN 124 272 108 (**Company**) and its associated entities are committed to upholding a high standard of corporate governance. This corporate governance statement sets out the key features of the Company's governance framework and practices.

The Company has adopted corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Company and that are based on the 3rd edition of the ASX Recommendations.

The Company was largely compliant with the ASX Recommendations for the year ended 30 June 2018. The Board believes that its current composition is appropriate for positioning the Company to realise the significant, long-term opportunities that are available in Australia, China and other markets. However, the Board will review and consider the Company's corporate governance practices, including the composition of the Board, on an ongoing basis with a view to making changes as the Company's circumstances evolve. Detailed information regarding the Company's compliance with the ASX Recommendations is set out in this Corporate Governance Statement.

This statement is current at 28 August 2018 and has been approved by the Company's Board. The Company's Board and Committee charters, Code of Conduct and various policies referred to in this Corporate Governance Statement are available on the Corporate Governance section of the Company's website.

Board of Directors

The role of the Board

The Board recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Company's shareholders as well as its employees, customers and the community. Under the constitution, the Board is vested with accountability to shareholders for the management of the Group.

The Board has delegated responsibility for the operation and administration of the Company and Group to the CEO and executive management. Responsibilities are delineated by formal authority delegations. Senior executives reporting to the CEO have their roles and responsibilities defined in position descriptions.

The Board's role, responsibilities, powers, duties and functions and the matters specifically reserved to the Board or its Committees are detailed in the Board Charter. A copy of the Board Charter is available from the Company's website.

Board composition

The Board currently consists of five Non-Executive Directors, of whom three are independent Non-Executive Directors (including the Deputy Chairman). Details of each director, including the skills, experience, relevant expertise and period of office, are disclosed on page 10.

The Board considers that individually and collectively the Directors bring a level of skill, knowledge and experience that enables the Board to discharge its responsibilities effectively. The following table summarises the key skills and experience of the directors:

Skills/Experience	Number of Directors
Governance	4
Accounting/Audit	3
Finance/Banking	4
Risk/Compliance	4
Strategy	4
Crisis Management	3
Internal Business focus on China/Asia	4
Food Manufacturing	2
Brand/Marketing	3
FMCG/Retail	2
Logistics	2
Legal	1
Human Resource Management and Remuneration	3

Corporate Governance

The Board, with the assistance of the Remuneration & Nominations Committee, periodically reviews the mix of skills, expertise and experience of the Board and considers whether the composition and membership remain appropriate to meet the Board's objectives. The Board has determined that together the directors possess a comprehensive mix of skills, expertise and experience to discharge its responsibilities.

Director independence

Currently, a majority of directors on the Board are independent Non-Executive Directors.

The Board considers that the Deputy Chairman, John Murphy, Wai-Chan Chan and Shirley Liew are each independent. The Chairman, John Ho, as well as Rodd Peters are not independent as they are nominees of substantial shareholders of the Company, Janchor Partners and Black Prince Private Foundation respectively.

Accordingly, while the Board complies with Recommendation 2.4 (which recommends that a majority of the Board should be independent directors) it does not comply with Recommendation 2.5 (which provides that the chair should be independent).

The Board considers that John Ho and Rodd Peters each bring objective and independent judgement to Board deliberations and add significant value to the Board given their experience and skills. John Ho is an experienced investor with extensive international business expertise, including in relation to the Australian and Chinese markets. Rodd Peters is an experienced lawyer with many years of practice in commercial law, litigation and compliance.

John Murphy was appointed to the Board and elected Deputy Chairman on 18 May 2017. The creation of the Deputy Chairman role reflects the Board's commitment to ensuring that there is active participation from independent directors in the leadership of the Board (recognising that the Chairman is not an independent director). Each director (except Shirley Liew who was appointed this year) stood for election at the 2017 AGM and was elected.

Director	Role	Independence
John Ho	Chair, Non-Executive Director	Not independent
John Murphy	Deputy Chair, Non-Executive Director Chair of Remuneration & Nominations Committee	Independent
Wai-Chan Chan	Non-Executive Director	Independent
Rodd Peters	Non-Executive Director	Not independent
Shirley Liew	Non-Executive Director Chair of Audit & Risk Committee	Independent

Further detail is contained in the Board Charter.

Director selection, nomination and appointment

The Board will continue to consider Board renewal and succession planning on an ongoing basis and is focused on identifying suitable candidates for further appointments to the Board.

The Company's process for the selection, nomination and appointment of Directors involves a formal selection process undertaken by the Board, with the assistance of the Remuneration & Nomination Committee.

The Board establishes criteria about the general qualifications and experience as well as the specific qualifications that a candidate should possess.

Appropriate checks on any potential candidates are conducted before a person is appointed by the Board or put forward to shareholders as a candidate for election as a Director.

The Company provides formal letters to all new Directors and senior executives setting out the key terms and conditions of their appointment.

Shareholders are provided with all material information in the Company's possession that is relevant to a decision on whether to elect or re-elect a Director in the notice of AGM.

Further detail is contained in the Remuneration & Nomination Committee Charter.

Corporate Governance

Induction and ongoing professional development

The Remuneration & Nomination Committee is responsible for formulating the induction process in respect of new directors and the review of the same, alongside the development of any programs or identification of any opportunities necessary to ensure the directors develop and maintain the skills and knowledge they require to fulfil their roles effectively.

Further detail is contained in the Remuneration & Nomination Committee Charter.

Performance evaluation

Board

The Board Charter requires that each year the Board will conduct an evaluation of its effectiveness and performance that evaluates:

- its own performance, including against the requirements of its Charter;
- the performance of its committees; and
- the performance of individual directors, against both measurable and qualitative indicators.

A performance evaluation of the Board, the committees and each director was conducted in FY18.

Senior Executives

The Remuneration & Nomination Committee monitors and advises on the periodic performance of senior executives. The CEO initiates performance reviews of the executive whereby the individual is assessed against agreed goals and objectives.

Performance evaluations of senior executives have been undertaken during the current financial year in accordance with that process. The outcomes of the review and the link to individual remuneration levels are discussed in the Remuneration Report.

Remuneration

Disclosure regarding the remuneration of the Company's Non-Executive Directors, the CEO and CFO are set out in the Remuneration Report.

The CEO and each senior executive have a written contract with the Company. The Remuneration Report sets out details of each written contract of members of the Company’s key management personnel (**KMP**).

Company Secretary

The Company Secretary is accountable to the Board through the Chair and all directors have access to the Company Secretary.

The Company Secretary’s role in respect of matters relating to the proper functioning of the Board includes advising the Board and its Committees on governance matters, monitoring that Board and committee policies and procedures are followed, coordinating all Board business (including agendas, Board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings) and providing a point of reference for dealings between the Board and employees.

Further detail is contained in the Board and Committee Charters.

Board Committees

The following Committees assist the Board in carrying out its responsibilities:

- Audit & Risk Committee; and
- Remuneration & Nomination Committee.

An overview of the role and responsibilities, composition, and membership as at 30 June 2018 of each committee is provided below.

Committee	Audit & Risk Committee	Remuneration & Nomination Committee
Roles and responsibilities	The primary purpose of the Audit & Risk Committee is to monitor and advise the Board on: • financial reporting; • external audit; • risk management; and • internal control structure.	The primary roles of the Remuneration & Nomination Committee are to assist the Board: • to attract and retain suitable directors and senior executives; • to ensure that directors and executives are fairly and responsibly remunerated; • to evaluate the performance of directors and executives; and • to ensure that there are appropriate succession plans.
Members as at 30 June 2018	• Shirley Liew (Chair) • John Murphy • Rodd Peters • Wai-Chan Chan The chair of the Audit & Risk Committee is an independent director who is not the chair of the Board and the majority of the committee's members are independent.	• John Murphy (Chair) • John Ho • Wai-Chan Chan The chair of the Remuneration & Nomination Committee is an independent director who is not the chair of the Board and the majority of the committee's members are independent.
Composition	The committee must comprise of: • a minimum of 3 members of the Board; • only Non-Executive Directors; • a majority of independent directors; and • an independent director who is nominated by the Board as chair, who is not chair of the Board.	The committee must comprise of: • a minimum of 3 members of the Board; • only Non-Executive Directors; • majority of independent directors; and • an independent director who is nominated by the Board as chair, who is not chair of the Board.

The Company's Audit & Risk Committee composition complies with the ASX Listing Rules and ASX Recommendations.

The Company's Remuneration & Nomination Committee composition complies with the ASX Listing Rules as it comprises all Non-Executive Directors. A majority of the directors on the committee are independent directors and it therefore complies with Recommendation 8.1, that a majority of members should be independent. See Audit & Risk Committee Charter and Remuneration & Nomination Committee Charter for further information.

Details of the number of meetings held by the Board and its committees during FY18, and attendance by Board members, are disclosed on page 12.

Details of each committee member, including the skills, experience, relevant expertise, independence and period of office, are disclosed on page 10.

Risk framework

Risk management and identification

The Company has employed ongoing risk management processes.

The Company has a Risk Committee comprised of senior executives which reports to the Audit & Risk Committee. The Risk Committee maintains a risk register that identifies the key risks facing the business and the status of initiatives implemented to manage them. This risk register is reviewed and updated on a regular basis.

The Audit & Risk Committee has responsibility for monitoring risk and reporting to the Board on the Company's risk management framework including:

- identifying, assessing, monitoring and managing risk; and
- any material changes to the group's risk profile.

The Company undertakes annual reviews of the risk management framework to ensure that it continues to be sound. The Company has undertaken a review of its risk management process in FY18.

The Board ensures that adequate external insurance cover is in place appropriate to the Company's size and risk profile.

The Company also regularly considers its material exposure to economic, environmental and social sustainability risks.

Internal audit

The Company does not have an internal audit function.

Due to the Company's size and business structure, the Company has not had an internal audit function. Under the Audit & Risk Committee Charter, the Audit & Risk Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control processes. The Committee has full and complete access to the Company's executives, external auditor and to external advisers.

External auditor

The external auditor attended the Company's 2017 AGM and was available to answer questions.

The Company will request that its external auditor attend the Company's 2018 AGM and be available to answer questions.

CEO and CFO declaration

A decision by the Board to approve the Company's financial statements for a financial period is subject to receipt from its CEO and CFO of a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Such declarations were received by the Board in respect of both the half-year and full-year financial statements for 2018.

Governance policies

Code of Conduct

The Company has a comprehensive Code of Conduct that applies to its Directors, senior executives and employees. The code addresses (amongst other things):

- Compliance with laws and regulations;
- Fair trading and dealing;
- Conflicts of interest;
- Improper use of Bellamy assets or intellectual property;
- Privacy;
- Employment practices;
- Whistleblowing;
- Community engagement; and
- Public communications and disclosures.

Securities Trading Policy

The Company's Long-Term Incentive Scheme does not allow participants to enter into transactions (whether through the use of derivatives or otherwise) that limit the economic risk of participating in the scheme.

This is supported by the Company's Securities Trading Policy under which employees are prohibited from entering into transactions using financial products that operate to limit the economic risk associated with holding vested and unvested Company securities. Further, all employees are prohibited from entering into margin loan arrangements to fund the acquisition of any of the Company's securities.

Diversity

Bellamy's is committed to developing a fair and inclusive work environment that embraces diversity. The Company recognises the importance of diversity to commercial success. Bellamy's approach to diversity is underpinned by six key principles including:

- maintaining a respectful, safe and inclusive working environment that is respectful of individual differences and attributes;
- eliminating artificial barriers to career progression by providing support and mentoring;
- by developing and offering flexible work practices to meet the differing needs of employees;
- recruiting and retaining a skilled and diverse workforce;
- employing a fair and effective process for appointment to roles based on relative ability, performance and potential; and
- fostering a culture, including through education and training, that rewards people for furthering the objectives under this policy.

Bellamy's Diversity Policy is further underpinned by its management systems and a comprehensive People and Culture Program.

The Board is committed to improving its workplace diversity throughout the organisation. To help achieve this, in FY18, the Board, together with the Remuneration & Nomination Committee, established measurable objectives for attaining gender diversity.

The measurable objectives, and Bellamy's progress towards achieving them, is assessed annually by the Board (on recommendation of the Remuneration & Nomination Committee) and is reported on in the Annual Report each year. The achievement of these outcomes is included in the CEO's objectives and the Charter of the Board also reflects these accountabilities.

The Board recognises the importance of diversity in the workplace and is focused on achieving a balanced representation of women on the Board and in senior positions over a reasonable transition period. In FY18, the Company's Board has one female representative with the appointment of Ms Shirley Liew in December 2017. Whilst there has been a decrease in overall representation throughout the Company from 71% to 62% in FY18, there has been an increase in female senior management from 42% to 50%. Further, 65% of new recruits during FY18 were women.

	24 August 2017	4 July 2018	Board Measurable Objective
Board	0%	20%	40%
Senior Executive*	42%	50%	50%
All employees	71%	62%	50%

* defined as KMP and other senior managers

Continuous Disclosure

The Company has adopted a Continuous Disclosure Policy which establishes processes and procedures designed to ensure that directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. Under the policy, the Board will be responsible for managing the Company's compliance with its continuous disclosure obligations.

Communicating with shareholders

The Board has established the Shareholder Communications Policy, which is designed to promote effective two-way communication with shareholders.

The Board ensures that shareholders are informed of all material information relating to the Company by communicating via:

- continuous disclosure to the ASX;
- media releases and publication of information on the Company's website; and

- through its annual and half year reports.

The Company provides shareholders with the option of communicating with the Company and the Company's share registry (Link Market Services Ltd) electronically. Shareholder's communication preferences can be updated at any time by the member at the share registry's website.

At the AGM, the Board encourages the effective participation of shareholders in accordance with the Company's Shareholder Communications Policy. At the AGM, the Chair will provide time for questions and comments from security holders.

Remuneration

Remuneration Report

Message from the Chairman of the Board and
Chairman of the Rumeration & Nominations Committee

The Board of Bellamy's presents the Remuneration Report for the financial year ended 30 June 2018.

During FY17, the Company made significant changes to its key management personnel and Board composition in order to execute its turnaround and growth strategy. The Board and Remuneration &Nomination Committee also considerably re-designed the Company's remuneration program to focus executives on achieving this strategy and to retain top talent and incentivise stretch performance.

The first year of the turnaround strategy has seen considerable results, with a year-on-year increase of 65% on normalised EBITDA and strong share price growth. These results are underpinned by exceptional performance at the executive level. Accordingly, remuneration results for executives has reflected the performance of the Company for FY18.

Despite driving performance linked to the achievement of the turnaround strategy, the Board and Remuneration & Nomination Committee has not lost sight of the importance of focusing executives on important non-financial metrics underpinning the strength of the Company's business. Non-financial performance remains a key element to the delivery of remuneration incentives, including the setting of key performance indicators for the short-term incentive program and the discretions available to the Board to claw back awards.

Throughout FY18, Bellamy's has continued to refine its way of working. The Board has appointed a new Director, Shirley Liew, which has further enhanced the Board's skillset in areas including governance, financial and operating control frameworks, food safety and quality control.

In addition, significant progress has been made on the development of a comprehensive 2021 strategic roadmap for the business and cascading this through the organisation, underpinned by the CEO implementing an enhanced leadership team structure and setting the business to a way of working that is more agile, dynamic and accountable. Supporting this, was the implementation of a new culture platform aimed at driving high performance.

At the 2017, AGM shareholders expressed support for the turnaround strategy and the renewed remuneration program through the feedback received on the 2017 Remuneration Report.

The Company's FY18 remuneration program has been extended to incorporate the newly acquired Camperdown Powder staff and senior management in its consideration and fully integrates a reward and recognition framework that focuses on key objectives including the integration of the Company within the group and safety.

Our FY18 Remuneration Report has been prepared with the goal of transparently communicating remuneration outcomes for FY18 and highlighting the success of the Company's re-designed remuneration structure, which is aligned to our strategic objectives for the current year and beyond.

On behalf of the Board, we recommend the Report to you and we look forward to receiving your feedback at the 2018 AGM.

John Ho

Chairman

John Murphy

Deputy Chairman and Chair of the Remuneration & Nominations Committee

Remuneration

The Report has been set out as follows:

The Board of Bellamy's oversees the Company's remuneration practices and policies to ensure that they:

- drive a culture of performance;
- reward executives for the delivery of results and the achievement of Bellamy's short-term financial objectives and long-term business strategy; and
- provide a framework for the ultimate goal of delivering value for shareholders.

This report outlines the remuneration framework and outcomes applicable to the Company's key management personnel for the year ended 30 June 2018. It also enables our investors to understand the costs and benefits associated with Bellamy's remuneration practices and policies and the link between Bellamy's performance and the remuneration paid to the CEO and KMP executives.

This report has been prepared in accordance with Section 300A of the *Corporations Act 2001 (Cth)*.

Remuneration

Key management personnel

The term key management personnel (**KMP**) refers to those persons having the authority and responsibility for planning, directing and controlling the activities of the Consolidated entity (**Group**), directly or indirectly and includes any director of the Group (whether executive or otherwise).

