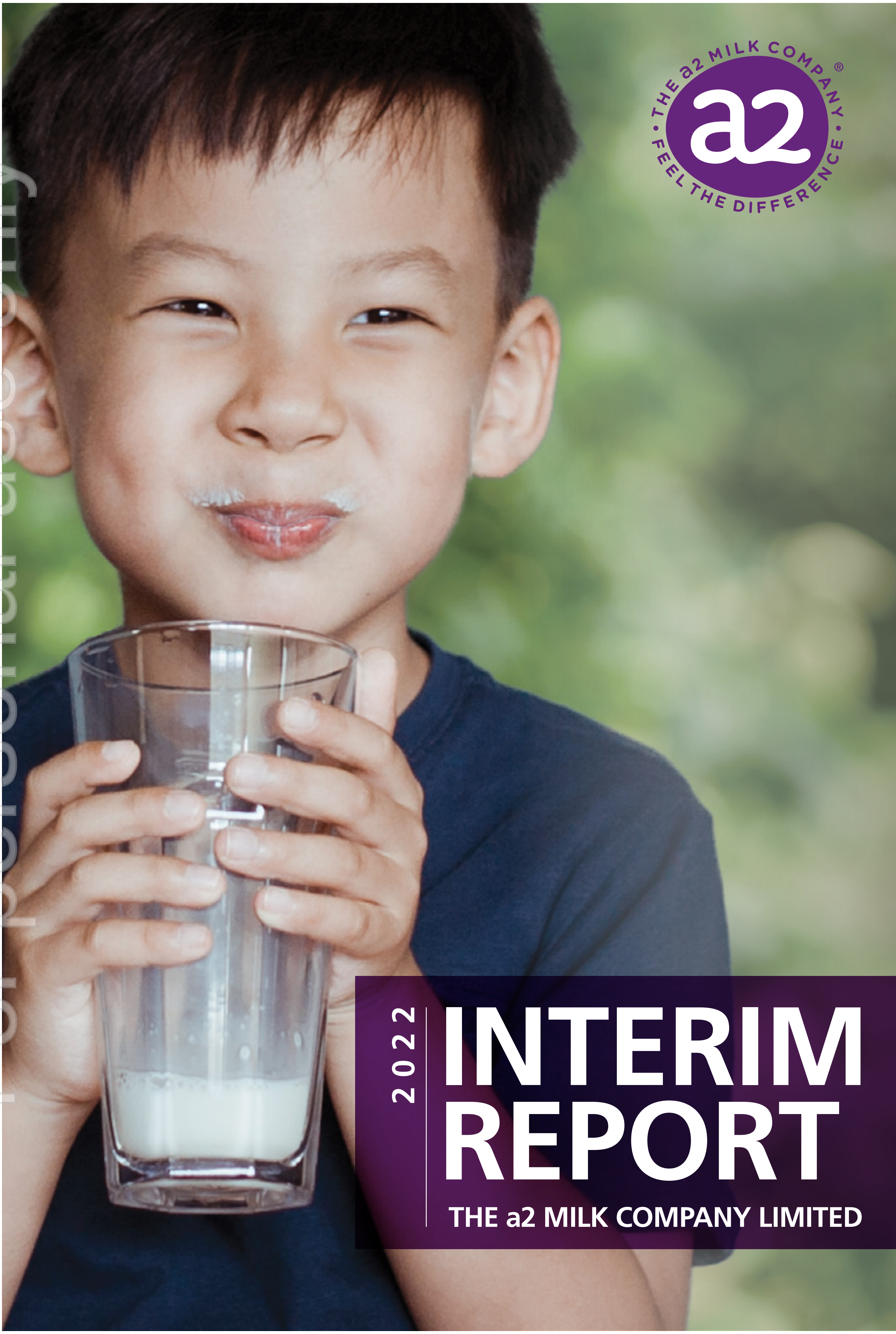


2022 INTERIM REPORT

THE a2 MILK COMPANY LIMITED

ARBN: 158 331 965

GROUP PERFORMANCE

$661m
Revenue ↓ 2.5%

$98m
EBITDA ↓ 45.3%

$56m
NPAT including non-controlling interest ↓ 53.3%

8.02c
Earnings per share ↓ 50.4%

$667m
Net cash

$98m
Operating cash flow

PRODUCT SEGMENT REVENUE

$471m
Infant nutrition ↓ 10.5%

$125m
Liquid milk ↑ 0.2%

$65m
Other* ↑ 143.3%

* Includes MVM

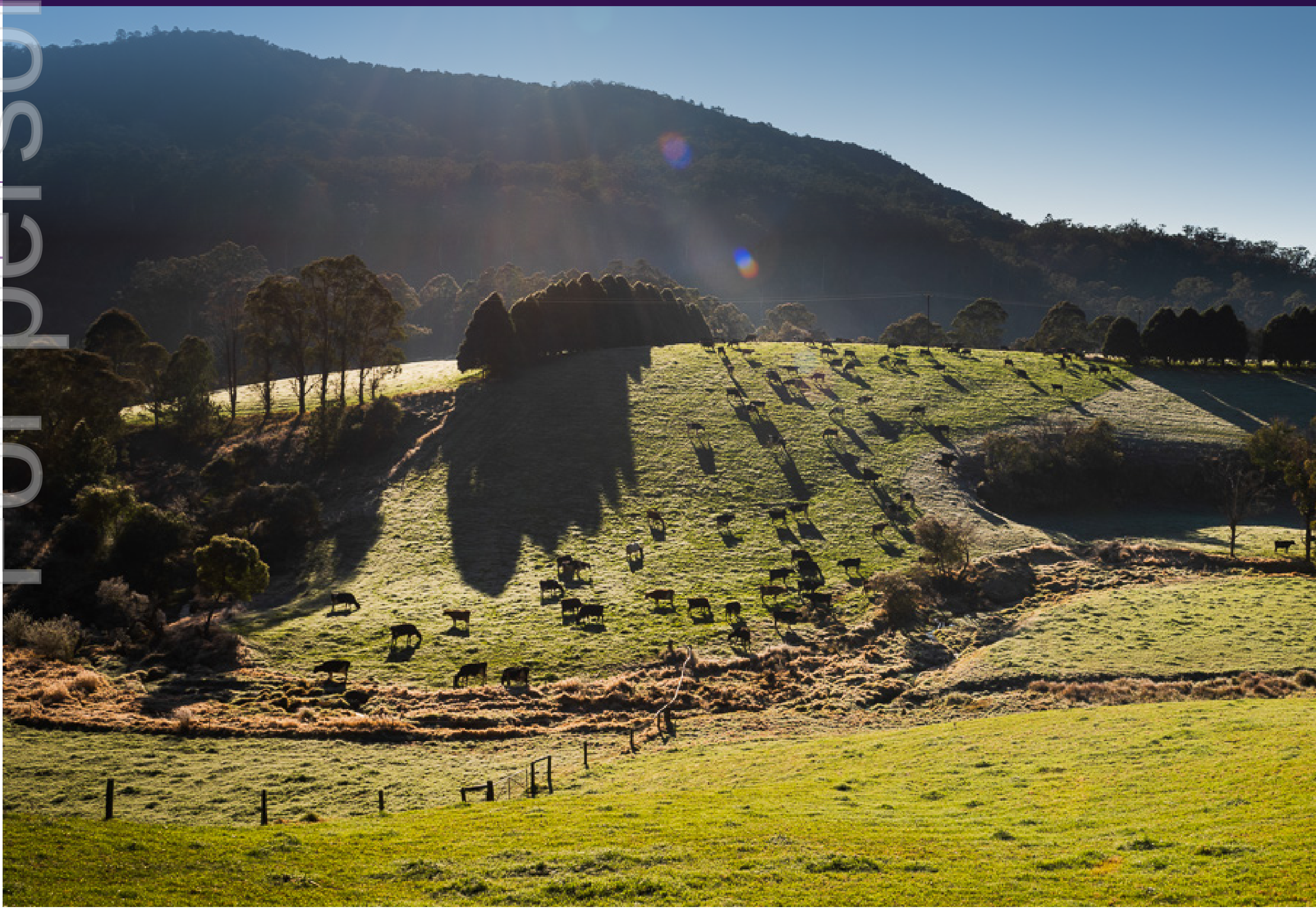
OPERATING SEGMENT REVENUE

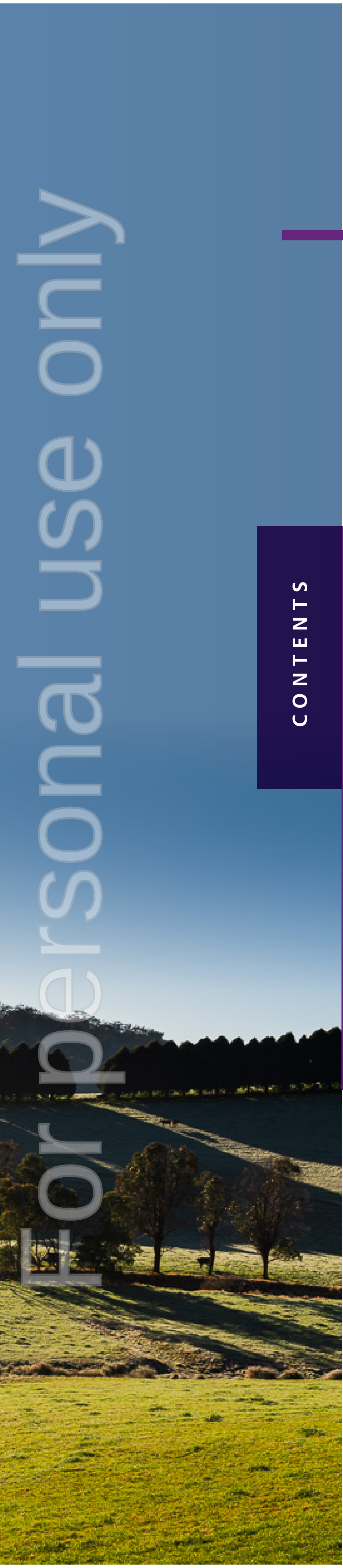
$283m
Australia and New Zealand ↓ 10.7%

$32m
USA ↓ 5.2%

$306m
China and Other Asia ↓ 6.0%

$39m
Mataura Valley Milk





CONTENTS

OPERATING AND FINANCIAL REVIEW

FINANCIAL RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2021 (NZD$)

