INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

The a2 Milk Company Limited

ARBN: 158 331 965

SUMMARY

GROUP PERFORMANCE

$677.4m Revenue ↓16.0%	**$178.5m** EBITDA ↓32.2%	**$120.0m** NPAT ↓35.1%
16.18c Earnings per share* ↓36.8%	**26.4%** EBITDA margin	**$774.6m** Cash on hand

PRODUCT SEGMENT REVENUE

$124.7m Liquid milk ↑17.8%	**$526.1m** Infant nutrition ↓20.2%	**$26.6m** Other nutrition ↓36.2%

REGIONAL HIGHLIGHTS

Asia Pacific		USA
↑45.2% China label infant nutrition	**↓38.9%** English label and other labels[1]	**↑22.0%** Liquid milk sales
22.0k China store distribution	**↑16.3%** Australian milk sales	**22.3k** Store distribution

* From continuing operations.
1 Includes Hong Kong and Korean label.

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OPERATING AND FINANCIAL REVIEW

Financial results for the half year ended 31 December 2020 (NZ$)

Summary of Group performance

The a2 Milk Company experienced a challenging first half with **revenue** for the Group declining 16.0% to $677.4 million. This was driven by performance through the daigou and cross-border e-commerce (CBEC) channels being significantly impacted due to disruption resulting primarily from COVID-19 related issues. This was partially offset by another period of strong growth for China label infant nutrition products, with sales of $213.1 million, an increase of 45.2%.

Further growth in the liquid milk businesses in both Australia and the USA was achieved. Australian sales were up 16.3% to $86.9 million. Changes in the execution approach in the USA, focusing more on affordable premium pricing and in-store activation resulted in sales increasing 22.0%, driven by improved in-store velocities in established stores as well as an expanded store footprint.

The Company's **gross margin** percentage[1] decreased to 50.3%. This was primarily due to recognising a stock provision of $23.3 million, higher cost of goods sold for China label infant nutrition (including lactoferrin and tamper evident lid) and an adverse product mix shift with a higher proportion of liquid milk to infant nutrition sales.

Historically, the gross margin percentage for infant nutrition sales between channels has been broadly similar. However, due to different channel pricing pressures, cost of goods sold differences and foreign exchange movements, a variance in gross margin percentages between channels has emerged. China label infant nutrition has a lower gross margin percentage than English label but has a higher absolute gross margin per unit in a higher cost-to-serve channel.

EBITDA margin of 26.4% was recorded, reflecting lower revenue, a stock provision and adverse mix, although this was partially offset by the management of non-essential discretionary costs whilst continuing to invest appropriately in brand support programmes and internal capability building. Excluding **Mataura Valley Milk (MVM)** acquisition costs, EBITDA margin was 27.0%.

The Company's **balance sheet** remains in a strong position with no debt and a closing **cash** position of $774.6 million. This cash position was $79.5 million lower than June 2020 due to negative operating cash flow, participating in the recent Synlait capital raising and the acquisition of the Kyvalley milk processing facility. Operating cash flow was negative $9.2 million primarily due to an increase in inventory and a decrease in accounts payable.

Inventory at the end of the period was $198.6 million, $51.2 million higher than at the end of FY20. The higher level of inventory was a consequence of managing the uncertainties and complexities of COVID-19 impacting supply chains. However, due to recent challenges in the daigou and CBEC channels, the running down of this inventory has been slower than expected. As a consequence, a stock provision of $23.3 million was booked in the half. A return to more normalised stock levels is anticipated in 2H21.

A portion of the Company's cash balance will be utilised to fund the proposed acquisition of MVM and ultimately the associated additional investment in a blending and canning facility, although this plan has yet to be fully developed.

In line with the Company's capital allocation framework to target additional growth opportunities, organic and external growth opportunities that will leverage its brand strength are being explored. The Company aims to maintain a healthy cash balance, which will continue to be important in providing optionality in the execution of its growth strategy as well as stability in these uncertain times.

1 Gross margin percentage is calculated as revenue less cost of goods sold, divided by revenue

Regional performance

1. Asia Pacific

Revenue across Asia Pacific was impacted by the challenges experienced in the daigou and CBEC channels, partly offset by strong performance in the mother and baby store (MBS) channel and a solid performance in liquid milk in Australia.