The KMP of Bellamy's for the year ended 30 June 2018 were:

	Role	Date Appointed
Non-executive Directors		
John Ho	Chairman	13 April 2017
John Murphy	Deputy Chairman	18 May 2017
Rodd Peters	Non-executive Director	28 February 2017
Wai-Chan Chan	Non-executive Director	28 February 2017
Shirley Liew	Chair Audit & Risk Committee	13 December 2017
KMP Executives		
Andrew Cohen	Chief Executive Officer	11 January 2017
Nigel Underwood	Chief Financial Officer	11 January 2017
Peter Fridell	Director of Operations	12 June 2017
David Jedynak	Director Sales & Marketing	12 June 2017
Melinda Harrison	General Counsel, Company Secretary & Regulatory Affairs	8 May 2017

Remuneration governance

Role of the Remuneration & Nomination Committee

The role of the Remuneration & Nomination Committee is to assist the Board by ensuring that Bellamy's:

- has appropriate remuneration policies and practices which enable Bellamy's to attract, motivate, and retain non-executive directors and executives and to ensure sustainable value for our shareholders;
- fairly and responsibly remunerates non-executive directors and executives having regard to Bellamy's overall strategy and objectives, the performance of Bellamy's, the performance of the executives, and the general market environment; and
- has polices to evaluate composition of the Board, individual directors and executives and ensure succession plans are in place (including for the recruitment or appointment of non-executive directors and executives).

The Remuneration & Nomination Committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the committee receives detailed reports on financial performance from management which is based on independently verifiably data.

In the event of serious misconduct or a material misstatement in the Company's financial statements the Remuneration & Nomination Committee can cancel or defer performance-based remuneration and may also claw back performance-based remuneration paid in previous financial years.

The Remuneration & Nomination Committee has a Charter which outlines the terms of reference under which it operates. It is available online at www.bellamysorganic.com.au.

Engagement of remuneration consultants

The Remuneration & Nomination Committee periodically engages independent remuneration consultants to advise and assess the remuneration of the Chairman, Non-executive Directors, CEO and those executives reporting to the CEO. These advisors are engaged by, and report directly to, the Remuneration & Nomination Committee and are used to:

- provide updates on remuneration trends, regulatory changes, market analysis and shareholder and proxy advisor views; and
- assist in the review, design, and development of CEO and senior executive reward levels and arrangements (including short-term and long-term incentives).

No remuneration recommendations from external consultants were received in FY18. During FY18, Mercer Consulting Australia Pty Ltd (Mercer) was engaged to provide the valuation of options grants to new directors and senior executives (issued under the existing LTI Plan), but did not provide any recommendations on the participants, quantum for participants, or the hurdles.

Remuneration principles, strategy & outcomes

Remuneration principles

Bellamy's approach to remuneration is framed by the strategic direction and operational demands of the business, the international context and market complexity in which Bellamy's operates, and the importance of linking executive remuneration to sustainable shareholder returns over the long-term.

The principles that underpin our remuneration approach include:

- to attract, motivate and retain top talent executives and directors;
- to align rewards with the creation of sustainable value for shareholders including through long-term equity-based incentives and performance metrics linked to total shareholder value;
- to align rewards with strategic objectives and the Board's high-performance expectations;
- to drive behaviours that align with the interests of our shareholders;
- to implement a robust and transparent remuneration decision making process and performance review system; and
- to reward exceptional performance.

Attract, motivate, and retain top talent

Bellamy's operates in a global market which is highly regulated and challenging and, therefore, needs to attract, motivate, and retain executives and directors who have the requisite skills and ability to perform at the highest of levels, in order to ensure they deliver on Bellamy's strategic objectives and contribute to the ongoing financial performance of Bellamy's, and create sustainable value for shareholders.

Align remuneration with business performance and sustainable shareholder returns

In the development of its 2017 Long Term Incentive plan, Bellamy's has ensured that there is a robust correlation between executive reward and long-term shareholder value. Bellamy's remuneration approach:

- differentiates individual rewards commensurate with contribution to overall results and according to responsibility, performance, and potential; and
- provides executives with an incentive to meet and exceed challenging performance targets set by the Board.

Aligns rewards with the implementation of business strategy

Bellamy's sets performance measures and targets that support its business performance in both the short and long term and ensures performance measures and targets are clearly defined, relevant to the executive's role, linked to total shareholder value and closely aligned with the overall business strategy.

Good governance

Bellamy's Remuneration & Nomination Committee's Charter clearly outlines its objectives and terms of reference. Its approval process sees the Remuneration & Nomination Committee reviewing and recommending the Key Performance Indicators of the CEO and CEO direct reports and Board approving, based on recommendations of the Remuneration & Nomination Committee, remuneration for the CEO and all executives who report to the CEO.

Review of remuneration strategy & framework

The remuneration strategy & framework and associated programmes are reviewed regularly to ensure that they:

- continue to align with the Bellamy's strategic objectives;
- focus executives' effort on the long-term strength of Bellamy's; and
- provide clear and direct alignment with shareholder interests through share ownership, i.e., executives are rewarded when shareholders are rewarded.

During 2H18, the STI program was broadened to include participation by all employees as part of a newly developed culture program designed to reward staff at all levels of the Company who demonstrate exceptional performance. In addition, a new culture program provides a platform aligned to nurturing and rewarding capability. This program ensures the Company continues to motivate and retain key talent who will grow to be future leaders within the business.

The new program incorporates a comprehensive competency framework whereby participants are assessed on measures including financial metrics, value addition, teamwork and leadership, as well as consideration to KPI's which have been cascaded down from the CEO. This encourages a good corporate culture in which employees are rewarded not only for achieving KPI's, but recognises how they were achieved and promotes leadership skill development across all levels of the Company.

Remuneration strategy & framework

The remuneration strategy sets the direction for the remuneration framework and drives the design and application of remuneration practices and policies for executives of Bellamy's (including KMP).

Executive remuneration structure

In FY18, the Board closely reviewed the participants, quantum, and measures for both the STI and LTI plans. The components of Bellamy's remuneration framework have not been changed. Details are set out below:

Component	Remuneration Approach & Performance Link
Total Fixed Remuneration (**TFR**) - Salary - Statutory superannuation	Executive TFR 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 executive's role, knowledge, skills and experience, and individual performance. This ensures that Bellamy's attracts, motivates, and retains top talented executives to deliver on Bellamy's business strategy and contribute to the Bellamy's ongoing financial performance.
Short Term Incentive (**STI**) - Annual incentive opportunity delivered in cash	The Bellamy's STI plan rewards the CEO and those executives reporting to him (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. Performance measures may vary from year to year depending on the business's objectives and are chosen on the basis that they will increase financial performance, market share, and shareholder returns. The STI plan is designed to encourage and reward high performance and for this reason it places a proportion of the executives' remuneration at-risk against targets linked to the Company's annual performance objectives. This supports the alignment between the interests of the executive, Bellamy's and our shareholders.
Long-term Incentive (**LTI**) - An award of options with performance assessed over 3 or more years	A new form of LTI plan was implemented in FY17 called the Turnaround LTI Plan. The purpose of the Turnaround LTI Plan is to focus the executives' efforts on the achievement of sustainable long-term shareholder value creation and the long-term financial success of Bellamy's. The Turnaround LTI Plan was designed as a replacement for the FY17, FY18 and FY19 LTI awards, and accordingly, no additional LTI award was granted to KMP during FY18. The provision of LTI plan awards via options for ordinary shares in Bellamy's encourages long-term share exposure for the executives and, therefore, drives behaviours that align with the interests of our shareholders.

Remuneration mix

The Board recognises that each executive needs a significant portion of their remuneration to be at-risk and be linked to Bellamy's annual business objectives and actual performance and has ensured that the remuneration mix is aligned with the creation of sustainable value for shareholders.

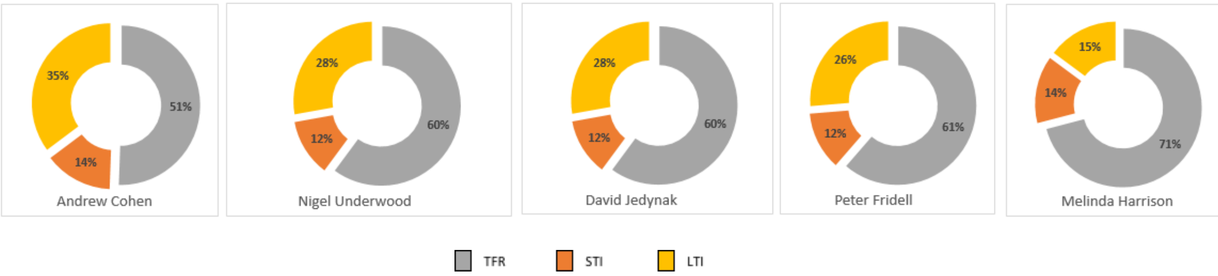
Due to the importance of the continuing turnaround strategy for Bellamy's, in FY17, the Board created a larger weighting for long-term variable remuneration; with a reduction in the short-term variable component. No LTI awards were granted in FY18 to KMP Executives, as the FY17 award was intended as a 3 year turnaround grant. In FY18, the Executive KMP's 'at risk' components remain unchanged as follows:

Remuneration

	TFR	Short Term Incentive (At-Target)[1]	Short Term Incentive (Stretch)[1]	Long Term Incentive (At Target Opportunity)[2]	Long Term Incentive (Maximum Opportunity)[2]
KMP Executives					
Andrew Cohen	$820,000	28%	47%	70%	139%
Nigel Underwood	$350,000	20%	30%	46%	93%
Peter Fridell	$350,000	20%	30%	43%	86%
David Jedynak	$350,000	20%	30%	46%	93%
Melinda Harrison	$325,000	20%	30%	21%	42%

1. The short-term incentive is the total payment (either at-target or stretch) as a % of TFR.
2. The long-term incentive refers to the value of any grant as a % of TFR. The % in this table represents the value of options granted to KMP executives under the Turnaround LTI plan in FY17, annualised over the three years in which the Turnaround LTI plan replaces usual LTI awards.

The mix of each at-target component as a percentage of the current KMP's TFR is shown in the graph below.



Relationship between KMP remuneration outcomes and FY18 company performance

<u>Total fixed remuneration</u>

The TFR of the CEO and all KMP (other than the Company's General Counsel and Company Secretary) has remained unchanged from FY17.

On 1 January 2018 the Company's General Counsel and Company Secretary's total fixed remuneration was increased from $285,000 to $325,000 (an increase of 14%). This change was introduced to reflect increases to the level of responsibilities associated with the role and to better align with the executive team.

<u>Short term incentive arrangements</u>

The FY18 STI awards are set based on achievement against a combination of financial and non-financial KPIs. These are used to ensure a balance between short term financial measures and more strategic non-financial measures which in the medium to longer term will support the growth of Bellamy's.

Performance is measured against the following KPIs:

- **Financial** – actual results compared to budgeted results for items including EBIT, EBITDA, PBT and NPAT.
- **Business growth** – NPAT, earnings per share, price earnings ratio, sales growth and discipline, acquisitions and new customers/strategic partnerships.
- **Business management** – cash generation, capital management, working capital management, inventory turnover, cost/revenue ratios, and staff utilisation.
- **Strategy** – development, approval, implementation, and achievement.
- **People** – leadership, development, safety, retention, and high-performance.

Measures and targets against which performance will be measured are established during the annual strategic review and budgeting process undertaken by Bellamy's. Relative weighting of fixed and variable components for target performance are set according to the scope of the executive's role.

Performance for each measure is assessed on a range of Threshold, Target, and Stretch. The stretch target is set by the Board for each measure at a level that ensures maximum STI is payable only where performance has truly and substantially exceeded expectations. Threshold performance is set annually and is generally 90% of target performance but this will depend on the performance measure.

	Threshold	Target	Stretch
% STI measure performance	90%	100%	110%+
% STI at-target payable	60%	100%	101% to 167%

The Board has discretion to adjust STI outcomes up or down to ensure that individual outcomes are appropriate to recognise both the “What” and the “How”. For example, not just achieving KPI’s but displaying behaviours appropriate to achieving them, such as leadership, teamwork and embodying the company values.

Details of KMP executives’ STI payments for the year ended 30 June 2018, the proportion to be received for at-target and stretch performance, achieved STI, and the amounts forfeited are shown in the tables below.

CEO’s FY18 KPIs and STI Outcomes

Mr Cohen’s performance for FY18 has been assessed based on consideration of Mr Cohen’s important and significant role in the execution of strategic objectives of Bellamy’s during FY18, including his leadership, direction and prioritisation of activities.

The performance measures for FY18 were set by the Board in early FY18 and are set out below. The performance measures were based on the continuing focus on Bellamy’s short-term financial performance and achievement of the longer-term turnaround of Bellamy’s.

Financial measures for the CEO and Direct Reports are based on normalised Earnings Before Interest & Tax (EBIT), Sales Revenue and Gross Profit Margin. The normalised result is the statutory result, excluding individually significant items not expected to be repeated in future years. These hurdles have been in place for several years and takes into account that there are certain matters of a non-recurring nature which may not accurately reflect underlying performance.

The non-financial measures were specific to the CEO's role and required him to establish a fully defined and adaptable 2021 strategy that clearly articulated the pathway for Bellamy’s to become a Global and Iconic Infant Brand and transform the organisation to a high-performing FMCG group that could deliver the aspirations of the strategic plan with high retention and high engagement of employees. The non-financial measures focussed on Sales Growth & Discipline, Strategic Cost Position, Supply-Chain Flexibility, Brand Investment & Penetration, and Strategy & People both domestically and internationally.

Key Performance Indicators	Weighting (%)	Achievement (As a % of FY18 Stretch Target)	Paid Out
Financial			
Normalised EBIT ($m)[1]	24%	128.20%	Yes
Sales Revenue ($m)	30%	114.51%	Yes
Gross Profit Margin %	6%	101.46%	Yes
Non-financial			
Sales Growth & Discipline	8%	100.00%	Yes
Strategic Cost Position	8%	125.00%	Yes
Supply-Chain Flexibility	8%	100.00%	Yes
Brand Investment & Penetration	8%	100.00%	Yes
Strategy & People	8%	125.00%	Yes
Total	**100%**		

1. Normalised EBIT excludes the significant items not expected to be repeated in future years, namely provision for inventory write downs relating to the transition to SAMR registered products in China and CoOL compliant labelling in Australia.

The CEO performed highly on all the non-financial measures being:

- the development and roll-out of a comprehensive 2021 strategic roadmap for the business in April 2018 which was cascaded through the organisation underpinned by the CEO implementing a new leadership team and creating an agile, dynamic and accountable culture;
- the implementation of a supply chain flexibility strategy with the establishment of key supplier agreements for overseas and local milk;
- significant improvements in cost structures aligned to the longer-term strategy (ingredients and direct/other overheads);

Remuneration

- investment in capability in key strategic pillars for the business – being Innovation, Food and China strategy; and
- the implementation of a new culture program which enhanced communication and feedback within the organisation and which recognises and rewards exceptional talent.

The improved financial performance of Bellamy's is reflected in the FY18 financial measures exceeding the stretch performance measure and a stronger cash position and inventory position (both owned and trade stock).

Mr Cohen has demonstrated strong leadership in both the turnaround phase (1H18) and moving to building the important key business foundations required to support delivery of the longer-term strategy (2H18). Accordingly, the amount of STI awarded to Mr Cohen recognises his individual performance and the strongly improved financial performance of Bellamy's in FY18.

Other KMP executive's STIs outcomes for FY18

All other KMP were assessed on the same financial measures and substantially the same non-financial measures as the CEO relevant to their portfolios, with specific focus on their respective areas of accountability. This ensured consistency across key areas of focus within the company.

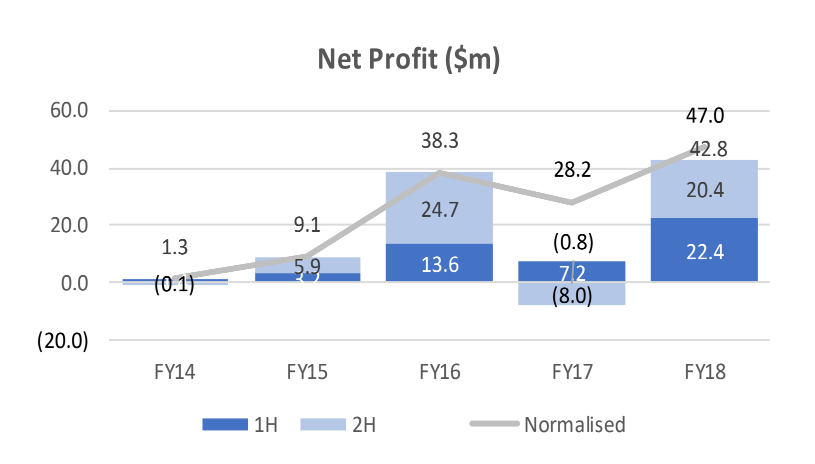
<u>Summary of FY18 STI payments to KMP executives</u>

FY18 STI Payment	STI Opportunity ($)		STI Achieved ($)[2]	STI Achieved (%) Stretch	% Stretch STI Forfeited
	At Target	Stretch[1]			
Andrew Cohen	230,885	384,808	370,000	96.2%	3.8%
Nigel Underwood	70,000	105,000	91,000	86.7%	13.3%
Peter Fridell	70,000	105,000	105,000	100.0%	0.0%
David Jedynak	70,000	105,000	105,000	100.0%	0.0%
Melinda Harrison	61,000	91,500	91,500	100.0%	0.0%

1. KMP executives' STIs have a stretch component that is designed to encourage above at-target performance
2. STI amounts indicated to have been achieved in respect of the year ended 30 June 2018 are subject to an annual review and only payable subsequent to 30 June 2018 upon ratification and recommendation by the Remuneration & Nomination Committee and approved by the Board of Directors.