Interim results in line with expectations

Early signs of positive improvement from growth strategy execution

The a2 Milk Company ("the Company", "a2MC") today announces that its 1H22 result was in line with the Company's expectations, placing the Company in a strong position to execute its strategy and deliver revenue growth in FY22 in a challenging and volatile market.

In October 2021, the Company announced its refreshed growth strategy which has been adapted to the rapidly changing infant milk formula ("IMF") market dynamics in China. The Company also outlined its medium-term indicative sales and EBITDA margin ambition. With its growth strategy review completed, the Company has moved into the execution phase focused on implementing its strategic priorities and related initiatives, which is in its early stages and progressing well.

The actions taken by the Company in 4Q21 and 1Q22 to address excess inventory are also proving effective with channel inventory levels reducing to targeted levels, product freshness improving and market pricing increasing across English label and China label IMF, enabling healthier channel economics for participants in the a2MC business system.

Key points[1]

- Market conditions continued to be challenging with the China IMF market declining by 3.3% in value during 1H22 due mainly to the cumulative impact of a lower birth rate, while the Australian and US (premium) liquid milk markets were in growth. COVID-19 and other external factors continued to impact the Company's supply chain
- Interim results in line with the Company's expectations and expecting to deliver revenue growth in FY22
- Revenue was marginally lower than 1H21 in line with guidance, down 2.5% to $660.5 million on the prior corresponding period ("pcp"), up 24.8% on 2H21
  - As disclosed in the Company's announcement on 26 August 2021, China label IMF sales were constrained by a2MC in 1Q22 to rebalance distributor inventory levels with sales down 11.4% for 1H22 vs pcp. However, consumer offtake growth in store and online was up double-digits with higher market share
  - English and other label IMF sales were down 9.8% in 1H22 vs pcp with lower market share, but with an improvement in sales trajectory during the half particularly in the ANZ reseller channel
  - ANZ liquid milk sales were up with higher market share, while USA liquid milk sales were down
- Earnings before interest tax depreciation and amortisation (EBITDA[2]) was down 45.3% on pcp to $97.6 million
- EBITDA to sales margin of 14.8% in 1H22 compared to 26.4% in 1H21; EBITDA to sales margin excluding MVM of 17.3%
- Net profit after tax ("NPAT") including the non-controlling interest was down 53.3% to $56.1 million on pcp
- Closing net cash was $667.2 million, now incorporating $80.0 million of MVM debt, with high operational cash conversion during 1H22
- Mataura Valley Milk ("MVM") acquisition and strategic partnership with China Animal Husbandry Group ("CAHG") completed in July 2021 and fully consolidated into the results. Commenced planning for a laboratory and blending and canning capability at MVM and accelerated actions to insource certain a2MC product
- Brand health metrics improved following a significant marketing campaign in 2Q22 with total brand / China label metrics improving and English label metrics remaining relatively flat. Brand investment increased in 1H22 by 37.3% vs pcp to $92.5 million in line with the Company's growth strategy
- Growth strategy refresh to respond to the rapidly changing China IMF market dynamics completed and implementation underway with good early progress across key initiatives
- The Company's outlook for 2H22 revenue has improved. It is still expected to be significantly higher than 2H21, and with growth now expected on 1H22 and for FY22 ahead of initial expectations due mainly to growth in China label and English label IMF. However, this revenue improvement is not expected to translate into higher earnings as the Company significantly increases brand and other reinvestment consistent with its growth strategy (the Outlook section below has further detail including key industry and business risks)

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1 All figures are in New Zealand Dollars (NZ$) unless otherwise stated.

2 Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown on page 9.

Group financial performance[3,4]

As foreshadowed in the Company's FY21 Results Commentary in August 2021, 1H22 **revenue** was marginally lower than 1H21, decreasing 2.5% to $660.5 million. 1H22 revenue was impacted by a number of factors, including the lower birth rate and rapidly changing market dynamics in China. The Company's 1H22 revenue also reflects strategic actions taken by the Company in the first half to rebalance channel inventory for China label IMF. This was offset by the inclusion of five months of revenue from MVM for the first time. Excluding MVM, revenue was 8.2% lower compared to 1H21.

Gross margin percentage[5] decreased to 46.2% with underlying gross margin of 50.7% excluding MVM. The lower 1H22 gross margin was due to the inclusion of MVM, adverse product mix and cost headwinds, particularly raw milk and freight costs partially offset by price increases.

EBITDA decreased by 45.3% to $97.6 million. This reflected lower revenue and gross margin as well as a 37.3% increase in marketing investment vs pcp. Administrative and Other Expenses increased by 31.1% compared to pcp due to capability investment, re-instatement of short-term and long-term incentives, professional services fees, legal fees and higher insurance costs. This resulted in an **EBITDA margin** of 14.8% including MVM and 17.3% excluding MVM.

Net profit after tax and including the non-controlling interest was $56.1 million, a decrease of 53.3% on pcp.

The **balance sheet** remains in a strong position with closing cash of $747.2 million. The lower balance reflects the $268.5 million of capital invested in the acquisition of MVM which was completed in July 2021. The Group is now consolidating MVM debt which was $80.0 million at period end as a result of the ownership structure, and therefore had **net cash** of $667.2 million. **Operating cash flow** was $98.4 million. Excluding interest and tax, this represented 130% cash conversion[6].

3 All figures are in New Zealand Dollars (NZ$) unless otherwise stated.
4 All comparisons are with the 6 months ended 31 December 2020 (1H21), unless otherwise stated.
5 Gross margin percentage is calculated as sales less cost of goods sold, divided by sales.
6 Cash conversion defined as Operating cash flow before interest and tax/EBITDA.

Inventory at the end of the period was $127.9 million, higher than at the end of FY21, due to the inclusion of MVM. The actions taken in 4Q21 and 1Q22 to address excess English label and China label IMF channel inventory respectively, are proving to be effective with price stabilisation in the CBEC channel, significant price recovery in the ANZ reseller channel and an improvement in China label trade economics. Targeted levels of channel inventory in English label and China label channels were achieved and maintained during the period. It is, however, likely that both a2MC and channel inventory will need to be increased incrementally in 2H22 to manage COVID-19 supply chain volatility following the omicron outbreak globally and due to product innovation launches and changeovers.

China IMF market dynamics

As noted in the Company's previous announcements in May and August 2021, the China IMF market is rapidly changing and continues to be impacted by China's lower birth rate. Following an 18.1% decrease in births in 2020, there was a further 11.5% decrease in 2021 to 10.6 million[7]. In volume terms, the overall IMF market in China decreased[8] by 5.0% in 1H22 driven by the reduction in the birth rate impacting early-stage products, partially offset by strong growth in Stage 4.

Although market performance varied by channel and segment, overall, market value also decreased[8] by 3.3% in 1H22 due to the lower number of births, an increase in competitive intensity and promotional activity impacting average pricing, partially offset by a continuation of the premiumisation trend as well as a mix shift to higher-priced China label channels.

Key&A cities reported a market value decrease of 6.6% whilst in BCD cities, market value was broadly flat, highlighting a divergence of the impact of the lower birth rate across city tiers.

Local competitors continue to gain market share against the traditional multinational brands, driven both by the strength of local brands, as well as an overall mix shift from cross-border to domestic channels.

In 1H22, the ultra-premium segment (where the Company's China label product competes) performed above market and was in growth, while the premium segment performed below market. The A2 protein segment also performed significantly above market.

Despite the challenging China IMF market dynamics, a2MC performance in 1H22 in China label IMF was encouraging and performance in English label IMF was stabilising.