Despite the disruption and challenges experienced in the first half, the Company continued to record strong brand health metrics in China.

ANZ segment revenue of $317.2 million was down 31.1%, with EBITDA of $117.5 million, down 48.5%. This primarily reflected the challenges experienced in the daigou and retail channels, including the cost of inventory provisioning.

China and Other Asia segment revenue of $326.0 million was up 2.8%, with EBITDA of $94.4 million, down 19.7%. This reflected the continued investment in capability as well as a lower gross margin. A proportion of inventory provisioning was also incurred in the China and Other Asia segment.

Infant nutrition

Volume growth for the overall infant nutrition market in China was broadly flat in CY20, impacted by pantry destocking, COVID-19 disruption and a lower birth rate.

Overall, the market is showing modest value growth driven by continued premiumisation while local players continue to gain share against the traditional multinational brands in an increasingly competitive environment.

Infant nutrition – China label channels
Sales in *a2 至初*® China label infant nutrition of $213.1 million was achieved, an increase of 45.2% on the prior corresponding period. The Company's 12-month rolling market value share in MBS was 2.4% at the end of December, increasing by 0.7% compared to the prior corresponding period. Distribution also increased to 22.0k stores.

This performance is pleasing given the strategic importance and size of the channel and the increasing competitive intensity. There will continue to be an opportunity to gain market share given the strong resonance the brand has with consumers.

Infant nutrition – Cross-border e-commerce (CBEC)
a2 Platinum® English and other label infant nutrition sales of $103.5 million was down 35.5%.

CBEC market value as measured by Smartpath grew in the six months to December 2020. The Company's 12-month rolling market value share in CBEC measured by Smartpath was 22.3% at the end of December, up from 21.7% at the end of FY20. Value share for the month of December was 19.5%.

However, the decline in revenue was due to a lower level of sales to informal social e-commerce channels and traders which are not measured by Smartpath and the Company's view that inventory unwound in these channels. There was also a temporary cessation of *a2 Platinum*® Hong Kong label in the period.

While our performance in the competitive "11/11" online sales event showed year-on-year growth with higher promotional activity, sales in the period following that event were below expectations with subdued pricing.

The important role daigous play in stimulating demand across multiple points of distribution and the interdependence of CBEC with the daigou/reseller channel is relevant to performance in the CBEC channel. With this interdependence in mind, the Company is actively rebalancing inventory in the channel and continuing to refine its promotional approach.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Infant nutrition – ANZ retailers, daigou and resellers
Infant nutrition revenue in ANZ declined 40.5% to $209.5 million for the half. The sales decline in the period was driven by multiple factors.

From the start of this fiscal year, this segment was impacted by pantry destocking following strong sales in 3Q20 combined with reduced tourism from China and international student numbers as a consequence of COVID-19 travel restrictions.

In September the Company further advised that it had also started to observe additional disruption to the corporate daigou/reseller channel, particularly due to the prolonged Stage 4 lockdown in Victoria, with a contraction beyond its previous expectations. These events, combined with subdued online pricing and channel inventory unwinding, have resulted in daigou/resellers being slower to fully re-enter the market to promote the brand. While there was some improvement in the channel towards the end of the period, the recovery was not as strong as had previously been expected.

The Company continues to focus on re-activating the daigou/reseller channel and is confident that it remains an attractive and strategically important channel for distribution penetration and new user recruitment. The Company is aiming to re-activate the channel by:

- Rebalancing inventory levels and improving traceability through the channel;
- Providing temporary support to the daigou/resellers; and
- Working with corporate daigou to drive innovation in distribution.

Given the role of this channel, including in new user recruitment in an increasingly competitive market, some continued pressure on consumer demand is expected.

Liquid milk

The *a2 Milk*™ brand continues to be the only fresh milk brand ranged in all major supermarket chains in Australia. The Company is the leading brand advertiser in the fresh milk category, maintaining high brand awareness and loyalty metrics, benefitting the portfolio as a whole.

The Company's most mature product, Australian fresh milk, continued to grow, achieving revenue growth of 16.3% and totalling $86.9 million. The Company also achieved its highest market value share of 11.7%, primarily driven by increased levels of in-home consumption. To the extent COVID-19 restrictions ease and out-of-home consumption rebuilds, it is unlikely that these trends will continue.

Liquid milk sales in China grew 107% to $3.7 million.