<u>Company financial performance</u>

The following graphs and table provides details of the relationship between KMP executives' at-risk remuneration (based on the 3 key financial measures) and Bellamy's overall financial performance:

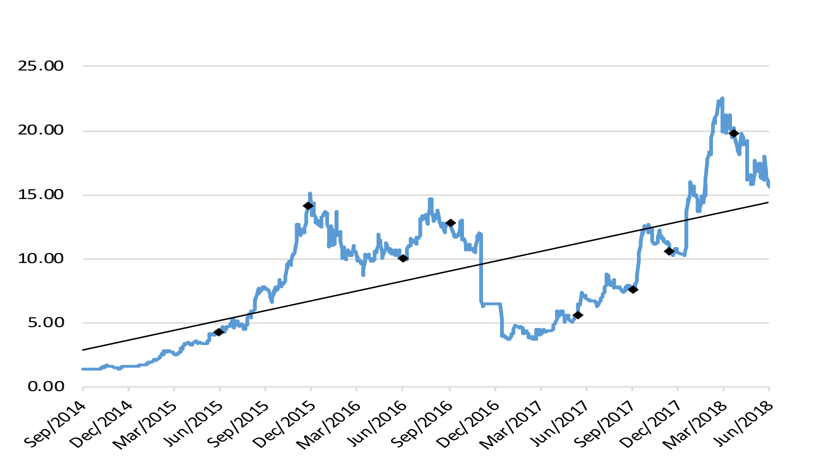


As explained earlier, the STI is based on a range of business building metrics that are designed to grow profitability and shareholder returns.

While not directly linked to profit, the STI does correlates with short term profitability.

To ensure decisions are not short-term focused, the LTI complements the STI by driving longer term perspective of value creation.

Remuneration



The LTI is directly related to improvements. As the LTI is mostly option related, executives do not receive any reward unless shareholder value is increased above the hurdles set at the date of grant.

The LTI has greater leverage than the STI, meaning the executives have more to gain by ensuring long-term value creation and avoiding actions that may result in a STI but damage long-term value.

Measure	2018	2017	2016	2015
Net Revenue[1] ($000)	$328,704	$240,182	$234,083	$125,302
Net Revenue Growth	37%	3%	87%	204%
EBIT[2] ($000)	$66,242	$42,007	$54,306	$12,286
EBIT Growth	58%	(23%)	342%	497%
Share price at start of year	$6.91	$10.21	$4.37	$1.30
Share price at end of year	$15.54	$6.91	$10.21	$4.37
Share price growth	125%	(32%)	134%	236%
Interim dividend (cents per share)	$0.00	$0.00	$0.041	$0.00
Final dividend/distribution (cents per share)	$0.00	$0.00	$0.078	$0.0286
Total dividend/distribution (cents per share)	$0.00	$0.00	$0.119	$0.0286
Basic EPS (cents per share)	39.2	(0.8)	39.8	9.8
Average STI payout as a % at-target for eligible KMP executives[3]	**148.05%**	**121.17%**	**150.05%**	**138.89%**

1. The net revenue for 2016 is the restated number;
2. For 2017 normalised EBIT has been used as it excludes the significant items not expected to be repeated in future years, including inventory write-downs, FX losses, legal, accounting and restructuring costs which were necessary for Bellamy's in FY17. For 2018, normalised EBIT excludes significant items not expected to be repeated in future years, namely provision for inventory write downs relating to the transition to SAMR registered products in China and CoOL compliant labelling in Australia.
3. Only the CEO and CFO participated in the FY17 STI plan.

Turnaround long-term incentive plan

The Board recognises the work required to execute the strategic objectives of Bellamy's in order to deliver ongoing sustainable earnings growth and provide increased returns in the short term, and most importantly increased wealth for our shareholders over the long-term.

To execute the strategy, Bellamy's needed to motivate and retain a strong and capable CEO and executive leadership team; but also, directors who have extensive skills and experience to operate in such an environment. This is especially important due to:

- the complexity of the Bellamy's business;
- Bellamy's operating in a global market and a highly regulated market; and
- the need to carefully manage brand risk during the period of turnaround.

For this reason, in FY17 the Board implemented a long-term incentive plan specifically to motivate and retain executives during the turnaround. The Turnaround LTI plan was designed as a one-off grant replacing the Company's standard LTI program for FY17, FY18 and FY19 and with the goal of achieving a $500 million increase in shareholder value over the 3-year period. In its first year of operation, a significant increase in shareholder value has been achieved.

As the Turnaround LTI plan grants were designed to cover awards for FY17, FY18 and FY19, no new grants were made to Executive KMP in FY18. The general terms and conditions that apply to the Turnaround LTI plan are set out below. Specific details applicable to the FY17 grants to Executive KMP can be found in the 2017 Remuneration Report. Details of grants made to Board members are set out in the section dealing with Non-executive Director Remuneration.

Remuneration

<table>
<tr><td>Participants</td><td>Executive KMP and certain Non-executive Directors. All Executive KMP awards were made in FY17, and therefore no Executive KMP received a grant under the Turnaround LTI Plan in FY18.</td></tr>
<tr><td>What are options?</td><td>An option to acquire a fully paid ordinary share in the Company (subject to payment of an exercise price), that will only vest and become exercisable if performance hurdles are satisfied.</td></tr>
<tr><td>Do participants pay for options?</td><td>Options are granted as part of remuneration and therefore there is no payment provided in connection with a grant. However, participants are required to pay an exercise price to exercise the options and receive shares, should the options vest in accordance with their terms.</td></tr>
<tr><td>What is the grant frequency?</td><td>A single grant covering 3 years of equity remuneration.</td></tr>
<tr><td>What is the performance period?</td><td>The TSR Hurdle is based on the Company's share price growth on a compound basis performance over the relevant performance period. A TSR hurdle has been chosen as it is directly linked to the Company’s share price growth and therefore the increase in value created for shareholders. Further details on the hurdle is set out below.</td></tr>
<tr><td>What is the performance hurdle and why was it chosen?</td><td>The TSR Hurdle is based on the Company's share price growth on a compound basis performance over the relevant performance period. A TSR hurdle has been chosen as it is directly linked to the Company’s share price growth and therefore the increase in value created for shareholders. Further details on the hurdle is set out below.</td></tr>
<tr><td>How does the TSR performance hurdle work?</td><td>
<table>
<tr><th>Company’s TSR</th><th>% of options that will vest in tranche 2</th></tr>
<tr><td>Less than 50% of target</td><td>Nil</td></tr>
<tr><td>50% of target</td><td>50%</td></tr>
<tr><td>Above 50% but less than 100% of target</td><td>Between 50% and 100%, as determined on a pro-rata, straight line basis</td></tr>
<tr><td>At or above 100% of target</td><td>100%</td></tr>
</table>
The share prices used to calculate the TSR performance of the Company will be measured as follows:

the opening share price is the Volume Weighted Average Price (VWAP) of the Company's ordinary securities traded on ASX for the 10 trading days prior to the offer date; and
the closing share price will be the VWAP of the Company's ordinary securities traded on ASX for the 10 trading days following the announcement of the Company's annual results (or half year results, where applicable) in respect of each performance period in the Total Performance Period (or following the announcement of the half yearly results in respect of the Third Performance Period).
</td></tr>
<tr><td>How is the TSR performance hurdle tested?</td><td>Tranche 1 options that do not vest at the end of the first performance period will be eligible for re-testing at the end of the second performance period. Tranche 1 and 2 options that do not vest at the end of the second performance period, will be eligible for re-testing after the end of the third performance period. Any options that do not vest following testing at that time will lapse.</td></tr>
<tr><td>Process for assessing performance conditions</td><td>The Board has determined that the TSR performance hurdle will be assessed based on the growth in the Company’s share price from the opening share price over the relevant performance period. The Board believes the LTI provides the right measure and appropriately challenging target for participants.</td></tr>
<tr><td>What are the rights attaching to the options?</td><td>No voting rights or entitlements to dividends are attached to the options.</td></tr>
<tr><td>What happens on cessation of employment?</td><td> If a participant ceases to be employed within the Group due to termination for cause (for example, as a result of actual or alleged serious misconduct), any and all unvested options held at the time will lapse with effect from the date of cessation of employment.
If a participant gives notice of resignation from employment with any Group Company, in circumstances where, in the Board's opinion, the Group Company was entitled to terminate the participant’s employment without notice or payment in lieu of notice or for actual or alleged </td></tr>
</table>

	misconduct, any and all unvested options the participant holds at that time will lapse on the date of cessation of their employment. If a participant ceases to be employed within the Group for any other reason, a pro rata portion of any unvested options held at that time will lapse on the date of cessation of employment, unless the Board determines otherwise.
What happens on a change of control?	Generally, where there is a change of control event that involves, or has resulted in, a person acquiring more than 50% of the voting rights in the Company, any and all of the unvested options issued to participants will vest (and the outstanding vesting conditions will be waived) from the date on which the person's voting interests in the Company increases from below to above 50% (as disclosed in the relevant substantial holding notice given to ASX).

The Turnaround LTI grant was issued with the 13 June 2017 Prospectus and was designed to align Board and Executive decisions and discretionary effort with the interests of shareholders. The program ventured 4.2% of the shares in BAL, with a total cost of $9.85m spread over 3.5 years.

The program incentivised participants to generate over $500m increase shareholder value over 3.5 years. The details of the grant were as follows:

Participants FY17 Turnaround LTI Grant	Options Granted	Fair Value[1]	Exercise Price	Share Based Payment Expenses ($)[2]					
				FY17	FY18	FY19	FY20	FY21	Total
Cohen	1,675,000	$2.045	$5.643	45,436	921,340	921,343	921,343	615,913	3,425,375
Underwood	475,000			12,885	261,277	261,276	261,276	174,661	971,375
Jedynak	475,000			12,885	261,277	261,276	261,276	174,661	971,375
Fridell	440,000			11,935	242,024	242,024	242,024	161,793	899,800
Harrison	200,000			5,425	110,011	110,011	110,011	73,542	409,000
Other Execs	575,000			15,597	316,282	316,282	316,282	211,432	1,175,875
Directors[3]	265,887	$7.51		7,229	556,352	537,094	537,094	359,042	1,996,811
Total	4,105,887			111,392	2,668,563	2,649,306	2,649,306	1,771,044	9,849,611

1. Fair value is determined at the date of the grant. For non-director participants, the fair value of $2.045 was determined on 13 June 2017. For Directors, the fair value of options of $7.51 was determined following shareholder approval at the 2017 AGM.

2. Share based payments expense is amortised on a straight line basis over the performance period. The expense to be recognised in FY19-FY21 is subject to vesting assessments of each Tranche.

3. Details of share based payments expense for Shirley Liew have not been included in the above table as the the offer to Shirley was made in FY18, and was not part of the FY17 Turnaround LTI grant.

There were no subsequent grants in FY18 for those who received options in FY17. The Board will consider programs beyond FY20 in future periods.

LTI Vesting Outcomes

In FY18, the Board approved the following vesting outcomes for the CEO's LTI awards:

- 37,575 sign-on offer options, approved in August 2017 (with a nil exercise price and a fair value of each option at the grant date of $9.98).
- 369,125 ‘FY15’ Grant options, approved in September 2017 (having an exercise price of $9.88 and a fair value of each option at the grant date of $1.21).

No other Executive KMP had options due to vest in FY18.

Executive Contracts

The remuneration and other terms of employment for the executives are covered in formal employment contracts that have no fixed terms. Bellamy’s may terminate an executive immediately for cause, in which case the executive is not entitled to any payment other than the value of total fixed remuneration (and accrued entitlements) up to the termination date.

Remuneration

Executive	Notice Period by Bellamy's	Notice period by Executive	Payment in lieu of notice	Redundancy for fundamental change in role	Redundancy
Andrew Cohen, Chief Executive Officer	6 months	6 months	Yes	Yes	Redundancy payment of 6 months' salary and will include any applicable payment in lieu of notice.
Nigel Underwood, Chief Financial Officer	6 months	6 months	Yes	Yes	Redundancy payment of 6 months' salary and will include any applicable payment in lieu of notice.
Peter Fridell, Director of Operations	6 months	6 months	Yes	No	Redundancy payment is calculated in accordance with the Company or Group's policy and will include any applicable payment in lieu of notice.
David Jedynak, Director Sales & Marketing	6 months	6 months	Yes	No	Redundancy payment is calculated in accordance with the Company or Group's policy and will include any applicable payment in lieu of notice.
Melinda Harrison, General Counsel & Company Secretary	6 months	6 months	Yes	No	Redundancy payment is calculated in accordance with the Company or Group's policy and will include any applicable payment in lieu of notice.

Non-executive directors' remuneration

Bellamy's remuneration policy for non-executive directors aims to ensure that Bellamy's can attract and retain suitably qualified and experienced directors having regard to:

- the level of fees paid to non-executive directors of other comparable Australian listed companies;
- the growing size and complexity of Bellamy's operations;
- the responsibilities and work requirements of Board members; and
- the skills and diversity of Board members.

Current fee levels and fee pool

Under the ASX Listing Rules, the total amount paid to all non-executive directors in any financial year must not exceed the amount fixed in a general meeting of the Company. This amount is currently $1,000,000 as determined by Shareholders at the AGM held on 20 October 2015.

For FY18, non-executive directors' annual fees (exclusive of any superannuation entitlements) were:

Name	Base Fee	Chair Audit & Risk Committee	Chair of Remuneration & Nomination Committee	Member of Audit & Risk Committee	Member of Remuneration & Nomination Committee
Chairman[1]	$200,000	$0	$0	$0	$0
Deputy Chairman[2]	$120,000	$0	$0	$3,000	$0
Director	$75,000	$15,000	$15,000	$3,000	$3,000

1. In order to ensure good governance and independence the Chairman made the personal decision to waive his Board fees, and this was approved at the 18 May 2017 Board meeting.
2. The Deputy Chairman is the Chair of the Remuneration & Nomination Committee and does not receive an additional fee for this role.

Directors may also be reimbursed for travel and other expenses incurred in attending to Bellamy's affairs.

No Directors provided additional consultancy services over and above their Directors Fee remuneration.

Remuneration

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director. There are no retirement benefit schemes for directors other than statutory superannuation contributions, and non-executive directors' remuneration must not include a commission on, or a percentage of, the profits or income of Bellamy's.

Participation in Turnaround LTI plan

The Board recognises that the participation of directors in an equity-based plan is not usual.

Given the company is continuing its critical turnaround phase, it is especially important to have high calibre directors with the requisite and specific skills and the time commitment available to guide the Company in achieving the turnaround strategy. The Turnaround LTI plan is one of the components in being able to attract such talent to the Board in the Company's specific circumstances.

As noted in the FY17 Remuneration Report, the Board decided that instead of simply increasing the cash component of director fees to attract the most suitable Board talent, it would use an at-risk LTI to motivate and recognise the significant amount of additional effort that will be required over and above what is considered in the ordinary course of business for a Board as part of the turnaround of Bellamy's.

Recognising the potential conflict that an LTI plan could create for Directors, the LTI plan design is only linked to Total Shareholder Return. That is, there is no business performance or subjective metrics that need to be assessed for vesting. Hence, this LTI plan for Directors further achieves the objective of aligning the long-term enterprise value creation of the company and the total Director remuneration over the next few years.

The Chairman did not participate in the initial FY17 Turnaround LTI plan grant.

The terms of grants made under the Turnaround LTI Plan to directors in FY18 are the same as those made to executives as described in the section of this Remuneration Report outlining Executive Remuneration, subject to the following differences:

<table>
<tr><td>Participants</td><td>Only the newly appointed non-executive director has been offered an FY18 LTI, which is subject to shareholder approval at the 2018 AGM.</td></tr>
<tr><td>Offer Date</td><td>The offer was made in December 2017, subject to approval at the 2018 AGM.</td></tr>
<tr><td>What is the performance period?</td><td>The grant will be divided into two tranches. The performance period that applies to each tranche is set out below.
December 2017 Offer
<table>
<tr><th></th><th>% of Grant</th><th>Performance measure</th><th>First Performance Period</th><th>Second Performance Period</th><th>Third Performance Period</th></tr>
<tr><td>Tranche 1</td><td>50%</td><td>Total Shareholder Return</td><td>13/12/17 to 31/12/19</td><td>1/1/20 to 31/12/20</td><td>1/1/21 to 30/6/21</td></tr>
<tr><td>Tranche 2</td><td>50%</td><td>Total Shareholder Return (TSR)</td><td></td><td>1/1/20 to 31/12/20</td><td>1/1/21 to 30/6/21</td></tr>
</table>
Note: The last testing for vesting may occur up to 30 September 2021 in respect to all the grants made in FY18.</td></tr>
<tr><td>What is the allocation price and how was it determined?</td><td>The exercise price of each grant is as follows:
<table>
<tr><th>Grant Date</th><th>Exercise price</th><th>Allocation Price Tranche 1</th><th>Allocation Price Tranche 1</th></tr>
<tr><td>13 December 2017</td><td>$11.19</td><td>$3.57</td><td>$3.55</td></tr>
</table>
The allocation prices for tranche 1 and tranche 2 of each grant was based on the fair value. The fair value is calculated using a binomial option pricing model, which takes into</td></tr>
</table>

	consideration factors such as the performance hurdles, probability of those hurdles being achieved, share price volatility, expected life of the award, dividend yield and risk-free rate.
What happens on cessation of office?	If a director ceases to be a director of the Board as a result of actual or alleged serious misconduct, unless the Board determines otherwise, all options held will lapse with effect from the date they cease office. In all other circumstances, the options will be pro-rated (based on the proportion of the measurement period that has elapsed) and remain on foot and subject to the original vesting condition, unless the Board exercises a discretion to treat them otherwise.
Shareholder approval	Shareholders previously approved grants to certain directors under this Plan at the 2017 AGM. Approval for the grant to the new director will be sought from shareholders at the 2018 AGM.