7 Source: China National Bureau of Statistics.
8 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities) for the 26 weeks ending 31 December 2021.

a2MC regional performance

1 China & Other Asia

China & Other Asia revenue of $306.3 million was down 6.0%, with EBITDA of $59.4 million, down 37.1% on pcp. Revenue was impacted by the lower birth rate in China and the rebalancing of channel inventory for China label IMF during the period. In addition to lower revenue, the reduction in EBITDA margin reflected a significant increase in marketing investment vs pcp to drive awareness and improve new user recruitment and late-stage retention.

Brand health metrics improved following a significant marketing campaign in 2Q22. Based on the Company's most recent tracking (Jan-22), brand health through the funnel remained strong with total brand / China label brand awareness, trial and loyalty improving, while English label awareness and other metrics remained relatively flat. This outcome was supported by an increase in 1H22 in China brand investment of 47.7% vs pcp and was weighted to 2Q22.

IMF – China label channels

Sales in *a2 至初®* China label IMF of $188.7 million were achieved, representing a decrease of 11.4% vs pcp. a2MC constrained sales to distributors in 1Q22 to rebalance channel inventory levels and improve channel dynamics. As a result of this, sales in 1Q22 were down significantly vs pcp, but were up vs pcp in 2Q22 as sales into distributors by a2MC more closely matched sales out from distributors to mother and baby store ("MBS") retailers and domestic online ("DOL") platforms.

As measured by Nielsen, retail sales for MBS (ie sales from stores to consumers by value) for the overall market were down 1% for 1H22[9]. a2MC's 12-month rolling market value share in MBS was 2.6% at the end of December 2021, versus 2.5% at the end of June 2021[9]. a2MC's retail sales for MBS increased 11% in 1H22 vs pcp[9] and *a2 至初®* was one of a few significant international brands that gained share in the period.

Distribution increased to 24.6k stores, from 22.8k at the end of June 2021[10]. As outlined at the Company's investor day in October 2021, a2MC's performance in national key accounts (NKA) has been an important growth driver. The Company has focussed its efforts on building share in NKA's and is pursuing opportunities for growth in underpenetrated national and regional key account chains as well as targeting greater penetration in BCD cities. As a result of these initiatives, the Company increased its share in Key&A and BCD cities during the half.

As measured by Smart Path, retail sales for DOL platforms by value for the overall market were up 5% for 1H22[11]. The Company's 12-month rolling market value share in DOL was 2.1% at the end of December 2021, versus 2.0% at the end of June 2021[11]. a2MC's retail sales for DOL platforms increased 17% in 1H22 vs pcp[11].

China label channel inventory reached target levels in 2Q22. The actions taken to replace distributor inventory with fresher stock were completed and resulted in a significant improvement in product freshness at the consumer level.

The Company continued to invest behind the brand to drive consumer demand. In FY21, marketing investment was weighted to the second half, including a significant marketing campaign in China in 4Q21. A similar level of investment was made in 1H22, with a particular focus on creating and targeting digital content to engage with and recruit new users in 2Q22.

IMF – Cross-border e-commerce (CBEC)

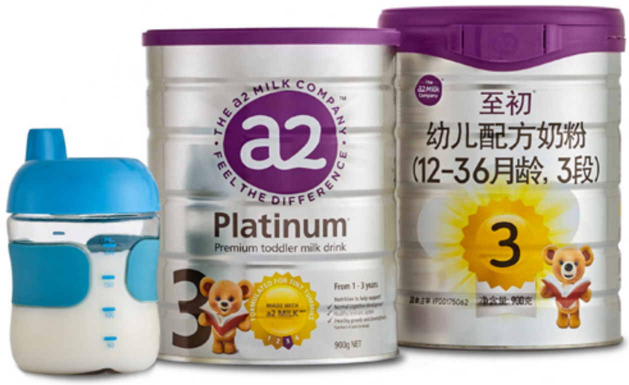
a2 Platinum® English and other label IMF revenue of $102.4 million was down 1.1%. The result reflected reduced price discounting during the "11/11" online sales period in China vs pcp, and no sales of Hong Kong label which ceased during FY21 due to COVID-19 restrictions.

During 11/11 the Company prioritised overall channel economics through reduced inventory levels and promotional activity in CBEC. As a result, and as expected, English label sales during 11/11 were down on last year, but with improved market pricing across CBEC platforms and reseller channels enhancing overall channel economics. Notwithstanding, the Company's platform rankings were maintained or improved relative to the competition.

9 Nielsen MBS retail measurement service: mother and baby stores only retail sales (by value). 1H22 versus 1H21.

10 a2MC internal data tracking of stores with active sales in the past 6 months.

11 Smart Path China IMF online market tracking: domestic online platform sales (by value). 1H22 versus 1H21.



As measured by Smart Path, retail sales (by value) for the overall CBEC market were down 6% for the period[12]. As expected, the Company's 12-month rolling market value share in CBEC was 19.5% at the end of December 2021, versus 21.1% at the end of June 2021[12]. This performance reflected actions taken in 2H21 to rebalance channel inventory, as well as a reduction in levels of cross selling from reseller channels.

Liquid milk and other nutritional products
Sales of liquid milk in China and Other Asia were up 50.3% to $5.5 million and revenue from other nutritional products was up 69.2% to $9.7 million. This reflected progress in executing against adjacent growth opportunities and leveraging learnings to adapt outside of IMF, including the launch of UHT in China. The Company expanded distribution despite significant supply disruptions due to COVID-19 and enhanced capability in the modern trade.

2 ANZ

ANZ segment revenue of $283.3 million was down 10.7%, with EBITDA of $96.2 million down 18.1% versus pcp. Compared to 2H21, ANZ segment revenue was up 16.8% and EBITDA up 206.6%. ANZ reseller channel sales trajectory has improved. The actions taken to rebalance excess inventory throughout the supply chain and improve freshness have resulted in an increase in reseller market pricing of between 20-50% since July 2021, varying by product stage and channel. Revenue in the segment was also impacted by a decrease in sales of other nutritional products, higher cost of goods sold, and foreign exchange headwinds, partially offset by continued growth in liquid milk in Australia.

IMF – ANZ resellers and retail
IMF revenue in ANZ decreased 14.2% to $179.9 million vs pcp. However, there was positive momentum with 2Q22 significantly higher than 1Q22. Whilst demand is recovering, supply is still being allocated carefully to ensure appropriate stock levels are maintained in the channel.

The Company estimates it lost market share in the daigou channel during the period, particularly in Stage 1 IMF. Kantar data[13] indicates daigou consumer sales in the market were down 13% for 1H22[14] and that a2MC's 12-month rolling daigou market share declined to 20.2% at the end of December 2021, compared to 22.5% at the end of June 2021[13]. The ANZ reseller channel is an important channel, particularly in relation to new user recruitment, and the Company is working closely with its reseller partners to optimise its effectiveness and to increase its market share as part of its growth strategy.

An initiative to increase distribution in the offline to online ("O2O") channel commenced during the period with growth expected to continue in 2H22. A key strategic focus is working with partners to increase distribution through the O2O channel and driving new user activation.

Liquid milk
Australian fresh milk revenue increased marginally by 0.2% vs pcp to $87.1 million, supported by COVID-19 lockdowns and price increases. Sales growth was impacted by foreign exchange headwinds and was 2.5% on a constant currency basis.

The business achieved a new high value share of 12.4% at the end of December 2021 compared to 12.2% at the end of June 2021[15]. Additionally, three *a2 Milk*® products achieved ranking in the top ten products in the dairy category in grocery.

Over the period brand health metrics improved with awareness and trial increasing during the period. Market share gains were achieved in all states except Western Australia, with a new high value share in New South Wales and Victoria vs pcp.

Successful trials of *a2 Milk*® UHT product were completed in 1H22, leading to a full national launch in 3Q22. The product is now available in major supermarket chains from February 2022. This is a great addition to the Australian liquid milk portfolio giving our loyal consumers a shelf-stable pantry backup or camping supply of their favourite *a2 Milk*®.

12 Smart Path China IMF online market tracking: for CBEC only retail sales (by value). 1H22 versus 1H21.

13 Kantar data based on a panel of 9,000 consumers covering 0-6 year olds and only seeks to project ~40% of the population.

14 Kantar Worldpanel 0-6 years old Baby & Kids panel: National IMF market tracking (Key&A + BCD cities) for the 26 weeks ending 31 December 2021.

15 IRI Australian Grocery Weighted Scan 12-months ending 31 December 2021.

A price increase for milk in Australia was implemented in early November 2021 in response to higher raw milk prices.

a2 Milk™ by *Anchor*™ in the New Zealand market continues to gain market share in the A2 protein segment with retail sales value growing 8.4%.

Other nutritional products

The disruption experienced in the ANZ reseller channel in FY21 and continued lower reseller activity in 1H22 impacted all products in this segment. Revenue decreased 21.6% to $16.3 million. A stock obsolescence provision was recognised in this category of $3.0 million in addition to clearance sales to improve inventory levels and freshness.