Signed in accordance with a resolution of the Board of Directors.

John Ho
Chairman

John Murphy
Deputy Chairman

Dated at Melbourne this 28th day of August, 2018

Remuneration

Details of the nature and amount of each element of the remuneration

Table A: Remuneration for KMP for the year ended 30 June 2018

		Short Term Benefits			Post-employment Benefits		Share Based Payments	Total	Performance Related %
	Year	Salary	STI Payment[1]	Non-monetary Benefits	Superannuation	Long-term employment benefits	Options[2]		
Non-Executive Directors		$	$	$	$	$	$	$	%
John Ho	**2018**	-	-	-	-	-	-	-	**0%**
	2017	-	-	-	-	-	-	-	0%
John Murphy	**2018**	**128,428**	-	-	**12,201**	-	**404,620**	**545,249**	**74%**
	2017	24,303	-	-	1,517	-	5,258	31,078	17%
Wai-Chan Chan	2018	**78,000**	-	-	**7,410**	-	**75,866**	**161,276**	**47%**
	2017	26,000	-	-	2,470	-	986	29,456	3%
Rodd Peters	**2018**	**78,000**	-	-	**7,410**	-	**75,866**	**161,276**	**47%**
	2017	52,237	-	-	4,904	-	986	58,127	2%
Shirley Liew	**2018**	**49,643**	-	-	**4,716**	-	**10,946**	**65,305**	**17%**
	2017	-	-	-	-	-	-	-	-
KMP Executives									
Andrew Cohen	**2018**	**815,335**	**370,000**	**-**	**20,048**	**5,100**	**1,428,261**	**2,638,744**	**68%**
	2017	772,867	295,379	-	19,385	**-**	1,035,465	2,123,096	63%
Nigel Underwood	**2018**	**336,296**	**91,000**	**48,665**	**20,048**	**510**	**261,277**	**757,796**	**46%**
	2017	165,015	40,000	44,309	7,758	**-**	12,916	269,998	20%
David Jedynak	**2018**	**336,296**	**105,000**	**-**	**20,048**	**510**	**261,277**	**723,131**	**51%**
	2017	12,707	-	**-**	1,207	**-**	12,916	26,830	48%
Peter Fridell	**2018**	**336,296**	**105,000**	**-**	**20,048**	**510**	**242,024**	**703,878**	**49%**
	2017	12,707	-	**-**	1,207	**-**	11,964	25,878	46%
Melinda Harrison	**2018**	**289,768**	**91,500**	**-**	**20,048**	**471**	**110,011**	**511,798**	**39%**
	2017	34,669	-	**-**	3,294	**-**	5,438	43,401	13%

1. The amounts shown for STI relates to the actual payments for FY17 and the approved amounts for FY18.
2. The fair value of options as at the date of their grant has been determined in accordance with AASB 2 Share-based Payments. The amount shown is the amortised expense for FY18. For the new Director, Shirley Liew, the options are subject to shareholder approval at the 2018 AGM.

Remuneration

Share based payments

Table B: Share-based payments granted as remuneration to KMP during FY18

	Year	Option Series	Grant Date	Number Granted[1]	Value of Options Granted[2]	Number Vested	Percentage of Grant Forfeited
Non- Executive Directors							
John Ho	**2018**	**FY18 Grant**	-	-	-	**Nil**	**Nil**
	2017	FY17 Grant	-	-	-	Nil	Nil
John Murphy	**2018**	**FY18 Grant**	-	-	-	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	193,373	395,448	Nil	Nil
Wai-Chan Chan	**2018**	**FY18 Grant**				**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	36,257	74,416	Nil	Nil
Rodd Peters	2018	FY18 Grant	-	-	-	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	36,257	74,416	Nil	Nil
Shirley Liew[1]	**2018**	**FY18 Grant**	**13 Dec 17**	**20,878**	**74,326**	**Nil**	**Nil**
	2017	FY17 Grant	-	-	-	Nil	Nil
KMP Executives							
Andrew Cohen	**2018**	**FY18 Grant**	**-**	**-**	**-**	**369,125**	**Nil**
	2017	FY17 Grant[3]	13 Jun 17	1,843,345	3,762,028	35,575	Nil
Nigel Underwood	**2018**	**FY18 Grant**	**-**	**-**	**-**	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	475,000	973,750	Nil	Nil
David Jedynak	**2018**	**FY18 Grant**	**-**	**-**	**-**	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	475,000	973,750	Nil	Nil
Peter Fridell	**2018**	**FY18 Grant**	**-**	**-**	**-**	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	440,000	902,000	Nil	Nil
Melinda Harrison	**2018**	**FY18 Grant**	**-**	**-**	**-**	**Nil**	**Nil**
	2017	FY17 Grant	13 Jun 17	200,000	410,000	Nil	Nil

1. For the new Director, Shirley Liew, the options are subject to shareholder approval at the 2018 AGM.
2. The value of the options is amortised over the period from grant date to the vesting date for purposes of accounting and KMP remuneration reporting. The fair value of the FY18 options offered in December 2017 was $3.57 for Tranche 1 and $3.55 for Tranche 2. The last exercise date of the December 2017 options is 13 December 2021.
3. Cohen's grant for FY17 includes 168,345 options issued under the FY17 legacy LTI plan and 1,675,000 options issued under the FY17 Turnaround LTI plan.

Options over shares in Bellamy's Australia Limited

Table C: Movements during FY18 in the options over shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties.

	Year	Options held at Start of Year	Granted as remuneration in the period	Vested in FY18 and exercisable	Exercised during the reporting period	Options forfeited	Options held at End of Year
Non-Executive Directors							
John Ho	**2018**	**-**	**-**	**-**	**-**	**-**	**-**
	2017	-	-	-	-	-	-
John Murphy	**2018**	**193,373**	**-**	**-**	**-**	**-**	**193,373**
	2017	-	193,373				193,373
Wai-Chan Chan	**2018**	**36,257**	**-**	**-**	**-**	**-**	**36,257**
	2017	-	36,257				36,257
Rodd Peters	**2018**	**36,257**	**-**	**-**	**-**	**-**	**36,257**
	2017	-	36,257				36,257
Shirley Liew	**2018[1]**	**-**	**20,878**	**-**	**-**	**-**	**20,878**
	2017	-	-	-	-	-	-
Andrew Cohen	**2018**	**2,533,295**	**-**	**369,125**	**(37,575)**	**-**	**2,495,720**
	2017[2]	689,950	1,843,345	37,575	-	-	2,533,295
Nigel Underwood	**2018**	**475,000**	**-**	**-**	**-**	**-**	**475,000**
	2017	-	475,000	-	-	-	475,000
David Jedynak	**2018**	**475,000**	**-**	**-**	**-**	**-**	**475,000**
	2017	-	475,000	-	-	-	475,000
Peter Fridell	**2018**	**440,000**	**-**	**-**	**-**	**-**	**440,000**
	2017	-	440,000	-	-	-	440,000
Melinda Harrison	**2018**	**200,000**	**-**	**-**	**-**	**-**	**200,000**
	2017	-	200,000	-	-	-	200,000

1. For the new Director, Shirley Liew, the options are subject to shareholder approval at the 2018 AGM.
2. The Board approved the vesting of Cohen's 37,575 sign-on offer options and Cohen exercised them in August 2017 with a nil exercise price and a fair value of each option at the grant date of $9.98.

Remuneration

Fully paid ordinary shares of Bellamy's Australia Limited

Table D: Movement during FY18 in the shares of Bellamy's held, directly, indirectly or beneficially, by each KMP, including their related parties.

	Year	Shares held at Start of Year	Net other changes	Shares Held at End of Year[1&2]
Non-executive Directors				
John Ho	**2018**	**7,671,294**	**1,080,888**	**8,752,182**
	2017	6,779,284	892,010	7,671,294
John Murphy	**2018**	-	-	-
	2017	-	-	-
Wai-Chan Chan	**2018**	-	-	-
	2017	-	-	-
Rodd Peters	**2018**	-	**43,600**	**43,600**
	2017	-	-	-
Shirley Liew	**2018**	-	-	-
	2017	-	-	-
KMP Executives				
Andrew Cohen	**2018**	**13,750**	**37,575[4]**	**51,325**
	2017	13,750	-	13,750
Nigel Underwood	**2018**	-	-	-
	2017	-	-	-
Peter Fridell	**2018**	-	-	-
	2017	-	-	-
David Jedynak	**2018**	-	**13,400**	**13,400**
	2017	-	-	-
Melinda Harrison[3]	**2018**	**3,475**	**458**	**3,933**
	2017	3,475	-	3,475

1. There were no shares held nominally by KMP as at 30 June 2018 and as at the date of this report.
2. The shareholding for the exiting directors and former KMP executives are shown at the end of their term, not the end of the year.
3. The shares shown for Harrison are held directly by a family member.
4. Received as a result of exercise of options.

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Bellamy's Australia Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bellamy's Australia Limited and the entities it controlled during the period.

Alison Tait
Partner
PricewaterhouseCoopers

Melbourne
28 August 2018

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Financial Statements

Consolidated Financial Statements

Contents

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Revenue	5	328,704	240,182
Cost of sales	6	(199,830)	(148,661)
Gross Profit		128,874	91,521
Other income	5	582	248
Direct costs (distribution & other costs)	6	(21,074)	(22,258)
Employee costs	6	(19,004)	(15,992)
Marketing and innovation costs		(14,578)	(10,919)
Administrative and other costs	6	(10,233)	(41,220)
Earnings before interest and tax, depreciation and amortisation (EBITDA)		64,567	1,380
Depreciation and amortisation		(4,298)	(787)
Earnings before net interest and tax (EBIT)		60,269	593
Net interest revenue/(expense)	6	927	(1,270)
Profit/(Loss) before income tax		61,196	(677)
Income tax expense	7	(18,380)	(131)
Net Profit/(Loss) after income tax		42,816	(809)
Other comprehensive income (net of tax)			
Items that may be reclassified to profit and loss			
Changes in the fair value of cash flow hedges		45	540
Exchange differences arising from translation of wholly owned foreign entities		843	(447)
Total other comprehensive income		888	93
Total comprehensive income for the year		43,703	(716)
Total net profit attributable to:			
Non-controlling interest		(451)	-
Owners of Bellamy's Australia Limited		43,267	(809)
Total net profit/(loss) for the year		42,816	(809)
Total comprehensive income attributable to:			
Non-controlling interest		(451)	-
Owners of Bellamy's Australia Limited		44,154	(716)
Total comprehensive income for the year		43,703	(716)
Basic earnings per share (cents)		39.2	(0.8)
Diluted earnings per share (cents)		37.2	(0.8)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Financial Statements

Consolidated Balance Sheet

as at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	20(a)	87,634	17,479
Trade and other receivables	8	49,317	37,057
Inventories	9	90,453	93,497
Current tax assets	17	-	274
Other assets	15	2,748	2,051
Total current assets		230,153	150,358
Non-current assets			
Property, plant and equipment	10	3,784	1,006
Intangible assets	12	40,079	1,740
Deferred tax assets (net)	17	6,798	3,537
Total Non-current assets		50,661	6,283
Total assets		280,812	156,641
Liabilities			
Current liabilities			
Trade and other payables	13	69,108	37,726
Borrowings	14	62	25,264
Provisions	16	1,663	2,329
Derivatives	14	232	34
Current tax liabilities	17	2,344	-
Total Current Liabilities		73,409	65,353
Non-current liabilities			
Provisions	16	45	29
Total Non-current liabilities		45	29
Total liabilities		73,454	65,382
Net assets		207,358	91,259
Equity			
Issued capital	18	120,870	53,795
Reserves	19	11,843	5,635
Retained profits		74,645	31,829
Total equity		207,358	91,259
Minority Interest		(21)	-
Total equity attributed to the owners of Bellamy's Australia Limited		207,379	91,259

The above Consolidated Balance Sheet should be read with the accompanying notes.

Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Issued capital $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Share based payment reserve $'000	Non-Controlling Interest $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2017	53,795	(820)	(25)	6,480	-	31,829	91,259
Acquisition of Camperdown	-	-	-	-	430	-	430
Comprehensive income							
Profit for the year	-	-	-	-	(451)	42,816	42,365
Other comprehensive income	-	843	45	-	-	-	888
Total comprehensive income	-	843	45	-	(451)	42,816	43,253
Issue of shares (net of transaction costs)	67,075	-	-			-	67,075
Dividends	-	-	-	-	-	-	-
Share based payments		-	-	5,340		-	5,340
Balance as at 30 June 2018	120,870	23	21	11,820	(21)	74,645	207,358
Balance as at 1 July 2016	40,216	(373)	(565)	3,767	-	40,176	83,221
Comprehensive income							
Profit for the year	-	-	-	-	-	(809)	(809)
Other comprehensive income	-	(447)	540	-	-	-	93
Total comprehensive income	-	(447)	540	-	-	(809)	(716)
Issue of shares (net of transaction costs)	13,579	-	-	-	-	-	13,579
Dividends	-	-	-	-	-	(7,538)	(7,538)
Share based payments	-	-	-	2,713	-	-	2,713
Balance as at 30 June 2017	53,795	(820)	(25)	6,480	-	31,829	91,259

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash receipts from customers		317,012	237,018
Cash payments to suppliers and employees		(232,551)	(269,433)
Cash generated from operations		84,461	(32,415)
Interest received		861	94
Dividends received		-	-
Interest paid			(876)
Income taxes paid		(17,080)	(12,522)
Net cash inflow/(outflow) from operating activities	20 (b)	68,241	(45,718)
Cash flows from investing activities			
Proceeds from sale of property plant & equipment		-	48
Purchases of property, plant & equipment		(2,028)	(273)
Proceeds on sale of investments		-	297
Purchase of production rights		(5,500)	-
Payment for acquisition of controlled entity (net of cash acquired)		(10,453)	(544)
Net cash outflow from investing activities		(17,981)	(472)
Cash flows from financing activities			
Proceeds from share issue		45,097	13,175
Proceeds of borrowings			65,452
Repayment of borrowings		(25,202)	(40,319)
Dividends paid to Company's shareholders		-	(7,135)
Net cash inflow/(outflow) from financing activities		19,895	31,173
Net increase/(decrease) in cash equivalents		70,155	(15,018)
Cash and cash equivalents at the beginning of the financial year		17,479	32,295
Effects of exchange rate changes		-	202
Cash and cash equivalents at the end of the financial year	20 (a)	87,634	17,479

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the year ended 30 June 2018

These are the consolidated financial statements of Bellamy's Australia Limited and its subsidiaries. A list of all subsidiaries is included in Note 23. The financial statements are presented in the Australian currency.

1 Significant changes in the current reporting period

On 3 July 2018, the Company acquired Camperdown Powder Pty Ltd for $32.1m through a 90% share of A.C.N. 619 661 611 Pty Ltd.

On 15 January 2018, the Company announced the conditional acquisition of the remaining 10% of the Camperdown operations for total consideration of approximately $3.6m (based on Bellamy's share price at 15 January 2018). On completion, this acquisition will result in the Company beneficially owning 100% of the shares in Camperdown.

For detailed discussion of the Company's performance and financial position refer also to the Operating and Financial Review on pages 5 to 9. This review identifies costs that are not expected to recur in future financial years.

2 Segment information

a) Description of segments

Operating segments are determined in accordance with AASB 8 Operating Segments. To identify the operating segments of the business, management has considered the business from both a geographical and functional perspective, as well as considering the way information is reported to management and the Board.

The operating segments have been redefined based on the geographical location of the retailer/reseller in respect of the direct sale by the Company to reflect how the business is now managed. The three operating segments are as follows:

i) Australia – revenues derived from sales to retailers and other resellers within Australia.
ii) Overseas Sales – revenue derived from sales to distributors and online customers overseas.
iii) Australia Manufacturing – manufacturing of formula and other powders

Senior management assess the performance of the operating segments based on a measure of underlying earnings before interest and tax (EBIT). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and one-off items to ensure comparability of the underlying operating result. Interest income and expenditure are not allocated to segments.

Significant items relate to significant changes in the business during the past financial year and are identified due to their nature and magnitude on the assessment of segment performance. During the financial year the significant item relates to inventory provisions for the transition to SAMR registered products in China and Country of Origin Labelling (COOL) compliant labelling in Australia. In the prior year the costs that are associated with the turnaround plan and include costs arising from the supply chain reset, professional fees and restructuring costs that are not expected to recur in future financial years. These have been included as non-recurring and are excluded by management when assessing the underlying EBITDA of the segments.

Customer concentration information. In the Australia Sales segment one customer purchased $69.7m, representing 21% of total Group Revenue (FY17: $34.0m, 14%). In the International Sales segment, one customer purchased $82.0m representing 25% of total Group Revenue (FY17: $51.4m, 21%). No other single customers represent greater than 10% of revenue.

A reconciliation of segment EBITDA to profit before income tax is provided in (b) below.

Total assets and liabilities are measured in a manner consistent with that in the financial statements. These assets are allocated based on the operations of the segment and physical location of the asset.

Financial Statements

	Australia Sales $'000	Overseas Sales $'000	Australia Manufacturing $'000	Elims $'000	Group Total $'000
2018					
Segment revenues	**248,252**	**95,887**	**13,090**	**(28,525)**	**328,704**
Underlying segment EBITDA *	74,669	31,315	(1,408)	(26,458)	78,118
Segment EBITDA %	30.1%	32.7%	(10.8)%		23.8%
Total segment assets	**181,486**	**10,145**	**43,300**	**(48,551)**	**186,380**
Total segment liabilities	60,345	7,961	49,430	(47,528)	70,208
Other disclosures					
Depreciation & amortisation	963	15	3,320	-	4,298
Income Tax	19,700	638	(1,933)	(25)	18,380
2017					
Segment revenue	**189,859**	**77,708**	**-**	**(27,385)**	**240,182**
Underlying segment EBITDA *	27,667	16,636	-	(1,508)	42,794
Segment EBITDA %	14.6%	21.4%	-		17.8%
Total segment assets	**130,838**	**7,980**	**-**	**(3,468)**	**135,350**
Total segment liabilities	38,198	4,955	-	(3,428)	39,725
Other disclosures					
Depreciation & amortisation	731	56	-	-	787
Income Tax	(606)	737	-	-	131

b) Reconciliation of the underlying segment EBITDA to profit before tax

	2018 $'000	2017 $'000
Underlying segment EBITDA	78,118	42,794
Unallocated corporate costs *	(7,578)	(4,845)
Significant items /non-recurring:		
Inventory provisions and write-down	(5,973)	(6,838)
Restructuring costs	-	(1,449)
Fonterra payment for supply chain reset	-	(27,500)
Costs associated with the acquisition of Camperdown Powder and indirect capital raising costs	-	(1,083)
Professional fees of a non-recurring nature	-	(2,980)
Ineffective foreign exchanges hedge losses	-	(1,564)
	64,567	(41,414)
Net interest revenue/(expense)	927	(1,270)
Depreciation & Amortisation	(4,298)	(787)
Profit/(loss) before tax	61,196	(677)

*Non-trading entity costs

c) Reconciliation of segment assets and liabilities

	Australia Sales		Overseas Sales		Australian Manufacturing		Elims		Group Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017	2018 $'000	2017 $'000
Segment assets	181,486	130,838	10,145	7,980	43,300	-	(48,548)	(3,468)	186,380	**135,351**
Unallocated										
Cash and cash equivalents									87,634	17,479
Current tax assets									-	274
Deferred tax assets (net)									6,798	3,537
Total assets									**280,812**	**156,641**
Segment liabilities	60,345	38,198	7,961	4,955	49,430	-	(47,528)	(3,428)	70,208	39,725
Unallocated										
Provisions (employee benefits)									608	358
Borrowings									62	25,264
Derivatives									232	34
Current tax liabilities									2,344	-
Total Liabilities									**73,454**	**65,382**

3 Earnings per share

	2018 cents	2017 cents
Basic earnings per share (a)	39.2	(0.8)
Dilute earnings per share (b)	37.2	(0.8)

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit/(loss) attributable to ordinary shareholders of $42,815,000 (2017:($809,000)) and the weighted average number of shares outstanding of 109,230,834 (2017: 96,736,658).

b) Diluted earnings per share

The calculation of diluted earnings per share is based on the weighted average number of shares outstanding of 115,113,993, including unexercised employee options of 5,883,159 (2017: 6,891,010).

The calculation does not include 300,000 shares to be issued to the vendors of Camperdown Powder Pty Ltd when conditions subsequent have been achieved. It also does not include 20,878 options offered to directors which have not yet been approved by the shareholders.

4 Dividends to shareholders

No dividends have been paid during the year, in respect of the financial year ended 30 June 2017 (2017: Fully franked dividend of 7.8c in relation to FY16).

As at 30 June 2018, the level of 30% franking credits available to shareholders on a tax paid basis was $35,100,144 (2017: $12,506,612). The franking credits available are based on the balance of the dividend franking account in the prior year tax return adjusted in relation to the current income tax liabilities for the year ended 30 June 2018. The ability to utilise franking credits is dependent upon the ability to declare dividends.

5 Revenue

	2018 $'000	2017 $'000
Revenue from continuing operations	328,704	240,182
Other income		
Sundry income	582	248
Total other income	582	248

Revenue recognition

Measurement of revenue

Revenue is measured at fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Timing of recognition

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

All revenue is stated net of the amount of goods and services tax (GST).

6 Expenses and significant items

		2018 $'000	2017 $'000
Cost of sales			
Shortfall payments		3,289	2,000
Direct costs			
Inventory provisions and write offs[1]		5,973	6,838
Employee costs			
Wages & salaries[2]		11,178	9,401
Restructuring costs[1]		-	1,449
Share based payments		4,053	2,289
Administrative & Other			
Fonterra payment for the supply chain reset[1]		-	27,500
Costs associated with the acquisition of Camperdown Powder and indirect capital raising costs[1]		-	1,083
Professional fees of a non-recurring nature[1]		-	2,980
Ineffective foreign exchange hedge losses[1]		-	1,564
Net finance (revenue)/costs			
Interest revenue		(1,157)	(94)
Interest expense		230	1,364
Depreciation and amortisation			
Depreciation – property, plant & equipment	10(b)	698	280
Amortisation of product development costs	12	510	387
Amortisation of software	12	190	120
Amortisation of customer contracts and licences	12	2,900	-

1. The items above are defined as significant items due to their nature and magnitude and have been included as non-recurring for the underlying EBITDA for the segment disclosure – refer Note 2 for more details.
2. Wages and salaries exclude direct production staff whose wages are allocated to the direct cost of inventory.

3. Interest revenue is reported under the heading of net finance costs and recognised using the effective interest rate method.

7 Income tax expense

a) Amounts recognised in profit or loss:

	2018 $'000	2017 $'000
Current tax expense	19,635	1,948
Deferred tax expense/(benefit)	(1,255)	(1,817)
Total income tax expense	18,380	131

b) Numerical reconciliation between tax expense and profit before tax.

	2018 $'000	2017 $'000
Profit/(loss) before tax from continuing operations	61,196	(677)
Prima facie tax payable at 30% (2017:30%)	18,359	(203)
Non-deductible expenditure	90	455
Other	(18)	-
Share Based Payments	(191)	-
Effect of different overseas tax rates	(711)	(1,043)
Impact of Controlled Foreign Company Rules	560	1,071
R&D benefits	-	(149)
Under (over) provision from prior periods	291	-
Total income tax expense	18,380	131
Weighted average effective tax rates	30%	(19%)

8 Trade and other receivables

	2018 $'000	2017 $'000
Current		
Trade receivables (a)	43,856	33,942
Loss allowance provision	(116)	(100)
	43,740	33,842
Other receivables	5,577	3,215
	49,317	37,057

a) Accounting for trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. As collection of the amounts is expected in one year or less they are classified as current assets. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. Impairment risk is low – less than 0.25% of trade receivables were over 30 days overdue at 30 June 2018, (2017:nil) and all material trade receivables from overseas customers are invoiced in Australian dollars and backed by bank guarantees.

b) Credit risk

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision as at 30 June 2018 is determined as follows:

2018	Current $'000	More than 30 days $'000	More than 60 days $'000	More than 120 days $'000	Total $'000
Expected loss rate	0.3%	-	-	-	0.3%
Gross carrying amount	43,789	71	(4)	-	43,856
Loss allowance provision	116	-	-	-	116

2017	Current $'000	More than 30 days $'000	More than 60 days $'000	More than 120 days $'000	Total $'000
Expected loss rate	0.3%	-	-	-	0.3%
Gross carrying amount	31,815	945	1,169	13	33,942
Loss allowance provision	100	-	-	-	100

	2018 $'000	2017 $'000
Opening loss allowance 1 July	100	60
Increase in loss allowance recognised in profit or loss during the period	16	40
As at 30 June	116	100

The gross carrying amount of trade receivables is $43.9m (2017: $33.9m).

During the period, the Group made no write offs of trade receivables it did not expect to receive future cash flows from and did not make any recoveries from collection of cash flows previously written off.

9 Inventories

	2018 $'000	2017 $'000
Raw materials	18,406	10,483
Finished goods	58,851	83,014
Goods in transit	13,196	-
	90,453	93,497

Inventories are measured at lower of cost and net realisable value.

Key Judgements and Estimates

Inventory values are stated net of provision of $10.0m (FY17: $5.6m). The provision for inventory write-downs was increased $6.0m resulting from the transition to SAMR registered products in China and CoOL compliant labelling in Australia.

The valuation of inventory is considered an area of significant judgement. Inventory is valued at lower of cost or net realisable value. The value is dependent on the revenue forecasts and the estimated impact of regulatory change. Should revenue forecasts not be achieved or the regulatory impact differs from that estimated, the net realisable value of inventory as assessed at 30 June 2018 may be impacted.

10 Property, plant and equipment

a) Carrying amounts

	2018 $'000	2017 $'000
Plant and Equipment		
At cost	5,384	1,336
Accumulated depreciation	(1,947)	(590)
	3,437	746
Leasehold improvements		
At cost	541	369
Accumulated depreciation	(194)	(108)
	347	261
Total Property Plant & Equipment	3,784	1,006

b) Reconciliation of carrying amount

	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
2018			
Balance as at 1 July 2017	746	261	1,006
Acquisition of Camperdown	1,527	-	1,527
Additions	1,856	171	2,028
Disposals	(79)	-	(79)
Depreciation expense	(613)	(85)	(698)
Balance as at 30 June 2018	3,437	347	3,784

	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
2017			
Balance as at 1 July 2016	786	319	1,105
Additions	260	13	273
Disposals	(91)	-	(91)
Depreciation expense	(209)	(71)	(280)
Balance as at 30 June 2017	746	261	1,006

11 Business Combinations

On 3 July 2017, the Group acquired 90% ownership in A.C.N. 619 661 611 Pty Ltd, incorporated on 9 June 2017, which owns 100% of the issued capital of Camperdown Powder Pty Ltd (ABN 56 168 982 250). Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

Fair Value	$'000	Consideration	$'000
Assets and Liabilities acquired		**Consideration**	
Cash	47	Cash	10,500
Property, plant and equipment	1,527	Issue of shares in BAL	21,612
Inventory	454	**Consideration**	**32,112**
Trade and other receivables	567		
Other current assets	56		
Intangible assets	6,800		
Trade and other payables	(5,256)		
Deferred tax assets	2,269		
Deferred tax liabilities	(2,100)		
Provisions	(61)		
Net Assets acquired	**4,303**		
Less: non-controlling interests	(430)		
Add: goodwill	28,239		
Net assets acquired	**32,112**		

The valuation of finite life intangible assets included a valuation of customer contracts and operating licences which were valued at $6.8m. The valuation was based on discounted future cash flow methodology. This balance is to be amortised over 2-3 years.

12 Intangible assets

The Group's intangible assets include: goodwill, licences and customers contracts arising from business combinations, production access rights and other intangibles as follows:

	2018 $'000	2017 $'000
Goodwill and Intangible Assets		
At valuation	28,239	-
Impairment	-	-
	28,239	-
Licences and Customer Contracts		
At valuation	6,800	
Accumulated amortisation	(2,900)	
	3,900	
Production access		
At cost	5,500	-
Accumulated amortisation	-	-
	5,500	-
Other intangibles		
At cost	3,140	
Accumulated amortisation	(700)	
	2,440	1,740
Total intangible assets		
At cost	43,679	2,248
Accumulated amortisation and impairment	(3,600)	(508)
Net intangible assets	40,079	1,740

	Goodwill $'000	Licences & Customer Contracts $'000	Production Access $'000	Other $'000	Total $'000
2018					
Balance as at 1 July 2017	-	-	-	1,740	1,740
Additions - Acquisition of Business	28,239	6,800	-	-	35,039
Additions - Internal Development	-	-	-	666	666
Additions - Purchased	-	-	5,500	734	6,234
Disposals			-		
Amortisation expense	-	(2,900)	-	(700)	(3,600)
Balance as at 30 June 2018	28,239	3,900	5,500	2,440	40,079
Allocated to Segment:					
-Australia	-	-	5,500	2,440	7,940
-International	-	-	-	-	-
-Manufacturing	28,239	3,900	-	-	32,139
	28,239	3,900	5,500	2,440	40,079

	Goodwill $'000	Licences & Customer Contracts $'000	Production Access $'000	Other $'000	Total $'000
2017					
Balance as at 1 July 2016	-	-	-	1,704	1,704
Additions - Internal Development	-	-	-	544	544
Disposals	-	-	-	-	-
Amortisation expense	-	-	-	(508)	(508)
Balance as at 30 June 2017	-	-	-	1,740	1,740
Allocated to Segment:					
-Australia	-	-	-	1,740	1,740
-International	-	-	-	-	-
-Manufacturing	-	-	-	-	-
	-	-	-	1,740	1,740

Goodwill

For the purposes of assessing impairment:

- Assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).
- Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to the CGU from the business combination in which the goodwill arose.

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 an asset's fair value less costs to sell and value-in-use.

The Group tests whether goodwill and other intangible assets have suffered any impairment in accordance with the accounting policy.

Licences and customer contracts

The licences and customer contracts were acquired as part of a business combination (see Note 11 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows as follows:

- Customer contracts - 3 years
- Licences - 2 years
- Production rights - 5 years

Production Rights acquired under contract provide Bellamy's with first access rights to a Tasmanian organic fresh milk pool. These are shown at historical cost and will be amortised in line with usage in production over 5 years, based on the length of the contract.

Other intangibles

Other intangibles consist of software, trademarks and product development costs. Refer to Note 32 for more detailed description.

Intangible Assets Allocation

The goodwill and intangibles have been allocated to the Camperdown CGU for the purpose of impairment testing. The allocation of intangibles for Camperdown at 30 June 2018 include the following:

	Camperdown $000
Goodwill	28,239
Intangibles – licences	1,800
Intangibles – customer contracts	2,200

The recoverable amount of CGU is determined based on fair value less costs to sell. This calculation is based on a cash flow projection, based on assumptions for a market participant and taking into account the risks associated with the cash flows. The fair value model is a 10 year cash flow model using a discount rate approximating a pre-tax discount rate of 15% determined to be applicable to manufacturing / canning facilities involved in the infant formula manufacturing industry.

Key judgements and estimates

The fair value model includes volumes for a current manufacturing contract that has a SAMR licence and estimated production volumes for Bellamy's Chinese label product assuming successful SAMR registration. The fair value model also assumes:

- The facility upgrade is completed and provides increased production capacity and efficiency
- Three SAMR registered brands will be produced at the facility and will continue to attract a premium price to Australian label production
- The valuation assumes licences and registrations are maintained over a period of 10 years. There is no growth in production output once the facility upgrade is completed and inflation is 2% pa.

The valuation will be reassessed if Camperdown's application for SAMR registration for Bellamy's Chinese label product is rejected.

13 Trade and other payables

	2018 $'000	2017 $'000
Current		
Unsecured:		
Trade payables	52,870	30,448
Sundry payables and accrued expenses	16,238	7,278
	69,108	37,726

Payables are unsecured and are usually paid for 30 days from end of month.

14 Borrowings

	2018 $'000	2017 $'000
Current		
Secured		
Trade financing (a)	62	25,259
Asset purchase liabilities (b)	-	5
Total current borrowings	62	25,264
Non-Current		
Secured		
Asset purchase liabilities (b)	-	-
Total non-current borrowings	-	-
Total borrowings	62	25,264

Additional information on finance facilities available

a) HSBC provides a working capital facility to the Group in an aggregate amount of $40 million, together with a credit card facility of $250,000 and a bank guarantee facility of $200,000 (together, the "facilities"). The working capital facility is comprised of several sub-facilities with specific conditions and limits, with the effect that the Group's ability to utilise the working capital facility is subject to those conditions being satisfied and those limits not being exceeded. The facilities are secured over assets of the Group and are subject to the Group complying with its obligations (including financial covenants) under those facilities. At 30 June 2018, the aggregate amount outstanding under the facilities was $nil (2017: $25.2 million) and the Group was in compliance with its obligations under those facilities. Based on current forecasts, the Group expects that the Group will remain in compliance with those obligations. Subject to the terms of its manufacturing agreement, Fonterra has a second-ranking security over the assets of the Group. In February 2018, the facility was extended for a further 2 years.

b) There are no asset purchase liabilities outstanding as at 30 June 2018. Bank accepted letters of credit are provided from time to time in relation to export sale orders and are secured by the underlying receivable balance.

Recognised fair value measurements

Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements as at 30 June 2018	Notes	Level 1	Level 2	Level 3	Total
Total Financial Assets					
Financial Liabilities					
Derivatives used for hedging					
Foreign exchange contracts			232		232
Total Financial Liabilities		-	232	-	232

Recurring fair value measurements as at 30 June 2017	Notes	Level 1	Level 2	Level 3	Total
Total Financial Assets		-	-	-	-
Financial Liabilities					
Derivatives used for hedging					
Foreign exchange contracts		-	34	-	34
Total Financial Liabilities		-	34	-	34

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date

15 Other assets

	2018 $'000	2017 $'000
Current		
Prepayments	2,748	2,051

Prepayments for 2018 are primarily for insurance covering the period to 31 March 2019. (2017: payments are primarily for insurance covering the period to 31 March 2018).