3 North America

USA segment revenue decreased 5.2% versus pcp to $32.4 million and EBITDA decreased 41.5% versus pcp resulting in a loss of $16.4 million. The lower revenue was driven by the loss of certain regions of a major club channel customer due to private label substitution, weaker growth due to the easing of COVID-19 restrictions in 1Q22 that led to lower in-home consumption and unfavourable foreign exchange. Sales volumes improved in 2Q22 supported by the omicron outbreak towards the end of the period and related impact on home consumption. On a constant currency basis, revenue decreased 2.6% vs pcp and volume growth for 1H22 was down 3% but increased 13% excluding the major club channel customer. EBITDA losses increased due to lower revenue and higher freight costs. Freight costs increased further during the first half due to COVID-19 and will likely continue into the second half.

Average velocities grew within key accounts and distribution increased to 27.0k stores, from 26.8k stores at the end of June 2021[16]. The Company's 12-month rolling market value share in the premium milk category for the Food channel, increased from 1.8% in June 2021 to 1.9% in December 2021[17].

Two new products were launched during the period – *Hershey's a2 Milk*® and *a2 Milk*® *Half and Half*. Both have seen significantly higher than expected listings in trade, particularly *Hershey's a2 Milk*®.

Key marketing and public relations activities continued which resulted in driving improvements in brand health metrics, with awareness improving and the *a2 Milk*® brand being one of the top two leading brands in the category for brand loyalty.

Accelerating the path to profitability in the USA by FY25/FY26 is a key strategic focus. In addition to driving growth, as planned, the Company started to reduce trade spend in 1H22 and now intends to increase pricing in 2H22 to improve gross margins and assist with mitigating increasing distribution costs.

In Canada, products were first launched in July 2020, initially focusing on Western Canada with subsequent distribution expansion. The Company continues to work closely with Agrifoods (licensee), leveraging the Company's intellectual property and marketing assets as well as proprietary systems and know-how relating to local milk sourcing and processing.

4 Mataura Valley Milk

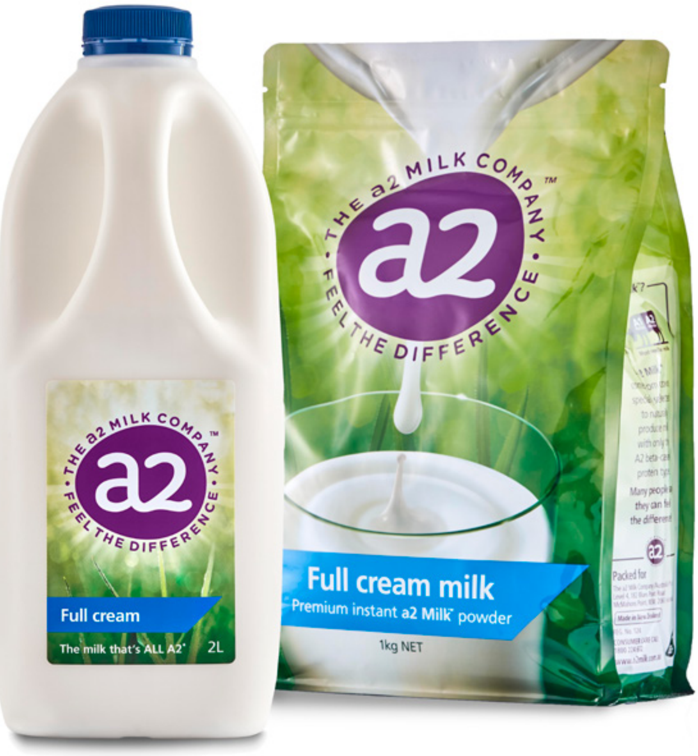
1H22 is the first time MVM has been included in a2MC's financial reporting. MVM segment revenue of $38.6 million and an EBITDA loss of $10.0 million were recorded for the five months of a2MC's ownership.

On 30 July 2021, a2MC completed the acquisition of a 75% interest in MVM. The acquisition provides the opportunity to participate in nutritional products manufacturing and the potential to pursue additional China label registrations and product innovation opportunities in the future. It strengthens relationships with key strategic partners in China, achieves supplier and geographic diversification, and over time will offer access to insourced manufacturing margins.

As previously indicated, a2MC's lower volumes, together with the decline in third-party nutritional volumes has impacted MVM economics and accelerating the path to profitability is a key strategic focus. In order to reach profitability during FY26 or earlier, the Company commenced manufacturing *a2 Milk*® Full cream milk powder during 1H22 previously manufactured by Synlait Milk Limited ("Synlait"). The Company is working on in-sourcing certain existing English label IMF product from Synlait, is planning to develop future product innovation at the facility, and is exploring additional third-party customer opportunities. To complement this and facilitate future China label registration applications, MVM has commenced planning for a laboratory and blending and canning capability at the site.

16 Updated prior year comparison due to expanded data set now being supplied.

17 SPINS data for the Food channel only for the 52 weeks ending 30 June 2021 and 31 December 2021.



Progress against growth strategy

The Company's ambition is to rebuild a2MC into an exciting, innovative and sustainable growth company. The Company communicated its strategic plan to the market at an Investor Day in October 2021 and has since been focused on execution. Early progress has been made against groupwide strategic initiatives as highlighted below with further detail on business unit implementation progress provided in the Company's 2022 Interim Results presentation:

1 Invest in people and planet leadership

- Commenced leadership and culture change program with Executive Leadership Team and completed team engagement survey with action planning underway
- Invested in organisational capability expansion particularly in China with a renewed focus on brand marketing (particularly digital) and e-commerce targeting DOL, CBEC and O2O growth opportunities
- Established sustainability targets across people and planet – including GHG emissions reduction, farm environment and animal welfare, and sustainable packaging commitments
- Announced investment to reduce GHG emissions through MVM boiler electrification sourced from renewable power and Synlait biomass boiler conversion

2 Capture full potential in China IMF

- Increased above and below the line China marketing investment by 47.7% million in 1H22 vs pcp
- Progressed brand strategy refresh with new campaign to be launched later in 2H22
- Invested in digital content generation for CBEC and ANZ resellers to support English label channels
- Commenced China label in-market growth pilots with a mix of ATL and BTL brand and sales initiatives
- Grew liquid milk in China and Other Asia by 50.3% and other nutritional products by 69.2% demonstrating progress in executing against adjacent growth opportunities outside of IMF

3 Ramp-up product innovation

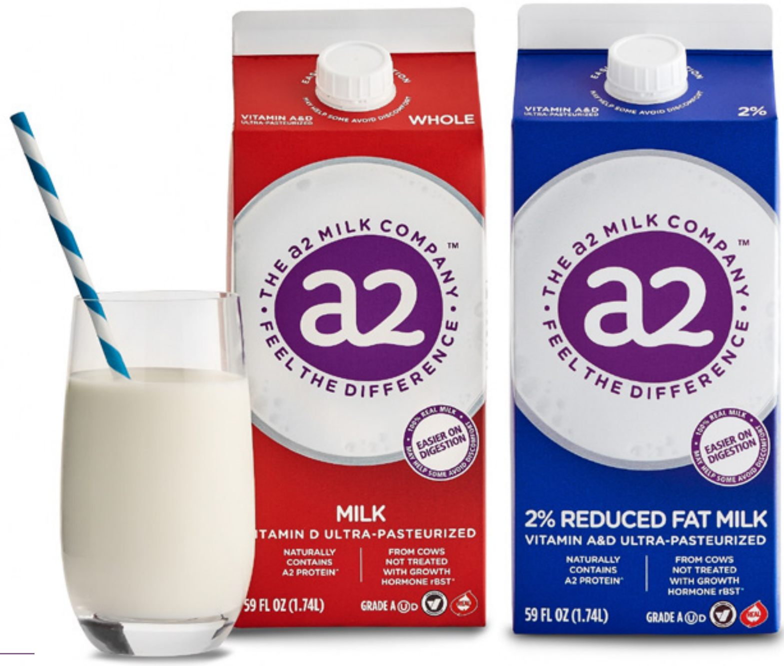
- Progressed innovation and new product development pipeline for English label and China label IMF
- Completed and submitted SAMR China label IMF re-registration dossiers for all stages
- Advanced English label IMF product refresh for mid-2022
- Released UHT product in ANZ with additional products set to launch later in 2022
- Launched Half & Half and commenced Hershey's licenced product shipments in the USA

4 Transform our supply chain

- Ramped up efforts to expand MVM's A1 free milk pool targeting ~60% of total supply for the 2022 season
- Commenced planning for laboratory and blending and canning capability at MVM with third-party services being procured in the meantime
- Accelerated efforts to explore opportunities relating to China label market access and in-market supply capability
- Progressed capacity expansion initiatives at Smeaton Grange and Kyabram manufacturing facilities

5 Accelerate path to profitability for USA and MVM

- Ramped up initiatives to maximise USA top-line growth through new product launches
- Commenced trade spend rollback and communicated price increases to improve USA gross margins
- Accelerated plans to insource *a2 Milk*® branded product manufacturing from Synlait and develop third-party business at MVM to improve capacity utilisation



Outlook

Given the continuing uncertainty in a2MC's consumer markets, the Company is providing its current observations on key drivers and important issues that may impact FY22 results but not specific guidance regarding anticipated Group revenue or EBITDA.