16 Provisions

	2018 $'000	2017 $'000
Current		
Employee entitlements	563	329
Minimum annual volume provision	1,100	2,000
	1,663	2,329
Non-Current		
Employee entitlements	45	29
	1,708	2,358

	Minimum annual volume $'000	Employee Entitlements $'000	Total $'000
2018			
Balance as at 1 July 2017	2,000	358	2,358
Accrued during the year	3,289	250	3,539
Payments made	(4,189)	-	(4,189)
Balance as at 30 June 2018	1,100	608	1,708

	Minimum annual volume $'000	Employee Entitlements $'000	Total $'000
2017			
Balance as at 1 July 2016	-	474	474
Accrued during the year	2,000	185	2,185
Payments made on termination	-	(301)	(301)
Balance as at 30 June 2017	2,000	358	2,358

Refer Note 25 for further information on accounting for minimum annual volume provision (shortfall payments).

Manufacturing contracts

The accounting for manufacturing contracts is based on estimates and judgements in relation to future production levels. Based on the current forecast the Company has assessed that the economic benefit of the manufacturing contracts exceeds the cost of the contracts (including anticipated shortfall payments) and therefore the contracts are not considered onerous. Further information with respect to production shortfall payments is included in Note 25.

17 Tax

	2018 $'000	2017 $'000
Current (asset) / liability		
Income tax payable/(refundable)	2,344	(274)
Deferred tax balances recognised		
Temporary differences relating to income		-
Temporary differences relating to spending		
Inventories	2,197	138
Other liabilities	(3,279)	1,210
Employee entitlements	195	108
Foreign exchange losses	26	342
Tax losses	3,284	-
Overseas operating losses	270	499
Share based payments	1,820	822
Other assets and liabilities	1,509	(175)
Capital raising costs (equity)	776	593
Net deferred tax balances recognised	6,798	3,537
Represented by		
Deferred tax assets	10,077	3,909
Deferred tax liabilities	(3,279)	(372)
	6,798	3,537
Movement in recognised deferred tax balances		
Opening balance	3,537	1,500
Recognised in income	1,254	1,817
DTA on acquisition of Camperdown Powder	2,269	-
DTL on acquisition of Camperdown Powder	(2,100)	-
Recognised in equity	1,838	220
	6,798	3,537
Deferred tax assets not recognised		
Australian Tax Consolidated Group		
Tax losses: capital	201	201
Temporary differences: revenue	-	-

Tax losses of $7.1m (2017: nil) were recognised as deferred tax assets (tax effected balance of $2.6m) in acquisition accounting for the interest in Camperdown Powder Pty Ltd. Refer note 11 Business Combinations.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset 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.

Governance over Taxation

- The Board has approved a Tax Policy which governs Company's approach to taxation and how this approach is aligned with business and sustainability strategy
- Tax Risk Management forms part of the overall risk management
- The performance of the tax strategies, tax risk management, tax transactions such as inter-company funding, material tax incentives, country-by-country activities and current disputes with tax authorities is reported to the Board.

There are no matters for which it would be expected that the Taxation Authorities in the jurisdictions Bellamy's operates would take a materially different view.

18 Issued capital

a) Fully paid ordinary shares

	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Opening balance at 1 July	99,679,345	96,656,397	53,795	40,216
Issue of ordinary shares during the year:	-			
Issued to retail investors	9,738,250	-	46,256	-
Issued to owners of Camperdown	3,190,042	-	21,613	-
Employee options exercised	708,467	-	366	-
Dividend reinvestment plan	-	30,128		404
Institutional investment offer	-	2,992,820	(1,160)	13,175
Closing balance at 30 June	113,316,104	99,679,345	120,870	53,795

On 3 July 2017 the acquisition of a 90% interest in Camperdown was completed, at which time the issuing of 3,190,042 shares to Isa Sun Pty Ltd as Trustee for the Huddy Horizon Trust (representing the remaining consideration in connection with the acquisition) was committed. The share price at this date was $6.78. These shares were later issued 11 October 2017 following completion of conditions subsequent. Placement details set are out in the Prospectus dated 13 June 2017.

On 6 July 2017, 9,738,250 shares were issued on completion of the Retail Entitlement Offer made to eligible retail shareholders in accordance with the Prospectus dated 13 June 2017.

b) Share options granted under the Group's employee share option plan

The following options were granted to new senior management under the Bellamy's Australia Limited employee option plan during the year.

- October 2017 - 50,000 options having a vesting date of 31 March 2020 (Tranche 1) and 31 March 2021 (Tranche 2).
- 15 January 2018 – 36,585 options having a vesting date of 31 March 2020 (Tranche 1) and 31 March 2021 (Tranche 2).
- 20 April 2018 – 38,143 options having a vesting date of 30 September 2020 (Tranche 1) and 30 September 2021 (Tranche 2).

At the AGM on 26 October 2017, shareholders approved the grant of 265,887 options to Directors. The terms of the grant are set out in the prospectus dated 13 June 2017.

On 13 December 2017, 20,878 options were offered to a new director under the long-term incentive program, subject to receiving shareholder approval at the 2018 AGM. These options will have a vesting date of 31 March 2021 (Tranche 1) and 31 March 2022 (Tranche 2). 25,011 options were forfeited as a result of eligible employees ceasing employment with the Group.

As at 30 June 2018, executives and employees held options over 5,883,159 (2017: 6,891,010) ordinary shares of the Group. Note: a further 20,878 options intended for a new director will not be allocated until shareholder approval is received at the AGM.

The holders of these options do not have the right, by virtue of the option to participate in any share issue or interest issue of the Group or of any other related body corporate. Until they are exercised, the options carry no rights to dividends and no voting rights.

c) Capital management

Management and the Board of Directors monitor the capital of the Group in order to maintain a prudent debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can effectively fund the operations in line with business growth objectives.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's risk and adjusting its capital structure in response to changes in these risks. These responses include the management of debt levels, distributions to shareholders and share issues.

In response to this analysis, on the 13 June 2017, the Group issued a prospectus to increase capital by $60.4 million. This capital raise provided funding for the supply chain reset, the Camperdown acquisition and reducing reliance on debt funding.

The net debt to cash position as at the end of the reporting period is as follows:

	2018 $'000	**2017 $'000**
Total borrowings	62	25,264
Less cash and cash equivalents	(87,634)	(17,479)
Net debt / (cash)	(87,572)	7,785

The 13 June 2017 Prospectus and the 17 July 2017 Supplementary Prospectus successfully raised $60.4 million (gross) proceeds with a timing that traversed 30 June 2017 as follows:

	Institutional Component 23/06/2017	**Retail Component 07/07/2017**
Allotted Shares ('000)	2,993	9,738
Capital Proceeds ($'000)	14,216	46,257
Capital Raise Costs ($'000)	(1,535)	(1,160)
Net Proceeds ($'000)	**12,681**	**45,097**

Applications for refund of 3,339 shares were received under the supplementary prospectus. These shares were transferred/sold to the underwriters.

19 Reserves (net of income tax)

	2018 $'000	**2017 $'000**
Foreign currency translation	23	(821)
Share based payments	11,820	6,480
Cash flow hedge reserve	21	(24)
Non controlling interest	(21)	-
	11,843	5,635

Foreign currency translation reserve	2018 $'000	2017 $'000
Balance at the beginning of the year	(821)	(373)
Exchange differences arising on translating net assets of foreign operations	843	(448)
Balance at the end of the year	23	(821)

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations are recognised directly in other comprehensive income and are accumulated in the foreign currency translation reserve.

Share based payments reserve	2018 $'000	2017 $'000
Balance at the beginning of the year	6,480	3,767
Arising on share-based payments	5,340	2,713
Balance at the end of the year	11,820	6,480

The reserve relates to share options granted by the Group to its Directors and employees under its Long-term Incentive Plan. Further details are provided in Note 30.

Cash flow hedge reserve	2018 $'000	2017 $'000
Balance at the beginning of the year	(24)	(565)
Arising from changes in fair value of hedging instruments	(24)	773
Income tax effect	69	(232)
Balance at the end of the year	21	(24)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Non controlling interest	2018 $'000	2017 $'000
Balance at the beginning of the year	-	-
Arising from acquisition of Camperdown Powder Pty Ltd	430	-
Movement in retained profits/(losses) for the year	(451)	-
Balance at the end of the year	21	-

20 Additional cash flow information

a) Cash and cash equivalents

	2018 $'000	2017 $'000
Cash and cash equivalents	87,634	17,479

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

b) Reconciliation of profit for the period to net cash flows from operating activities

	2018 $'000	2017 $'000
Reconciliation of profit for the year to net cash from operating activities		
Profit after tax	42,816	(809)
Adjust for non- cash items		
Depreciation	698	280
Amortisation	3,600	508
Loss on sale – plant and equipment	-	44
Profit on sale of investments	-	(15)
Stock provision movements	4,499	5,374
Provision for doubtful debts	16	40
Net exchange movements	949	(881)
Interest on asset purchase	-	2
Share based payments	-	2,713
Movements in working capital		
(Increase)/decrease in trade and other receivables	(12,275)	(3,210)
(Increase)/decrease in inventories	(1,455)	(31,119)
(Increase)/decrease in other assets	(697)	2,924
(Increase)/decrease in net tax assets	(643)	(12,806)
(Decrease)/increase in trade payables	31,383	(10,647)
(Decrease)/increase in provisions	(650)	1,884
Net cash from operating activities	68,241	(45,718)

21 Financial Risk Management

a) Financial risk management policies

The Group's financial instruments consist mainly of loans and deposits with banks, accounts receivable and payable, loans to subsidiaries, and foreign exchange derivatives.

b) Financial risk exposures

The Group is exposed to interest rate, liquidity and credit risks and exposure to foreign exchange and equity price risk.

Interest rate risk

The Group's main interest rate risk arises from borrowings, which expose the Group to cash flow interest rate risk.

Liquidity risk

Liquidity risk is managed by maintaining sufficient cash and monitoring forecast cash flows. The Group's approach to liquidity management involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

2018	Weighted Average Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Mature within 1 Year $'000	Fixed Interest Rate Mature later than 1 Year $'000	Non-interest bearing $'000	Total 2018 $'000
Financial assets						
Cash and cash equivalents	2.8%	61,382		-	26,252	87,634
Receivables		-	-	-	43,740	43,740
Total financial assets		**61,382**	**-**	**-**	**69,992**	**131,374**
Financial Liabilities						
Trade payables		-	-	-	(52,870)	(52,870)
Derivative		-	-	-	(232)	(232)
Borrowings	0.0%	-	(62)	-	-	(62)
Total financial liabilities		**-**	**(62)**	**-**	**(53,102)**	**(53,164)**
Net financial assets		**61,382**	**(62)**	**-**	**16,890**	**78,210**

Financial Statements

2017	Weighted Average Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Mature within 1 Year $'000	Fixed Interest Rate Mature later than 1 Year $'000	Non-interest bearing $'000	Total 2017 $'000
Financial assets						
Cash and cash equivalents	0.9%	4,963	-	-	12,516	17,479
Receivables		-	-	-	33,842	33,842
Total financial assets		**4,963**	**-**	**-**	46,348	**51,321**
Financial Liabilities						
Trade payables						
Derivative						
Borrowings	10.9%	-	(25,264)	-	-	(25,264)
Total financial liabilities		**-**	**(25,264)**	**-**	**(30,483)**	**(55,747)**
Net financial assets		**4,963**	**(25,264)**	**-**	**15,875**	**(4,426)**

Credit risk

Credit risk arises from exposure to customers and deposits with financial institutions. Management monitors credit risk by actively assessing and rating quality and liquidity of counter parties, through a combination of obtaining external credit ratings, credit checks and past experience. Individual risk limits are set in accordance with the Group's Credit Policy. The compliance with credit limits by customers is regularly monitored by management.

Foreign exchange risk

The Group has exposure to movements in foreign currency exchange rates through:

- Sales to distributors and customers in foreign currency
- Purchases of inventory
- Translations of net investments in foreign subsidiaries denominated in foreign currencies

Bellamy's Australia Limited's functional currency is Australian dollars. For the internal operations in the entities in Singapore, Hong Kong and China, all income and expenses are conducted in local currency.

The Group imports ingredients to meet production requirements and has exposure to USD and EUR movements directly where it purchases ingredients on its own behalf and indirectly through purchases of finished products where the Group's product manufacturers purchase ingredients on its behalf.

In order to hedge against the exposure to fluctuations in exchange rates associated with the highly probable purchase of ingredients, the Group enters into forward exchange contracts, which are designated as cash flow hedges.

Exposure of overseas debtors to foreign exchange risk is minimal as these transactions in Australia are primarily denominated in AUD while local offices are in their functional currency.

Forward exchange contracts

The Board's risk management policy is to hedge up to 100% of committed foreign currency cash flows within the next twelve months (mainly inventory purchases in EUR), subject to a review of the cost of implementing each hedge. At 30 June 2018, approximately 100% of inventory purchases were hedged in respect of foreign currency risk (2017: 100%).

At balance date, details of the significant outstanding forward exchange contracts, stated in Australian dollar equivalents are:

	Average exchange rate		Foreign currency (in foreign currency)		Contract value (AUD)		Mark to market assets		Mark to market liabilities	
	2018 $	2017 $	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Hedging Imports:										
Maturing within 12 months										
Buy Euro	0.6238	0.6600	10,921	1,175	17,454	1,780		-	(230)	(34)
Buy USD	0.7385	-	1,300	-	1,760	-	-	-	(1)	-
Buy CNY	4.9006	-	7,100	-	425	-	-	-	(1)	-

At the reporting date, the net amount of unrealised losses under forward exchange contracts hedging anticipated purchases of inventory is $232,000 (2017: $34,000).

Derivative financial instruments – foreign exchange forward contracts	2018 $'000	2017 $'000
Carrying amount	230	34
Notional amount	17,454	1,780
Maturity date	Jul-18 – Aug-18	Sep-17
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	(3)	1
Change in value of hedged item used to determine hedge effectiveness	3	(1)
Weighted average hedged rate for the year (including forward points)	0.6251	0.6600

Derivative financial instruments – foreign exchange forward contracts (USD)	2018 $'000	2017 $'000
Carrying amount	1	-
Notional amount	1,760	-
Maturity date	Aug-18	-
Hedge ratio	1:1	-
Change in fair value of outstanding hedging instruments since 1 July	(11)	-
Change in value of hedged item used to determine hedge effectiveness	11	-
Weighted average hedged rate for the year (including forward points)	0.7464	-

Derivative financial instruments – foreign exchange forward contracts (CNY)	2018 $'000	2017 $'000
Carrying amount	1	-
Notional amount	425	-
Maturity date	Sep-18	-
Hedge ratio	1:1	-
Change in fair value of outstanding hedging instruments since 1 July	(7)	-
Change in value of hedged item used to determine hedge effectiveness	7	-
Weighted average hedged rate for the year (including forward points)	4.8445	-

The foreign exchange forward contracts are denominated in the same currency as the highly probable future inventory purchases (EUR), therefore the hedge ratio is 1:1.

Foreign currency exposures arising on translation of net investments in foreign subsidiaries are predominantly unhedged.

22 Parent entity supplementary information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2018 $'000	2017 $'000
Balance Sheet		
Assets		
Current assets	160,420	65,407
Non-current assets	2,626	1,475
Total Assets	163,046	66,882
Liabilities		
Current liabilities	1,872	1,978
Non-current liabilities	-	-
Total Liabilities	1,872	1,978
Net Assets	161,174	64,904
Equity		
Issued capital	120,870	53,795
Reserves	11,820	6,480
Retained earnings	28,484	4,629
Total Equity	161,174	64,904
Statement of Profit or Loss and Other Comprehensive Income		
Total profit	23,841	12,086
Total comprehensive income	23,841	12,086
Guarantees		
Contingent liabilities - Refer Note 24	-	-
Contractual commitments	-	-

23 Subsidiaries

Name	Company Number	Principal activity	Place of incorporation and operation	Ownership % 2018	Ownership % 2017
Bellamy's Organic Pty Ltd	11 125 461 903	(a)	Australia	100	100
Bellamy's Kitchen Pty Ltd	147 551 639	(d)	Australia	100	100
Yum Mum Pty Ltd	50 148 896 280	(d)	Australia	100	100
Bellamy's Organic (South East Asia) Pte Ltd	201205554M	(a)	Singapore	100	100
A.C.N. 619 661 611 Pty Ltd	619 661 611	(b)	Australia	90	-
Camperdown Powder Pty Ltd	168 982 250	(c)	Australia	100	-
Little Treasure (Aust) Pty Ltd	103 217 232	(e)	Australia	50	50
Camperdown Leura Star Brands Pty Ltd	610 595 803	(e)	Australia	51	51
Duri Brands Pty Ltd	600 737 595	(e)	Australia	51	51
Bellamy's Organic (Hong Kong) Company Ltd	CRN 1795740	(a)	Hong Kong	100	100
Bellamy's Food Trading (Shanghai) Co Ltd	310000400709335	(a)	China	100	100

(a) Sale and distribution of organic food and formula products for babies and toddlers
(b) Investment vehicle
(c) Manufacturing powdered milk products
(d) Non-operating
(e) Brand and trademark ownership entity

The following entities were acquired when Camperdown was acquired on 3 July 2017 and were either liquidated or sold for a nominal value to other shareholders during the financial year.

Name	Company Number	Principal activity	Place of incorporation and operation	Ownership % 2018	Ownership % 3 Jul 2017
Camperdown Vchina Brands Pty Ltd	609 645 052	(f)	Australia	0	51
Camperdown TMP Brands Pty Ltd	600 788 912	(f)	Australia	0	51
Comarco Pty Ltd	155 983 038	(f)	Australia	0	51
Camperdown AIMI Brands Pty Ltd	601 363 437	(f)	Australia	0	51

(f) Joint venture sales and marketing entity

The following entities have financial reporting periods that are not synchronised with the parent entity. The financial reporting year ends with respect to these entities are:

Bellamy's Organic (Hong Kong) Company Ltd	31 December
Bellamy's Food Trading (Shanghai) Co Ltd	31 December
Bellamy's Organic (South East Asia) Pte Ltd	31 March

24 Contingent liabilities and contingent assets

a) Contingent liabilities

On 23 February 2017 and 8 March 2017 Slater & Gordon Limited and Maurice Blackburn commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001 (Cth) in relation to misleading or deceptive conduct and continuous disclosure obligations.

The proceedings have, to date, mostly been consumed with procedural issues relating to the fact that there are two near-identical class actions. The Group will continue to vigorously defend the proceedings. The statements of claim served by the applicants do not quantify, and it is too early in the process to assess, these claims to provide a reliable assessment of the likely quantum of any damages that may become payable if its defence is unsuccessful in whole or in part.

b) Contingent assets

As at the date of this report the Group is not aware of any reportable contingent assets.

25 Commitments for expenditure

a) Shortfall payments

Bellamy's has two material manufacturing agreements that guarantee long-term access to the highest quality production facilities in Australia. Bellamy's has not recorded these contractual rights as contingent assets. The two manufacturing arrangements have minimum volume commitments which run for a number of years. Where the Group is not able to fulfil minimum volume commitments, it is required to make production shortfall payments. Some contracts provide for rebates for exceeding specified volumes. Rebates are recorded in inventory in accordance with the relevant accounting standard.

Bellamy's also enters ingredient supply contracts with Minimum Volume Commitments which are accounted for in the same way as Manufacturing volume commitments.

The minimum volume commitments are based on the contract year (which differs from the Group's financial year). At each reporting period, a provision is raised when production thresholds have not been met or the Group does not have the ability to meet the threshold under the contractual terms.

In FY18, an expense of $3.3m has been recognised in cost of goods sold as a shortfall expense, for which there is a provision of $1.1m (refer Note 16). In FY19 if production levels remain consistent with FY18 a higher expense may be incurred. Beyond FY19 shortfall payments and the related expense may continue over the term of the contacts and could increase or decrease depending on the level of production.

b) Other

As at the date of this report, the Group had capital commitments of $382,000 (2017: $Nil).

26 Operating lease arrangements

	2018 $'000	2017 $'000
Non-cancellable operating lease commitments		
Not later than 1 year	881	309
Later than one year and not later than 5 years	1,640	819
Later than 5 years	-	-
	2,521	1,128

Operating lease commitments primarily relate to leasing arrangements for premises.

27 Subsequent events

There are no material subsequent events.

28 Auditor's remuneration

a) Auditor of the parent entity

	2018 $	2017 $
Audit of the financial statements	345,000	402,000
Due diligence and other assurance services for the equity raise	-	500,851
Other audit, tax and compliance related services	-	12,587
Total paid to PricewaterhouseCoopers	345,000	915,438

b) Auditors of the wholly owned overseas subsidiaries

	2018 $	2017 $
Audit of the financial statements	70,000	130,000
Other tax and compliance services	7,531	6,000
Total paid to PricewaterhouseCoopers	77,531	136,000

29 Related party transactions

a) Parent entities

The parent entity within the Group is Bellamy's Australia Limited.

b) Subsidiaries

A list of subsidiaries is provided in Note 23.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Balances and transactions between the Group and its controlled entities, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

c) Transactions with related parties

Key management personnel compensation

The key management personnel compensation included in 'employee costs' (see Note 6) is as follows:

	2018 $'000	2017 $'000
Short term benefits	3,259	2,657
Post-employment benefits	132	108
Other long-term benefits	7	-
Termination benefits	-	457
Share based payments	2,870	1,295
	6,268	4,517

Individual Directors and executive compensation disclosures

Information regarding individual Directors and key management personnel compensation and some equity instruments disclosures as required by the Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this Note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

There were no loans outstanding at reporting date between the Group and key management personnel.

Other key management personnel transactions with the Group or its controlled entities

From time to time, key management personnel of the Group or its controlled entities, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other group employees or customers and are trivial or domestic in nature.

Shareholdings

The number of ordinary shares held in Bellamy's Australia Limited as at the date of this report and as at the end of the reporting period, by each key management person, including their related parties, are as follows:

Number	1 July 2017 or when commenced	Movement during year	Balance at 30 June 2018	Balance at Reporting Date
Directors				
R Peters	-	43,600	43,600	43,600
W Chan	-	-	-	-
J Ho	7,671,294	1,080,888	8,752,182	8,752,182
J Murphy	-	-	-	-
S Liew	-	-	-	-
KMP Executives				
A Cohen	13,750	37,575	51,325	51,325
N Underwood	-	-	-	-
M Harrison	3,475	458	3,933	3,933
D Jedynak	-	13,400	13,400	13,400
P Fridell	-	-	-	-

Options over ordinary shares

The number of options over Bellamy's Australia Limited ordinary shares held as at the date of this report and as at the end of the reporting period, by each key management person, including their related parties are set out below.

2018

	Balance at 1 July 2017	Granted as remuneration in FY18	*Vested in FY18 and exercisable*	Exercised during FY18	Forfeited during FY18	*Pending forfeiture*	Held as at 30 June 2018 [1]
Directors							
J Murphy	193,373	-	-	-	-	-	193,373
R Peters	36,257	-	-	-	-	-	36,257
W Chan	36,257	-	-	-	-	-	36,257
S Liew	-	20,878	-	-	-	-	20,878

	Balance at 1 July 2017	Granted as remuneration in FY18	*Vested in FY18 and exercisable*	Exercised during FY18	Forfeited during FY18	*Pending forfeiture*	Held as at 30 June 2018 [1]
KMP Executives							
A Cohen	2,533,295	-	369,125	(37,575)	-	-	2,495,720
N Underwood	475,000	-	-	-	-	-	475,000
M Harrison	200,000	-	-	-	-	-	200,000
P Fridell	440,000	-	-	-	-	-	440,000
D Jedynak	475,000	-	-	-	-	-	475,000

2017

	Balance at 1 July 2016	Granted as remuneration in FY17	*Vested in FY17 and exercisable*	Exercised during FY17	Forfeited in FY17	*Pending Forfeiture*	Held as at 30 June 2017
Directors							
J Murphy	-	193,373	-	-	-	-	193,373
R Peters	-	36,257	-	-	-	-	36,257
W Chan	-	36,257	-	-	-	-	36,257
KMP Executives							
A Cohen	689,950	1,843,345	-	-	-	-	2,533,295
N Underwood	-	475,000	-	-	-	-	475,000
M Harrison	-	200,000	-	-	-	-	200,000
P Fridell	-	440,000	-	-	-	-	440,000
D Jedynak	-	475,000	-	-	-	-	475,000
Former KMP							
L McBain	1,356,795	239,154	*116,348*	-	(468,776)	*1,010,825*	1,127,173
S Ollington	328,793	40,021	-	-	-	-	368,814

30 Share based payments

a) Employee Option Plan

The Chief Executive Officer and other senior management held, as part of their remuneration, conditional vesting options over 5,883,159 (2017: 6,891,010) ordinary shares of the Group comprising the:

- 2016 year grants which were made on 23 December 2015, and 30 June 2016;
- 2017 year grants which were made on 3 October 2016, and 13 June 2017; and
- 2018 grants which were made on 2 October 2017, 13 December 2017, 15 January 2018 and 20 April 2018.

FY16 grant

The exercise price for the FY16 grant of options is $4.87 (adjusted). The options can only be exercised if specific performance hurdles are met. Refer to the remuneration report on pages 29 to 42 for detail regarding the performance hurdles. These options expire five years after the grant date, which should be no later than 23 December 2020.

Additional grant on 30 June 2016

A subsequent grant of 689,950 options was made on 30 June 2016. The options were granted under the LTI plan.

FY17 grant

The exercise price for the FY17 grant of options is $14.04 (adjusted). The options can only be exercised if specific performance hurdles are met. Refer to the Remuneration Report on pages 29 to 42 for detail regarding the performance hurdles.

Additional grant on 13 June 2017

The exercise price for the subsequent grant of options is $5.643. The options can only be exercised if specific performance hurdles are met. Refer to the Remuneration Report on pages 29 to 42 for detail regarding the performance hurdles.

FY18 grant

The exercise price for the FY18 grant of options are as follows:

- 2 October 2017 grant - $7.82
- 13 December 2017 grant - $11.19
- 15 January 2018 grant - $10.34
- 20 April 2018 grant - $20.56

The options can only be exercised if specific performance hurdles are met. Refer to the Remuneration Report on pages 29 to 42 for detail regarding the performance hurdles.

b) Other movements

During the current financial year 776,440 options were exercised. 647,301 options were forfeited.

c) Fair value of options granted during the year

The fair value of the options granted during the year under the Long-Term Incentive Plan are as follows:

- 2 October 2017 grant - $2.56 for Tranche 1 and for $2.53 Tranche 2.
- 13 December 2017 grant - $3.56 for Tranche 1 and $3.56 for Tranche 2.
- 15 January 2018 grant - $4.12 for Tranche 1 and $4.08 for Tranche 2.
- 20 April 2018 grant - $7.84 for Tranche 1 and $7.89 for Tranche 2.

d) Expenses arising from share-based payment transactions

The value of options granted to key management personnel are amortised over the period from the grant date to the vesting date for accounting purposes. Share based payments expense in relation to key management personnel for FY18 is as follows:

Name	Option series	Grant date	No. of options	Exercise Price ($)	Share based payment expense FY18 ($)
Directors					
J Murphy	FY17 Grant	13/6/2017	193,373	5.643	404,620
W Chan	FY17 Grant	13/6/2017	36,257	5.643	75,866
R Peters	FY17 Grant	13/6/2017	36,257	5.643	75,866
S Liew	FY18 Grant[1]	13/12/17	20,878	11.190	10,946
KMP Executives					
A Cohen	FY16 Grant[2]	30/6/2016	652,375	9.880	297,665
A Cohen	FY17 Grant	3/10/2016	168,345	14.140	209,256
A Cohen	FY17 Grant	13/6/2017	1,675,000	5.643	921,340
N Underwood	FY17 Grant	13/6/2017	475,000	5.643	261,277
M Harrison	FY17 Grant	13/6/2017	200,000	5.643	110,011
P Fridell	FY17 Grant	13/6/2017	440,000	5.643	242,024
D Jedynak	FY17 Grant	13/6/2017	475,000	5.643	261,277
Total			**4,372,485**		**2,870,148**

1 Subject to shareholder approval at the 2018 AGM.
2 37,575 options of the FY16 Grant of 689,950 options vested in August 2017 with a nil exercise price.

31 Deed of cross guarantee

Bellamy’s Australia Limited and Bellamy’s Organic Pty Ltd executed a deed of cross guarantee on 16 February 2015 under which each company guarantees the debts of the other. By entering into the deed, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors’ Report under ASIC Corporations (wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. They represent a “Closed Group” for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Bellamy’s Australia Limited, they also represent the “extended closed Group”.

32 Summary of significant accounting policies

Reporting entity

Bellamy's Australia Limited is a listed public company incorporated in Australia. The address of the principal place of business and registered office is as follows:

115 Cimitiere Street
Launceston
Tasmania 7250

The entity's principal activities are to offer a range of organic food and formula products for babies and toddlers. The Company's products are certified organic.

The consolidated financial statements and notes represent those of Bellamy's Australia Limited and Controlled Entity (the "Consolidated Group" or "Group").

The separate financial statements of the parent entity, Bellamy Australia Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bellamy's Australia Limited and its subsidiaries.

Basis of preparation

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Bellamy's Australia Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 28 August 2018 by the Directors of the Group.

Early adoption of standards

The Group has early adopted AASB 9 – Financial Instruments.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities.

Compliance with IFRS

The consolidated financial statements of the Bellamy's Australia Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bellamy's Australia Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Bellamy's Australia Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Income tax

The income tax expense for the financial reporting period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the financial year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that the net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Bellamy’s and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. Bellamy’s, as the head entity in the tax consolidated group and its wholly owned Australian controlled entities continues to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, Bellamy’s also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

c) Foreign currency translation

Items included in the Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Australian dollars.

Transactions in foreign currencies are converted at the exchange rates in effect at the dates of each transaction. Amounts payable to or by the Group in foreign currencies have been translated into Australian currency at the exchange rates ruling on balance date. Gains and losses arising from fluctuations in exchange rates on monetary assets and liabilities are included in the income statement in the period in which the exchange rates change, except when deferred in equity as qualifying cash flow hedges.

d) Employee expenses and entitlements

Provision is made for employee expenses arising to the end of the reporting period. Employee expenses that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee expenses payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements.

Provision has been made in the accounts for benefits accruing to employees up to balance date, such as annual leave, long service leave and bonuses. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid. Annual leave provisions are measured at their nominal amounts using the remuneration rates expected to apply at the time of settlement and are classified in other payables. Long service leave provisions are measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date.

Expected future payments are discounted using market yields at reporting date on Australian corporate bonds with terms to maturity that match estimated future cash outflows.

All on-costs, including superannuation, payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Balance Sheet.

f) Borrowings

Loan facilities are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual drawdown of the facility, are capitalised and amortised on a straight-line basis over the term of the facility.

g) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful debts. Trade receivables are generally due for settlement based upon trading terms negotiated with customers. Sales to export distributors are generally receivable before shipment or secured by letter of credit for longer periods. Sales to domestic customers are generally receivable approximately 45 days from invoice.

For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime loss provision for all trade receivables. Any credit losses are written off to Administrative Costs in the profit and loss.

h) Inventories and cost of sales

Inventories are measured at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cost of sales includes the purchase cost of inventory and includes recurring shortfall payments.

i) Intangible assets

All classes of intangible assets are reviewed for impairment each reporting period.

Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets and is measured at cost less impairment. Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment is determined using a fair value model as described in Note 12, which estimates production volumes for Bellamy's Chinese Label product assuming successful SAMR registration.

Goodwill is allocated to the Australian Manufacturing segment in Note 2.

Trademarks, licences and customer contracts, and production rights

Separately registered trademarks are reported at historical cost and are not amortised. Licences and customer contracts were acquired in a business combination and are recognised at fair value at the acquisition date. They each have a finite useful life and are subsequently carried at cost less accumulated amortisation. They are amortised over a 2-3-year period. Production Rights acquired under contract provide Bellamy's with first access rights to a Tasmanian organic fresh milk pool. These are shown at historical cost and will be amortised in line with usage in production over the length of the contract of 5 years.

Product Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when the project is expected to deliver future economic benefits and those benefits can be reliably measured.

Product development costs are amortised over 3 years, or where the product line is discontinued, the balance is written off during that financial period.

Software

Costs associated with maintaining software are recognised as an expense as incurred. Development costs that are directly attributable to the design, testing and implementation of identifiable software products controlled by the group are recognised as intangible assets when the following criteria are met

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- it can be demonstrated how the software will generate probable future economic benefits, and
- the expenditure attributable to the software during its development can be reliably measured.

Software is amortised over the shorter of 3 years or the length of any contract related to the development of the software.

j) Accounting policy choice for non-controlling interests

The group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Camperdown Powder Pty Ltd, the group elected to recognise the non-controlling interests in at its proportionate share of the acquired net identifiable assets.

See Note 32(n) for the group's accounting policies for business combinations.

k) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 an 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).

l) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value, less where applicable, any accumulated depreciation or amortisation.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Useful life
Plant and equipment	
• IT Hardware	4 years
• Motor Vehicles	8 years
• Furniture and fittings	10 years
• Leasehold improvements	Life of lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit and loss statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

m) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period. Finance leased assets are depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term.

Where the risks and rewards of ownership are retained by the lessor, leased assets are classified as operating leases and are not capitalised. Rental payments are charged to the income statement on a straight-line basis over the period of the lease.

n) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

o) Accounts payable

These amounts represent liabilities for goods provided prior to the end of the reporting period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, however some manufacturers retain ownership in the inventory until payment for it is received.

p) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

q) Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets classified at fair value through profit and loss

From time to time the Group may hold listed investments for the purposes of trading, such investments are classified at fair value though profit and loss. These investments are measured at fair value with changes in carrying amount being included in profit or loss. Fair value is determined with reference to ASX quoted bid prices.

r) Goods and Services Tax (GST)

Revenues, expense and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of an expense. \Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

s) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 30. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the new share issue are shown in equity as a deduction, net of tax, from the proceeds.

u) Comparative figures

When required by the Accounting Standards, comparative figures are adjusted to conform to changes in presentation for the current financial year.

In the event that the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) Balance Sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

Comparative information is reclassified where appropriate to enhance comparability and provide more appropriate information to users.

v) Adoption of new and revised Accounting Standards

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2017:

- AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses';
- AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107, and
- AASB 2017-2 'Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle'.

w) New Accounting Standards for application in future periods

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	**AASB 15 Revenue from Contracts with Customers**
Nature of change	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	Management have assessed the impacts of applying the new standard on the group's financial statements and it is not expected to have a material impact on the reported results and financial position of the Group.
Date of adoption by group	Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.
Title of standard	**AASB 16 Leases**
Nature of change	AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the group's operating leases. As at the reporting date the group has non-cancellable operating lease commitments of $2,521,000, see Note 26. The group estimates that approximately 30-35% of these relate to payments for short-

	term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss. Management have assessed the impacts of applying the new standard on the group's financial statements and it is not expected to have a material impact on the reported results and financial position of the Group. The Group has not yet assessed what other adjustments, if any, are necessary as a result of the different treatments of variable lease payments, extension options, and termination options. These amounts are not considered to be material.
Date of adoption by group	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

x) Rounding of Amounts

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Financial Statements

Directors' Declaration

for the year ended 30 June 2018

In the Directors' opinion:

(a) The financial statements and notes set out on pages 48 to 85 are in accordance with the *Corporations Act 2001*, including:

   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 31.