The Company's outlook for 2H22 revenue has improved. It is still expected to be significantly higher than 2H21, and with growth now expected on 1H22 and for FY22, ahead of initial expectations due mainly to growth in China label and English label IMF. However, this revenue improvement is not expected to translate into higher earnings as the Company significantly increases brand and other reinvestment consistent with its growth strategy. Whilst there is trading upside and downside potential, COVID-19 impacts on supply chain have increased and are a key risk in 2H22 in addition to other industry and business risks previously disclosed and noted below. Further commentary on the Company's outlook for 2H22 and FY22 is provided below.

Category and business divisions

China label IMF sales are still expected to be up in FY22 and now expected to be significantly up in 2H22 versus 1H22. This is due to 1H22 having been impacted by distributor inventory rebalancing and in 2H22 as the Company's growth strategy starts to have a positive impact on MBS and DOL sales.

In **English label IMF**, sales are now expected to be up in FY22 and up in 2H22 versus 1H22 due to improved inventory levels and pricing, as well as improved execution in ANZ reseller and CBEC channels driven by the Company's growth strategy.

Incremental sales growth in **Australian liquid milk** for FY22 is still expected with sales still likely to be down in 2H22 versus 1H22 due to reduced COVID-19 related lockdowns and a corresponding reduction in levels of in-home consumption.

Input costs are significantly higher than FY21, partially offset by an increase in pricing that took effect from November 2021.

In **USA liquid milk,** sales growth for FY22 is expected, with sales up significantly in 2H22 versus 1H22 due mainly to new product launches. EBITDA losses for FY22 in local currency are expected to remain at similar levels vs pcp due to a part-year impact of trade spend reductions and price increases, lower margin new product sales and continuing higher freight costs.

MVM revenue is now expected to be approximately $100 million (excluding intercompany revenue), previously expected to be $80 million. An EBITDA loss of approximately $20 million is still expected for the 11 months post-completion. No material change in EBITDA is expected despite the increase in sales due to an increase in milk costs and a reduction in more profitable nutritional sales.

Marketing and capability investment

Based on continuing strong brand fundamentals, the Company increased its brand investment, content generation and activation in 1H22 vs pcp. This will step up again in 2H22 with FY22 investment now expected to be in the order of $220 million which is higher than FY20 peak levels to drive execution of the Company's growth strategy.

The Company is continuing to invest in capability building primarily in China and also in corporate functions to support future growth. The majority of the FY22 capability impact will occur in 2H22. The Company is also expecting a realisation of short-term and long-term employee incentive costs to drive performance and to retain and attract talent. Together with the inclusion of operating costs for the MVM business, the Company is anticipating an uplift in SG&A costs in 2H22 vs 1H22 and a significant uplift vs FY21.

Key financials

The outlook for **revenue** in FY22 has improved since the start of the year with the Company still expecting 2H22 revenue (including MVM) to be significantly higher than 2H21, but with growth now expected on 1H22 and for FY22 which is ahead of initial expectations due mainly to growth in China label and English label IMF.

The improved outlook for revenue in 2H22 should result in higher **gross profit** than previously expected. However, this is likely to be offset by cost of goods sold headwinds related to increasing milk, ingredient and packaging costs. Accordingly, the Company still expects 2H22 gross margin percent to be broadly similar to 1H22.

Trading volatility and COVID-19 related supply chain risks mean that the Company still considers that a range of **EBITDA** outcomes are possible in FY22. Revenue improvement is not expected to translate into higher earnings as the Company significantly increases brand and other reinvestment consistent with its growth strategy.

Operational cash conversion is likely to be less than 100% in FY22 due mainly to the business expecting to hold higher inventory and an increase in other working capital, as well as MVM needing to make a payment to CAHG in connection with a2MC's acquisition of its 75% interest in MVM that completed in 1H22.

The Company expects that **capital expenditure** will be approximately $15-18 million during 2H22 due mainly to strategic investments in supply chain capacity and capability.

With the inclusion of MVM and completion of acquisition accounting, **depreciation and amortisation** for the Group is now expected to be approximately $18 million in FY22.

The Company still anticipates an **effective tax rate** in the order of 37-39%. However, to the extent that revenue and EBITDA are higher than expected, resulting in higher than expected income tax payable by the Company in New Zealand, the MVM losses may be utilised to reduce the effective tax rate.

The outlook assumes no material changes in macro factors such as cross border trade, changes in the regulatory environment and foreign exchange, and that COVID-19 related impacts continue at broadly current levels with increased volatility due to the omicron variant.

Overall, FY22 is expected to deliver growth in revenue against a challenging FY21 which was materially disrupted by COVID-19 related impacts. The Company has a clear ambition and growth strategy that was communicated extensively at its Investor Day in October 2021 and is now focused on investing in and executing a range of strategic initiatives to drive future growth.

Reconciliation of Group EBITDA to net profit after tax

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. However, the Company believes that it assists in providing investors with a comprehensive understanding of the underlying performance of the business. A reconciliation of EBITDA to net profit after tax is shown below.

	Half Year Ended 31-Dec-21 $'000	Half Year Ended 31-Dec-20 $'000
Group EBITDA	97,573	178,523
Depreciation and amortisation	(8,234)	(3,200)
Group EBIT	**89,339**	**175,323**
Interest income	1,740	2,114
Interest expense	(627)	(366)
Income tax expense	(34,372)	(57,028)
Net profit after tax	**56,080**	**120,043**
Attributable to:		
Owners of the Company	59,627	120,043
Non-controlling interests	(3,547)	–
	56,080	**120,043**

FINANCIAL STATEMENTS

DIRECTORS' DECLARATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

The Directors of The a2 Milk Company Limited are pleased to present the interim report for the six months ended 31 December 2021.

The interim report is unaudited and was authorised for issue by the directors on 20 February 2022.

Signed on behalf of the Board by:

David Hearn
Chair

David Bortolussi
Managing Director and CEO

20 February 2022

AUDITOR'S REVIEW REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Building a better working world

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholders of The a2 Milk Company Limited ('the Company") and its subsidiaries (together "the Group")

Report on the Review of the Interim Financial Statements

Conclusion

We have reviewed the interim financial statements of The a2 Milk Company Limited and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and its cash flows for the period ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review procedures, for this report, or for the conclusion we have formed.

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Statements* section of our report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Ernst & Young has provided market research services in relation to brand health tracking. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Directors' Responsibility for the Interim Financial Statements

The Directors are responsible, on behalf of the entity, for the preparation and fair presentation of the interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S REVIEW REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

Building a better working world

Auditor's Responsibilities for the Review of the Interim Financial Statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on those interim financial statements.

The engagement partner on the review resulting in this independent auditor's review report is Lisa Nijssen-Smith.

Ernst & Young

Ernst & Young
Sydney
20 February 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

	Notes	31 Dec 21 $'000	31 Dec 20 $'000
Sales		658,797	676,546
Cost of sales		(354,325)	(336,090)
Gross margin		304,472	340,456
Other revenue		1,749	816
Distribution expenses		(24,734)	(22,572)
Administrative expenses		(51,679)	(34,732)
Marketing expenses		(92,546)	(67,416)
Other expenses		(47,873)	(41,193)
Operating profit		89,389	175,359
Interest income		1,740	2,114
Finance costs		(677)	(402)
Net finance income		1,063	1,712
Profit before tax		90,452	177,071
Income tax expense		(34,372)	(57,028)
Profit for the period		**56,080**	**120,043**
Profit for the period attributable to:			
Owners of the Company		59,627	120,043
Non-controlling interests		(3,547)	–
		56,080	120,043
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation profit/(loss)		193	(1,728)
Cash flow hedges		480	–
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	10	(7,804)	(65,688)
Total other comprehensive loss		**(7,131)**	**(67,416)**
Total other comprehensive loss attributable to:			
Owners of the Company		(6,974)	(67,416)
Non-controlling interests		(157)	–
		(7,131)	(67,416)
Total comprehensive income		**48,949**	**52,627**
Total comprehensive income attributable to:			
Owners of the Company		52,653	52,627
Non-controlling interests		(3,704)	–
		48,949	52,627
Earnings per share			
Basic (cents per share)		8.02	16.18
Diluted (cents per share)		8.02	16.16

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

	Attributable to owners of the Company			
Six months ended 31 December 2021	**Foreign currency translation reserve $'000**	**Fair value revaluation reserve $'000**	**Employee equity settled payments reserve $'000**	**Treasury shares reserve $'000**
Balance 1 July 2021	(11,405)	(130,978)	36,058	(3,773)
Profit after tax for the period	–	–	–	–
Foreign currency translation differences – foreign operations	193	–	–	–
Changes in cash flow hedges taken to equity	–	–	–	–
Listed investment – fair value movement	–	(7,804)	–	–
Total comprehensive income for the period	193	(7,804)	–	–
Transactions with owners in their capacity as owners:				
Issue of ordinary shares	–	–	–	–
Share issue costs	–	–	–	–
Employee withholding tax payments	–	–	(249)	–
Treasury shares purchased	–	–	–	(13,306)
Treasury shares transferred	–	–	–	93
Share-based payments	–	–	4,566	–
Acquisition of subsidiary	–	–	–	–
Income tax	–	–	6	–
Total transactions with owners	–	–	4,323	(13,213)
Balance 31 December 2021	(11,212)	(138,782)	40,381	(16,986)

The accompanying notes form part of these financial statements.