Note 32 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Board of Directors.

John Ho	**John Murphy**
Chair	**Director**

Dated at Melbourne this 28th day of August, 2018

Independent auditor's report

Independent auditor's report

To the members of Bellamy's Australia Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Bellamy's Australia Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	Audit scope	Key audit matters
• For the purpose of our audit we used overall Group materiality of $3 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds in the industry.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The scope of our audit procedures included an audit of the financial information of the Group's Australian Sales segment, given its financial significance to the Group. • We also performed specific risk- based procedures over the operations in Singapore, China and Camperdown which were not quantitatively material to the Group's financial report	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Acquisition accounting of Camperdown – Carrying value of goodwill – Valuation of inventory – Accounting for shortfall provisions • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Acquisition accounting of Camperdown *Refer to note 11* On 3 July 2017, the Group acquired 90% of the shares in A.C.N 619 661 611 Pty Ltd ("Camperdown" - the holding company of the Camperdown Powder manufacturing facility), for $32.1 million consideration. The Group is required by Australian Accounting Standards to identify all assets and liabilities of the newly acquired entity and estimate the fair value of each item. Any excess that is not attributed to an asset or liability is recognised as goodwill. At 30 June 2018, the acquisition accounting is final. The acquisition resulted in the recognition of $2.5 million of net identified liabilities, finite life intangibles assets of $6.8 million and $28.2 million of goodwill. The Group prepared a valuation model to support the fair value of finite life assets which included customer lists and the licence acquired. We considered the accounting for the acquisition a key audit matter due to the: • significant judgement required by the Group in identifying the assets and liabilities acquired and determining their fair value, in particular the finite life intangibles • magnitude of the business acquisition	As part of our audit procedures for the acquisition we performed the following procedures, amongst others: - Obtained the sale and purchase agreement to identify and understand key terms and conditions regarding the purchase price. - Recalculated the value of shares allocated to the ASX quoted share price on the date of acquisition, and traced the cash paid through to banking records. - Physically counted a sample of inventory on hand at the date of acquisition. - Assessed other assets and liabilities as at acquisition date and inspected supporting documentation on a sample basis to ensure they have been appropriately recognised. - Compared the tax losses recognised to Camperdown's forecast taxable income to assess the ability to recover the tax losses. - Assessed the valuation model for the fair value of the customer lists by considering key customer contracts and the forecast cash flows. - Assessed the valuation model for the fair value of the licence by considering the term of the licence and forecast cash flows. - Tested the mathematical accuracy of the calculation of the resultant goodwill after the allocation of purchase price to the assets and liabilities.

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Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill *Refer to note 12* The Group holds intangible assets at 30 June 2018 amounting to $40.1 million, of which $28.2 million relates to goodwill. Under Australian Accounting Standards, the Group is required to assess indefinite life intangible assets for impairment annually. The Group identified Camperdown as a cash generating unit (CGU) and the goodwill and intangible assets were allocated to this CGU. The Group performed an impairment assessment for the CGU by calculating the fair value less costs of disposal. The Group assessed the fair value by considering the value a third party would attribute to the business, based on cash flow projections for a 10 year period. The cash flow forecasts include the assumption of an upgrade to production capacity and the market values for canning contracts which would be applicable for a facility with licences to export to China under the State Administration for Market Regulation (SAMR). These cash flows were risk adjusted and discounted to determine a fair value. The Group did not identify any impairment for the CGU. We considered the carrying value of goodwill as a key audit matter as the balance is material and significant judgement is required by the Group in estimating the fair value less cost of disposal. This included considering key judgements such as the: • SAMR licence • production capacity • sales value per tin attributed to the canning process.	We assessed the allocation of assets and liabilities for the CGUs and were satisfied they were directly attributable to the individual CGU. To evaluate the cash flows included in the fair value model (the model) and the process by which it was developed we, performed the following procedures, amongst others: - Tested the mathematical accuracy and integrity of the model's calculations. - Assessed the appropriateness of a 10 year cash flow model. - Assessed the cash flows by developing an understanding of the key assumptions in the model, including costs to upgrade the facility, production capacity, the sales value per tin attributed to canning and manufacturing costs. - Compared the assumed sales value per tin for canning included in the model to external information. - Considered the risk adjustment applied to the cash flows by developing an understanding of the status of licencing for exporting product under SAMR. With the assistance of PwC internal valuation experts, we assessed the discount rate used in the impairment assessment by comparing it to our view of an acceptable range based on market data, comparable companies and industry research. We performed a sensitivity analysis by reducing the production volumes and sales value within a reasonably foreseeable range. We found that the fair value remained in excess of the carrying value of the assets.

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Key audit matter	*How our audit addressed the key audit matter*
Valuation of inventory *Refer to note 9* The Group's inventories at 30 June 2018 amounted to $90.5 million. Inventory predominantly consists of infant milk formula, baby food and associated raw materials which are held at third party or owned distribution centres across Australia and China. Inventory is measured at the lower of cost or net realisable value. To assess net realisable value, the Group estimates the future sales value of inventory and, where this is less than the cost of inventory, writes down the value of inventory to the estimated sales value. The Group is required to comply with Country of Origin Labelling (CoOL) laws for Australian domestic products manufactured after 1 July 2018 and Chinese regulation for the import of product into China from 1 January 2018. The Group has assessed the impact of the regulatory changes on the carrying value of inventory on hand and provided and an additional $5.9 million at 30 June 2018. We considered this a key audit matter due to the size of the inventory balance and the judgement required by the Group to estimate the future sales value of inventory. This included considering factors such as: • product expiry dates • expected sales volumes • expected sales prices • the impact of changes in regulations in China • the impact of changes in packaging requirements in Australia	As part of our audit procedures to assess the valuation of inventory we performed the following procedures amongst others; • Tested raw materials and finished products costing, on a sample basis, to 3rd party invoices from the relevant suppliers. • Inspected a sample of sales invoices after year- end to assess whether products are sold above their cost price. • Examined the Group's report that provides a list of the expiry dates of raw materials and compared a selection of raw materials which were close to expiry to the Group's list of raw materials contained in the inventory provision. • Examined the Group's report that provides a list of the expiry dates of finished goods and the Group's sales forecast to develop an understanding of whether the finished goods were expected to be sold within the expiry window as required by key customers. To the extent inventory is forecast to be close to expiry, we assessed whether the finished goods were included in the inventory provision. • Tested the accuracy of the expiry dates in the underlying report by comparing the expiry date listed for a sample of finished goods to the expiry date on the product label • Considered changes in regulations in Australia and China and the Group's plans for transition to the new regulatory requirements. We assessed the adequacy of the provision based on a range of possible outcomes.

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Key audit matter	*How our audit addressed the key audit matter*
Accounting for shortfall provisions *Refer to note 16* The Group has three key contractual arrangements for the manufacture of finished goods and a raw material purchase arrangement. These contracts have minimum volume commitments and where the Group is not able to fulfil these minimum volume commitments, it is required to make production shortfall payments to the relevant manufacturers. The minimum volume commitments are based on each individual contract year (which differs from the Group's financial year). At each financial year-end, the Group raises a provision when production thresholds have not been met or the Group does not have the ability to meet the threshold under the contractual terms. We considered the accounting for shortfall provisions a key audit matter given the judgement required by the Group in: • assessing the ability to reach production thresholds for the contract year based on production forecasts. • estimating the amount of provision required at 30 June 2018.	To assess the recognition of supplier provisions we, amongst other things; • Inspected all material supplier contracts to identify and develop an understanding of the key terms and thresholds for minimum order volumes for each contract • Compared the Group's historical production and purchase records for each contract's minimum order volume period to the relevant supplier invoices to assess the accuracy of the Group's internal records. • Considered the Group's ability under the respective contracts to meet the volume threshold for the remaining period of the applicable contract year by considering the maximum production levels specified in the contract. • Compared the actual production plus the estimated production volume for the remaining contract period for each contract to the Group's minimum annual volume calculation. • Tested the calculation of the resulting shortfall provision.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Corporate Directory, Chairman's Letter, Message from the CEO, Operating and Financial review, Directors and Executive Team, Directors' Report, Sustainability Report Corporate Governance Statement, Shareholder Information and Sustainability Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

If, based on 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.

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Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 30 to 46 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the remuneration report of Bellamy's Australia Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Alison Tait

Alison Tait
Partner

Melbourne
28 August 2018

Other Information for Shareholders

Shareholder Information

Bellamy's Australia Limited and controlled entities

The following additional information is provided in accordance with the ASX Listing Rules as at 14 August 2018.

Number of holders of equity securities

Ordinary share capital

113,316,104 shares are held by 14,430 shareholders. At a general meeting, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands, on a poll, one vote for each fully paid share held.

Unlisted options over ordinary share capital

A total of 5,904,037 options are held by 22 individual option holders, including 20,878 of options not yet approved by shareholders. The options do not carry any voting rights.

Distribution of holders of equity securities

	Ordinary shares		
No. of equity securities held	**No. of holders**	**No. of shares**	**% of shares**
1 to 1000	10,031	3,978,744	3.51%
1,001 to 5,000	4,231	9,491,285	8.38%
5,001 to 10,000	544	3,940,599	3.48%
10,001 to 100,000	388	8,694,121	7.67%
100,001 and Over	39	87,211,355	76.96%
Total	**15,233**	**113,316,104**	**100.00%**

Substantial shareholders

Name	**Number of ordinary shares**	**% of voting power advised**
JP Morgan Nominees Australia	19,486,703	17.20
Citicorp Nominees Pty Ltd	16,352,132	14.43
Black Prince Private Foundation	13,317,106	11.75
HSBC Custody Nominees (Australia) Limited	9,516,172	8.40
HSBC Custody Nominees (Australia) Limited GSCO ECA	8,334,448	7.36
Quality Life Pty Ltd	6,840,810	6.04

Other Information for Shareholders

Twenty largest shareholders

Rank	Name	Number of ordinary shares held	% of capital held
1	JP Morgan Nominees Australia	19,486,703	17.20
2	Citicorp Nominees Pty Ltd	16,352,132	14.43
3	Black Prince Private Foundation	13,317,106	11.75
4	HSBC Custody Nominees (Australia) Ltd	9,516,172	8.40
5	HSBC Custody Nominees (Australia) Ltd-GSCO ECA	8,334,448	7.36
6	Quality Life Pty Ltd	6,840,810	6.04
7	Miss Mengjie Liu	2,115,158	1.87
8	National Nominees Limited	1,818,441	1.60
9	HSBC Custody Nominees (Australia) Limited – A/C 2	975,445	0.86
10	BNP Paribas Noms Pty Ltd	865,215	0.76
11	Netwealth Investments Ltd	770,780	0.68
12	Invia Custodian Pty Limited	585,000	0.52
13	BNP Paribas Nominees Pty Ltd – A/C 1	583,468	0.51
14	BNP Paribas Nominees Pty Ltd – A/C 2	504,238	0.44
15	Bicheno Investments Pty Ltd	490,000	0.43
16	National Nominees Limited – A/C 1	410,488	0.36
17	National Nominees Limited – A/C 2	385,000	0.34
18	Mrs Ping Wang	318,313	0.28
19	HSBC Custody Nominees (Australia) Limited	300,000	0.26
20	JBWere (NZ) Nominees Limited	274,635	0.24
	Total	**84,243,552**	**74.34**
	Total remaining holders balance	**29,072,552**	**25.66**
	TOTAL	**113,316,104**	**100.00**

Other Information for Shareholders

Sustainability Information

The following information is provided to assist assessment of Bellamy's sustainability risk and mitigations. It is important to note that Bellamy's:

- Is not a primary producer
- Does not own or manage farms
- Does not own or manage livestock
- Does not directly set farm gate pricing for milk products
- With a regionally diverse supply chain, is not at risk of changes to climatic conditions in any single region

The following information is not audited.

Category	Sub-category	Sustainability Risk	Approach
Environment	Ingredient Production	Emissions, Effluents and Waste	Organic farmers use only natural products to nurture their crops and livestock. Sustainable farming practices work in harmony with the environment including water harvesting and effluent repurposing. Superior farming practices and broad geographical dispersion of organic farmers minimise the impact of localised climatic changes. Bellamy's prefers to source ingredients from Australian farmers, however has access to production from farmers in New Zealand, Europe, United Kingdom and the United States of America, reducing risk associated with regional climatic production shocks and supporting long-term growth in demand for Bellamy's products.
		Supplier Credentials	Organic farmers must be certified organic. Certification is required from certifying body approved National Association for Sustainable Agriculture, Australia (NASAA). This process is rigorous and covers inputs, farming practices and outputs. In addition, producers of dairy products must maintain accreditation with dairy safety authorities.
	Supply Chain and Logistics	Energy	Bellamy's source ingredients from local producers to the extent possible to reduce 'food miles'. This also reduces the input costs and carbon emissions. The ingredients with the greatest food miles per kg are imported milk powders. Bellamy's will continue to work with local milk producers and support their conversion to organic farming via contracting with milk processors to purchase liquid or powdered milk.
	Production	Energy	The most significant energy cost to Bellamy's is the energy required to spray dry liquid milk, hydrated milk powders and other ingredients into dry powder. Spray drying is undertaken by the major manufacturers, who themselves have sustainability policies. As this is a competitive market, they pursue practices to reduce energy consumption/cost for commercial reasons in addition to the social benefits. Bellamy's will increase the volume of liquid milk used in production as/when Australian farmers can produce it. This has the benefit of reducing the volume of spray drying and reducing production costs. It is estimated that a 10% increase in energy prices could increase Bellamy's cost of goods sold by 0.2%.
	Packaging	Emissions, Effluents and Waste	Bellamy's seeks to have 100% of its packaging as recyclable, however at this stage only 96.3% is achievable (expressed as a % of the weight of packaging materials produced).

Other Information for Shareholders

Category	Sub-category	Sustainability Risk	Approach
			Packaging food products must ensure a perfect seal against bacteria entering the product and must be economically viable. Bellamy's will continue to work with packaging providers to help achieve a goal of 100% recyclable material. Bellamy's also considers the recyclability of ingredient packaging during the tendering and on-boarding process.
People	Safety		Bellamy's will never compromise on quality and never compromise on safety. Bellamy's has a broad range of policies in place to ensure a safe environment for employees. It is included in the KPI's of the leadership team and standing item on the Board agenda. • LTIFR for FY18 is <0.01%
	Capability and Diversity		Capability and performance culture is a source of competitive advantage. Bellamy's applies a high-performance framework which considers 'how actions are done' with as much emphasis as 'what actions are done'. In addition to performance, Bellamy's encourages workplace diversity to ensure the voice of the customer is heard and understood. At 30 June 2018: • 60% of the workforce is female • 50% of leadership team is female • 100% are committed.
Health and Society	Health and Wellbeing	Product Quality	Bellamy's understands breast feeding is best, but also understands that sometimes circumstances can impact this ability. Bellamy's products are available for those parents who cannot breast feed or make who make an informed choice to bottle feed. Bellamy's will never compromise on: 1. Certified organic 2. Made in Australia 3. No added sugar 4. No artificial colours or flavours 5. No artificial preservatives 6. No synthetic pesticides 7. No GMOs 8. No BPA Ethical marketing of our products complying with World Health Organisation (WHO) guidelines both in substance and form.
		Quality Assurance	Bellamy's tests product quality and facility hygiene at multiple levels including inputs, several stages of production, and output.
	Regulation	Compliance	The regulators in the infant formula and food industry all share a common goal ensuring the absolute highest standards in food safety for consumers. Bellamy's formula is produced to a paediatric standard. Bellamy's only partners with producers and manufacturers who subscribe to this high standard. Regulators include: • Food Standards Australia New Zealand (FSANZ) • Australian Competition and Consumer Commission (ACCC) • Dairy Food Safety Victoria (DFSV) • Department of Agriculture and Water Resources (DAWR) • State and Territory Departments of Health

Other Information for Shareholders

Category	Sub-category	Sustainability Risk	Approach
	Society	Giving back to the Community	Bellamy's explores avenues to give back to the community that lead to value creation and a better understanding of the benefits of an organic lifestyle. Philanthropy is sustainable when both parties 'win' from the engagement. In FY18, Bellamy's supported: • Clown doctors • Kid-I-am • Cancer Council Launceston Fun Run Walk • Launceston Tornadoes Bellamy's also supports the philanthropy of others: • Staff can receive paid time to attend fund raising events. • In limited circumstances, direct or event-based donations are made.
Shareholder Value	Brand Value	Reputation and Brand	The Bellamy's brand is the Company's most important asset. Stewardship of the brand reflects the values of the company.
	Stakeholder Communication	Informed stakeholders	Distinction is drawn between marketing Bellamy's products and providing information about Bellamy's company. As a company, Bellamy's provides information to the market as soon as there is a material change in circumstances and/or a false market is forming. Refer to Continuous Disclosure Policy. Public commentary meets all regulatory obligations, but Bellamy's does not seek publicity, nor does it comment on other companies, or provide commentary on channel performance. The absence of commentary through formal channels in-itself is an indication that there is no new information that needs to be disclosed.

Sustainability practices help reduce cost, reduce environmental impact and ensure the manufacture of Bellamy's products and continue to operate in a sustainable manner.