Attributable to owners of the Company						
Hedging reserve $'000	**Total reserves $'000**	**Retained earnings $'000**	**Share capital $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
–	(110,098)	1,044,937	149,121	1,083,960	–	1,083,960
–	–	59,627	–	59,627	(3,547)	56,080
–	193	–	–	193	–	193
637	637	–	–	637	(157)	480
–	(7,804)	–	–	(7,804)	–	(7,804)
637	(6,974)	59,627	–	52,653	(3,704)	48,949
–	–	–	45	45	–	45
–	–	–	(9)	(9)	–	(9)
–	(249)	–	–	(249)	–	(249)
–	(13,306)	–	–	(13,306)	–	(13,306)
–	93	–	–	93	–	93
–	4,566	–	–	4,566	–	4,566
–	–	–	–	–	22,578	22,578
–	6	–	–	6	–	6
–	(8,890)	–	36	(8,854)	22,578	13,724
637	(125,962)	1,104,564	149,157	1,127,759	18,874	1,146,633

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Six months ended 31 December 2020	Foreign currency translation reserve $'000	Fair value revaluation reserve $'000	Employee equity settled payments reserve $'000	Treasury shares reserve $'000	Total reserves $'000	Retained earnings $'000	Share capital $'000	Total equity $'000
Balance 1 July 2020	(12,478)	3,640	41,719	(10,031)	22,850	964,279	146,933	1,134,062
Profit after tax for the period	–	–	–	–	–	120,043	–	120,043
Foreign currency translation differences – foreign operations	(1,728)	–	–	–	(1,728)	–	–	(1,728)
Listed investment – fair value movement	–	(65,688)	–	–	(65,688)	–	–	(65,688)
Total comprehensive income for the period	(1,728)	(65,688)	–	–	(67,416)	120,043	–	52,627
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	–	–	–	–	–	–	159	159
Share issue costs	–	–	–	–	–	–	(15)	(15)
Treasury shares transferred	–	–	(1,710)	1,710	–	–	–	–
Options exercised	–	–	–	–	–	–	1,512	1,512
Share-based payments	–	–	(927)	–	(927)	–	–	(927)
Income tax	–	–	(693)	–	(693)	–	–	(693)
Total transactions with owners	–	–	(3,330)	1,710	(1,620)	–	1,656	36
Balance 31 December 2020	(14,206)	(62,048)	38,389	(8,321)	(46,186)	1,084,322	148,589	1,186,725

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2021

	Notes	31 Dec 21 $'000	30 Jun 21 $'000
Assets			
Current assets			
Cash and short-term deposits		747,170	875,150
Trade and other receivables		79,622	65,284
Prepayments		52,779	27,819
Inventories	6	127,914	112,204
Other financial assets	10	480	–
Income tax receivable		40,924	16,435
Total current assets		1,048,889	1,096,892
Non-current assets			
Trade and other receivables		2,692	–
Property, plant and equipment	7	243,286	17,162
Right-of-use assets		13,955	15,302
Investment property		16,009	16,614
Intangible assets	8	109,356	15,137
Other financial assets	10	149,999	157,803
Prepayments		3,102	–
Deferred tax assets		25,194	53,101
Total non-current assets		563,593	275,119
Total assets		1,612,482	1,372,011
Liabilities			
Current liabilities			
Trade and other payables		313,741	266,296
Customer contract liabilities		55,665	4,746
Lease liabilities		4,232	3,648
Loans and borrowings	9	13,794	–
Total current liabilities		387,432	274,690
Non-current liabilities			
Trade and other payables		1,301	511
Lease liabilities		10,910	12,850
Loans and borrowings	9	66,206	–
Total non-current liabilities		78,417	13,361
Total liabilities		465,849	288,051
Net assets		1,146,633	1,083,960
Equity			
Share capital	5	149,157	149,121
Retained earnings		1,104,564	1,044,937
Reserves		(125,962)	(110,098)
Total equity attributable to owners of the Company		1,127,759	1,083,960
Non-controlling interests		18,874	–
Total equity		1,146,633	1,083,960

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

	Notes	31 Dec 21 $'000	31 Dec 20 $'000
Cash flows from operating activities			
Receipts from customers		673,419	684,581
Payments to suppliers and employees		(546,134)	(627,461)
Interest received		1,655	2,114
Interest paid		(512)	(337)
Taxes paid		(30,022)	(68,070)
Net cash inflow/(outflow) from operating activities	**12**	**98,406**	**(9,173)**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,407)	(4,273)
Payment for investment property		(58)	(16,352)
Payments for intangible assets		(48)	(3,674)
Acquisition of subsidiary	13	(213,746)	–
Payment for listed investment		–	(39,841)
Net cash outflow from investing activities		**(216,259)**	**(64,140)**
Cash flows from financing activities			
Payments of lease principal		(2,008)	(1,627)
Purchase of treasury shares		(13,306)	–
Proceeds from issue of equity shares	5	36	1,656
Net cash (outflow)/inflow from financing activities		**(15,278)**	**29**
Net decrease in cash and short-term deposits		(133,131)	(73,284)
Cash and short-term deposits at the beginning of the period		875,150	854,178
Effect of exchange rate changes on cash		5,151	(6,251)
Cash and short-term deposits at the end of the period		**747,170**	**774,643**

The accompanying notes form part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

1. Basis of preparation

The a2 Milk Company Limited (the Company) and its subsidiaries (together the Group) is a for-profit entity incorporated and domiciled in New Zealand.

The Company is registered in New Zealand under the *Companies Act 1993* and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is also registered as a foreign company in Australia under the *Corporations Act 2001* (Cth, Australia). The shares of The a2 Milk Company Limited are publicly traded on New Zealand's Exchange (NZX), the Australian Securities Exchange (ASX) and Chi-X Australia (Chi-X). The financial report is presented in New Zealand dollars, and all values are rounded to the nearest thousand ($'000), unless otherwise indicated.

The principal activity of the Company is the sale of branded products in targeted markets made with milk naturally containing the A2 protein type.

These consolidated financial statements were authorised for issue by the directors on 20 February 2022.

Statement of compliance

These interim financial statements have not been audited. The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, and have been the subject of a review by the auditors.

This interim report should be read in conjunction with the Group's annual report for the year ended 30 June 2021, available at www.thea2milkcompany.com/results.

The same accounting policies and methods of computation are followed in this interim report as were applied in the preparation of the Group's financial statements for the year ended 30 June 2021, or if new in the period are included in the relevant note.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

Changes in significant accounting policies

The Group has applied all of the new and revised Standards and Interpretations issued by the New Zealand External Reporting Board that are relevant to the Group's operations and effective for the current accounting period. Their application has not had any material impact on the Group's assets, profits or earnings per share for the half-year ended 31 December 2021.

New standards and interpretations not yet adopted

There are no new standards and interpretations that are issued, but not yet effective as at 31 December 2021, that are expected to have a material impact on the Group in current or future reporting periods.

2. Operating segments

The Group's key performance measures are segment revenue and segment results before interest, tax, depreciation and amortisation (Segment EBITDA, a non-GAAP measure). Further information and analysis of performance can be found in the Operating and financial review, which forms part of this interim report.

For management purposes, the Group is organised into business units based primarily on geographical location along with a corporate function, and in the current financial year has four reportable operating segments as follows:

- *The Australia and New Zealand segment* receives external revenue from infant formula, milk and other dairy products, along with royalty, licence fee and rental income.
- *The China and Other Asia segment* receives external revenue from infant formula, milk and other dairy products.
- *The USA segment* receives external revenue from milk sales and licence fees.
- *The Mataura Valley Milk segment* (from acquisition on 30 July 2021) receives external revenue from the manufacturing and sale of nutritional and commodity products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is assessed on segment EBITDA and is measured in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

2. Operating segments (continued)

Six months to 31 December 2021	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Total $'000
Consolidated sales	281,671	306,307	32,259	38,560	658,797
Other revenue	1,596	–	153	–	1,749
Reportable segment revenue	283,267	306,307	32,412	38,560	660,546
Reportable segment results (Segment EBITDA)	96,241	59,387	(16,429)	(10,019)	129,180
Corporate EBITDA					(31,607)
Group EBITDA					97,573
Reconciliation to consolidated statement of comprehensive income					
Interest income					1,740
Interest expense					(627)
Depreciation and amortisation					(8,234)
Income tax expense					(34,372)
Consolidated profit after tax					56,080

Six months to 31 December 2020	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000
Consolidated sales	316,459	325,985	34,102	676,546
Other revenue	734	–	82	816
Reportable segment revenue	317,193	325,985	34,184	677,362
Reportable segment results (Segment EBITDA)	117,456	94,355	(11,610)	200,201
Corporate EBITDA				(21,678)
Group EBITDA				178,523
Reconciliation to consolidated statement of comprehensive income				
Interest income				2,114
Interest expense				(366)
Depreciation and amortisation				(3,200)
Income tax expense				(57,028)
Consolidated profit after tax				120,043

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

3. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical location (reportable segments) and major product types.

Six months to 31 December 2021	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Mataura Valley Milk $'000	Total $'000
Infant nutrition:					
China label	–	188,701	–	–	188,701
English and other labels[1]	179,887	102,381	–	–	282,268
Liquid milk	87,088	5,536	32,259	–	124,883
Other	16,292	9,689	153	38,560	64,694
	283,267	306,307	32,412	38,560	660,546

Six months to 31 December 2020	Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000
Infant nutrition:				
China label	–	213,071	–	213,071
English and other labels[1]	209,539	103,506	–	313,045
Liquid milk	86,874	3,683	34,102	124,659
Other	20,780	5,725	82	26,587
	317,193	325,985	34,184	677,362

1 Revenue is allocated based on management responsibility and usually reflects the geographical location of the Group's wholesale customers. It is understood that the majority of the infant nutrition sales to customers in the Australia and New Zealand segment are ultimately consumed in China.

4. Expenses

	31 Dec 21 $'000	31 Dec 20 $'000
Profit before income tax includes the following significant items:		
Salary and wage costs	38,093	28,587
Equity settled share-based payments	4,566	(927)
Professional service fees	12,334	3,267
Insurance	11,150	9,905
Depreciation and amortisation	8,234	3,200
Net foreign exchange loss	3,573	5,600
Mataura Valley Milk Limited acquisition costs (refer Note 13)	–	4,509

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

5. Share capital

Movements in contributed equity:	Number of shares	Share Capital $'000
Fully paid ordinary shares:		
Balance 30 June 2021	743,410,790	149,121
Movements in the period:		
Gift shares	29,778	–
Vesting of time-based rights	201,636	–
Share match programme	14,324	45
Share issue costs	–	(9)
	245,738	36
Balance 31 December 2021	743,656,528	149,157

Gift shares: Shares issued to employees not participating in the Company's Long Term Incentive plans. Each participating employee received Company shares to the value of approximately A$1,000.

Vesting of time based rights: Shares issued to participating employees continuing in employment to a vesting date in the period.

Share match programme: Shares purchased by employees in the period from their after-tax pay. The Company will match the number of shares acquired and retained; subject to continuing employment to September 2022.

Treasury Shares

As at 31 December 2021, the trustee of the a2MC Group Employee Share Trust held 2,551,368 of the Company's shares (30 June 2021: 362,823 shares) purchased on market and available solely to participants in Group employee share plans.

6. Inventories

	31 Dec 21 $'000	30 Jun 21 $'000
Raw materials	11,269	16,309
Finished goods	105,837	89,579
Goods in transit	10,808	6,316
Total inventories at the lower of cost and net realisable value	127,914	112,204

The inventory balance at 31 December 2021 includes $30,819,000 of inventory held by MVM (30 June 2021: $Nil). Excluding this balance, inventory balances have reduced from the levels of 30 June 2021 as a consequence of the actions taken to improve channel inventory dynamics and address excess inventory issues.

During the period $4.4 million (2020: $23.3 million) was recognised as an expense in cost of sales for inventories written down to net realisable value.

7. Property, plant and equipment

31 December 2021	Land $'000	Buildings $'000	Office & computer $'000	Furniture & fittings $'000	Leasehold improvements $'000	Plant & equipment $'000	Total $'000
Carrying amount 1 July 2021	–	–	936	814	4,010	11,402	17,162
Acquisition of subsidiary (Note 13)	8,763	51,162	2,247	–	–	166,741	228,913
Additions	–	–	189	30	124	2,064	2,407
Depreciation	–	(534)	(571)	(87)	(489)	(3,380)	(5,061)
Net foreign currency exchange differences	–	–	(2)	9	(5)	(137)	(135)
Carrying amount 31 December 2021	8,763	50,628	2,799	766	3,640	176,690	243,286
Cost	8,763	51,162	4,507	1,229	5,598	188,809	260,068
Accumulated depreciation	–	(534)	(1,708)	(463)	(1,958)	(12,119)	(16,782)
Carrying amount 31 December 2021	8,763	50,628	2,799	766	3,640	176,690	243,286

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

8. Intangible assets

31 December 2021	Patents $'000	Trademarks $'000	Software $'000	Goodwill $'000	Total $'000
Carrying amount 1 July 2021	806	3,812	2,347	8,172	15,137
Acquisition of subsidiary (Note 13)	–	–	943	94,078	95,021
Additions	48	–	–	–	48
Amortisation	(35)	–	(683)	–	(718)
Net foreign currency exchange differences	–	–	(24)	(108)	(132)
Carrying amount 31 December 2021	819	3,812	2,583	102,142	109,356
Cost	1,457	3,812	4,905	102,142	112,316
Accumulated amortisation and impairment	(638)	–	(2,322)	–	(2,960)
Carrying amount 31 December 2021	819	3,812	2,583	102,142	109,356

9. Loans and borrowings

	31 Dec 21 $'000	30 Jun 21 $'000
Current		
Unsecured:		
Loan from related party	13,794	–
Non-current		
Secured:		
Bank loan	30,000	–
Unsecured:		
Loan from related party	36,206	–
	66,206	–

All of the loans and borrowings are specific to Mataura Valley Milk Limited (MVM) and are interest bearing.

The bank loan is secured against MVM's property at Pease Street, Gore, New Zealand, and is subject to compliance with financial covenants related solely to MVM. The bank loan matures in July 2024. The interest rate applicable as at 31 December 2021 was 1.96% pa.

Total bank debt facilities of $75 million are available, of which $30 million was drawn as at 31 December 2021. The related party loan is provided by China Animal Husbandry Group. Refer Note 15.

Recognition and measurement

Interest bearing loans and borrowings are initially recognised at fair value at transaction date, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

10. Other financial assets

	31 Dec 21 $'000	30 Jun 21 $'000
Current		
Foreign currency forward contracts	480	–
Non-current		
Listed investment	149,999	157,803

Recognition and measurement
Foreign currency forward contracts are stated at fair value, calculated by reference to current forward exchange rates for contracts with similar maturity profiles, adjusted to reflect the credit risk of the various counterparties.

Refer Note 17 for the Group's foreign currency risk management policy.

Listed investment
The listed investment is a 19.8% holding of shares in Synlait Milk Limited (Synlait), a dairy processing company listed on the NZX and the ASX.

A fair value loss of $7,804,000 (2020: loss $65,688,000) was recognised for the period, recognised through other comprehensive income in the Fair Value Revaluation Reserve within equity.

Shareholding in Synlait Milk Limited	Shares '000	Cost $'000	Share price at report date $	Market Value $'000	Mark to market $'000
Movements in the period					
Balance 30 Jun 2021	43,353	288,781	3.64	157,803	(130,978)
Balance 31 Dec 2021	43,353	288,781	3.46	149,999	(138,782)
Fair value loss in period					(7,804)

11. Financial instruments

Carrying amounts versus fair value
The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		31 December 2021		30 June 2021	
	Hierarchy level	Carrying amount $'000	Fair Value $'000	Carrying amount $'000	Fair Value $'000
Cash and short-term deposits		747,170	747,170	875,150	875,150
Trade and other receivables		82,314	82,314	65,284	65,284
Foreign currency forward contracts	2	480	480	–	–
Listed investment	1	149,999	149,999	157,803	157,803
Secured bank loan	2	(30,000)	(30,000)	–	–
Related party loan	2	(50,000)	(50,000)	–	–
Trade and other payables		(293,164)	(293,164)	(248,370)	(248,370)
		606,799	606,799	849,867	849,867

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

11. Financial instruments (continued)

Fair value hierarchy

Financial instruments carried at fair value are classified by valuation method based on the following hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Carrying amount (equalling fair value) is applied consistently in the current and prior year to assets and liabilities not recognised in the statement of financial position at fair value.

Estimation of fair value

The following methods and assumptions are used in estimating the fair values of financial instruments:

- Listed investment: closing share price on the NZX
- Foreign currency forward contracts: calculated by reference to current forward exchange rates for contracts with similar maturity profiles, adjusted to reflect the credit risk of the various counterparties
- Loans and borrowings: present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; and
- Cash and short-term deposits, trade and other receivables and payables: carrying amount equals fair value.

12. Reconciliation of after tax profit with net cash flows from operating activities

	31 Dec 21 $'000	31 Dec 20 $'000
Net profit for the period	56,080	120,043
Adjustments for non-cash items:		
Depreciation and amortisation	8,234	3,200
Share-based payments	4,566	(927)
Gift shares satisfied by issue of Treasury shares	93	–
Net foreign exchange (gain)/loss	(4,483)	4,687
Net gain on disposals	–	(2)
Deferred tax	27,913	10,851
Changes in working capital:		
Trade and other receivables	(3,171)	6,395
Prepayments	(20,137)	10,912
Inventories	(7,548)	(51,226)
Trade and other payables	33,538	(90,053)
Customer contract liabilities	27,005	(454)
Income tax payable	–	(16,328)
Income tax receivable	(23,684)	(6,271)
Net cash inflow/(outflow) from operating activities	98,406	(9,173)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

13. Mataura Valley Milk Limited acquisition

On 30 July 2021, The a2 Milk Company Limited (a2MC) acquired a 75% controlling interest in Mataura Valley Milk Limited (MVM), a dairy nutrition business, located in Southland, New Zealand.

The acquisition will enable the Group to participate in nutritional products manufacturing, provide supplier and geographical diversification, and strengthen relationships with key strategic partners in China.

Fair value of identifiable assets and (liabilities) acquired

	Fair Value provisional recognition on acquisition $'000
Cash and cash equivalents	54,760
Trade and other receivables	22,590
Inventories	8,161
Property, plant and equipment	228,913
Right-of-use assets	642
Intangible assets	943
Trade and other payables	(38,361)
Borrowings – external	(30,000)
Borrowings – shareholder loans	(156,694)
Lease liabilities	(642)
Net identifiable assets acquired	90,312
Less: non-controlling interests	(22,578)
a2MC's share of net identifiable assets	67,734

Assets and liabilities are measured on a provisional basis. If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, requiring adjustment to assets and liabilities, the accounting for the acquisition may be revised.

Accounting policy 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. For the non-controlling interests in MVM the Group has elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Total consideration paid and goodwill on acquisition

	$'000
Net identifiable assets acquired	67,734
Loan payable to a2MC in net assets acquired	106,694
	174,428
Goodwill	94,078
Total consideration paid	268,506

Goodwill comprises the value of expected strategic synergies arising from the acquisition including access to manufacturing margins and the ability to provide more flexibility for product supply, based on this recently constructed world-class nutritional products manufacturing facility with an established workforce, and access to a growing productive milk pool. It is not deductible for tax purposes.

Goodwill is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Total goodwill of $94,078,000 has been allocated to the following CGUs: Australia and New Zealand: $42,348,000; China $51,730,000.

For the five months ended 31 December 2021, MVM contributed revenue of $38,560,000 and a loss of $14,187,000 to the Group's results. If the acquisition had occurred on 1 July 2021 management estimate that, for the six month period, consolidated revenue would have been greater by $11,866,000 and consolidated profit would have been less by $5,610,000. In determining these amounts management has assumed that the financing arrangements applicable from 30 July 2021 applied as if the acquisition had occurred on 1 July 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

13. Mataura Valley Milk Limited acquisition (continued)

The net outflow of cash on acquisition of $213,746,000 consisted of the total consideration paid of $268,506,000, less cash balances acquired of $54,760,000.

Acquisition-related costs

No acquisition related costs were paid in the period. Total acquisition-related costs of $10,376,000 were incurred in the year ended 30 June 2021 and included in Other expenses in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

Recognition and measurement

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Acquisition-related costs are expensed as incurred and included in profit or loss as Other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

14. Share-based payments

Long-term incentives (LTI)

The LTI plan is designed to retain and motivate senior management to achieve the Group's long term strategic goals by providing rewards that align the interests of senior management with shareholders.

During the period the Board authorised the issue of 4,355,314 performance rights to senior management under the LTI plan.

The issue of performance rights under the LTI plan was temporarily deferred in FY21. To accommodate the deferral of the LTI programme in FY21, the performance rights issued in the period are in two tranches, with differing performance periods and performance hurdles as set out below.

The performance rights vest subject to:

- Continuing employment; and
- Achieving the following performance hurdles over the performance periods.

			Revenue CAGR hurdles		
Performance rights grants:	**Performance period**	**EPS CAGR**	**50% vest**	**85% vest**	**100% vest**
Tranche 1 (FY21 plan)					
1,955,113 rights	2 years to 30 June 2023	20%	7.5%	10%	12.5%
Tranche 2 (FY22 plan)					
2,400,201 rights	3 years to 30 June 2024	20%	6%	8%	10%

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

14. Share-based payments (continued)

Both the minimum EPS CAGR (compound annual growth in diluted earnings per share) and minimum Revenue CAGR (compound annual growth in normalised sales) must be achieved for any vesting of performance rights. The minimum vesting proportion is 50%; thereafter, vesting is on a straight-line basis.

EPS CAGR and Revenue CAGR are derived from the annual report of the Company for the relevant financial years and subject to adjustment to remove the impact of such items as the Board may determine, including, without limitation, adjustments made to exclude the impact of unusual or one-off items, discontinued operations, and acquisitions and disposals.

No amount is payable upon vesting of the performance rights and conversion to shares. Each exercised right is an entitlement to one fully paid ordinary share in the Company.

Fair value of performance rights

The fair value of services received in return for performance rights granted to employees is measured by reference to the fair value of the rights granted. The estimate of the fair value of the services received is measured by reference to the vesting conditions specific to the grant based on a simplified Black-Scholes option pricing model.

	Performance rights	
Fair value of performance rights granted during the period and assumptions	**Tranche 1**	**Tranche 2**
Grant date	22 Oct 21	22 Oct 21
Fair value at measurement date	$7.18	$7.18
Share price at grant date	$7.18	$7.18
Performance rights life	1.8yrs	2.8yrs

Other employee equity schemes

In the period, employees not participating in the LTI plan were invited to participate in a Gift offer scheme in which employees each received Company shares to the value of approximately A$1,000.

Amounts recognised in the consolidated statement of comprehensive income

During the period a $4,566,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2020: ($927,000)).

15. Related party transactions

On 30 July 2021 the Company acquired a 75% controlling interest in Mataura Valley Milk Limited (refer Note 13).
The 25% non- controlling interest is held by China Animal Husbandry Group (CAHG), a company registered in China.

Transactions with related parties	**Six months to 31 Dec 21 $'000**
Sale to CAHG of whole milk powder	3,705
Outstanding balances with related parties	**31 Dec 21 $'000**
Prepayments from CAHG for supply of whole milk powder	20,651
Loan from CAHG	50,000

Sales are made at arm's length, on standard commercial terms. Interest is charged on the loan at arm's length commercial rates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (CONTINUED)

16. Contingent liabilities

On 6 October 2021, The a2 Milk Company Limited ("the Company") announced that group proceedings had been filed in the Supreme Court of Victoria by Slater & Gordon Lawyers, which named the Company as the defendant. The proceeding relates to the period from 19 August 2020 to 9 May 2021 (Relevant Period) and makes allegations that the Company engaged in misleading and deceptive conduct and breached its disclosure obligations by failing to disclose certain information to the market.

The claim filed by Slater & Gordon Lawyers is said to be brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the Australian Securities Exchange (ASX) or NZX Main Board (NZSX) between 19 August 2020 and 9 May 2021 (inclusive).

On 24 November 2021, the Company was served with a representative proceeding filed in the Supreme Court of Victoria by Shine Lawyers, which names the Company as the defendant. The proceeding makes allegations which are broadly similar to those advanced by the class action proceeding filed by Slater & Gordon Lawyers on 6 October 2021.

The claim filed by Shine Lawyers is said to be brought on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZSX: (1) prior to 19 August 2020, and retained those shares until a date after 28 September 2020; or (2) during the Relevant Period.

The Company considers that it has at all times complied with its disclosure obligations, denies any liability and will vigorously defend the proceedings. As at this time, the Company has not filed a defence and is not required to do so until further order by the Court.

The claims of group members have not yet been and are not required to be quantified. Based on the current status of the class action proceedings, it is not practicable to provide: (a) an estimate of the financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; or (c) the possibility of any reimbursement.

The proceedings are next listed in the Supreme Court of Victoria on 5 May 2022 for hearing of the carriage motion to determine issues in relation to multiplicity.

17. Financial risk management

Foreign currency risk management

The Group's exposure to foreign currency risk arises principally from its operations in Australia, the US and China, and the resultant movements in the currencies of those countries against the NZ dollar. The Group did not hedge this risk in prior periods.

The Group adopted a policy to commence hedging a portion of this risk in the period using derivative financial instruments such as foreign exchange contracts, to hedge certain currency risk exposures. Derivatives are exclusively used for hedging purposes. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Hedging currency risk

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they were actually highly effective throughout the financial reporting periods for which they are designated.

18. Subsequent events

No other matters or circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations, the result of these operations or state of affairs of the Group in subsequent periods.

CORPORATE DIRECTORY

Company	The a2 Milk Company Limited	
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Australian share registry	Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia Telephone: +61 1300 554 474	
Registered offices	Level 10 51 Shortland Street Auckland 1010 New Zealand	Level 4 182 Blues Point Road McMahons Point NSW 2060 Australia Telephone: +61 2 9697 7000
Auditor	Ernst & Young 200 George Street Sydney NSW 2000 Australia	
Company Secretary	Jaron McVicar	
Corporate website	www.thea2milkcompany.com	
Company Directors	David Hearn (Chair and Independent, Non-Executive Director) Julia Hoare (Deputy Chair and Independent, Non-Executive Director) David Bortolussi (Managing Director and CEO) Pip Greenwood (Independent, Non-Executive Director) Warwick Every-Burns (Independent, Non-Executive Director) Bessie Lee (Independent, Non-Executive Director)	