Other nutritional products

The most significant proportion of the Company's other nutritional products segment remains *a2 Milk*™ whole milk and skim milk powders, available in ANZ and China.

The disruption experienced in the daigou/reseller channel impacted all products in this segment with revenue declining 36.2% to $26.5 million.

As with infant nutrition products, the Company continues to focus on re-activating the daigou/reseller channel and there is further growth potential across new channels, particularly in offline China retail channels.

2. North America

USA

USA revenue increased 22.3% to $34.2 million. An improved EBITDA result was also delivered, with a significantly reduced loss of $11.6 million, representing an $18.4 million improvement on the prior corresponding period.

The impact of COVID-19 in the USA market overall has been significant. From 2020 the Company observed that consumers were becoming more value conscious given economic uncertainties and retailers were prioritising conventional and private label brands. Consequently, for 1H21 a significant portion of marketing investment was redirected towards account specific activity to position pricing at a more affordable premium level aimed at increasing shelf presence as well as investing in additional in-store activation to further build velocity.

This approach has driven continued growth in volume and gross revenue. The plan had anticipated net revenue to be broadly consistent with the prior corresponding period. However, net revenue benefitted from lower than planned trade spend and better than expected store representation.

Average velocities have grown within key accounts and distribution grew to 22.3k stores, from 20.3k stores at the end of June 2020. Brand health continues to improve with brand awareness, conversion and loyalty in the premium segment all growing during the period.

The Company is expecting, however, net revenue in the second half to be lower than the first half as it further increases trade spend.

The USA is an important market, and the Company continues to evaluate product and distribution opportunities to significantly increase the scale and profitability of the business.

Canada

In March, the Company entered into an exclusive licensing agreement with Agrifoods International Cooperative Ltd ("Agrifoods") for the production, distribution, sales and marketing of liquid milk under the *a2 Milk*™ brand in the Canadian market. Products were first launched in July 2020, initially focusing on Western Canada with subsequent distribution expansion.

The Company continues to work closely with Agrifoods, providing access to intellectual property and marketing assets as well as proprietary systems and know-how relating to local milk sourcing and processing.

Proposed acquisition of Mataura Valley Milk

In December 2020, the Company announced that the terms for the acquisition of a 75% interest in Mataura Valley Milk (MVM), a dairy nutrition business located in Southland, New Zealand, were agreed.

The proposed acquisition will provide the opportunity to participate in nutritional products manufacturing, supplier and geographic diversification, and strengthen relationships with key strategic partners in China.

Over time, the proposed acquisition will offer access to manufacturing margins and the ability to provide more flexibility for product supply. This includes the potential to pursue an additional China label registration and additional innovation opportunities.

During a transitional period, MVM will operate as a manufacturer of commodity powders and some base powders for nutritional products, prior to manufacturing predominantly consumer packaged nutritional products for a2MC.

The Company previously announced that during this transitional period (FY22-24) the business will operate at approximately EBITDA break even, with the business returning a positive EBITDA from FY25. However, due to revised volume assumptions, the Company now expects an EBITDA loss of up to $10 million per annum during the transition period and still expects EBITDA to be positive from FY25. The Company is exploring business development opportunities to improve the financial performance during this period.

Prior to any further investment in a blending and canning facility and associated infrastructure, it is expected that depreciation and amortisation during the transitional period will be approximately $15 million, subject to finalisation of acquisition accounting.

The proposed transaction is subject to approval of the New Zealand Overseas Investment Office, with completion expected around the end of May 2021.

Positive research findings in clinical trial

During the period, research findings from a clinical trial conducted by Purdue University, Indiana USA, which involved 33 American adults with lactose maldigestion, were published.

The findings indicate that some people who suffer stomach discomfort after drinking conventional milk may have significantly reduced symptoms if they consume milk that contains only the A2 beta casein protein type and is A1 protein free.

This is the first study that has ever been conducted in the USA where the scientists examined varying levels of A2 protein in the milk that was given to participants. It reported a significant difference between milk containing 100% A2 protein (and no A1 protein) compared to conventional milk with lower levels of A2 protein.

The study was co-funded by the Company and published in the Swiss-based Nutrition Journal[2].

Progress in sustainability

In FY20, the Company identified a number of focus areas to enhance its efforts to become a more sustainable business for the future.

The *a2 Impact Fund*™ was established in 1H21 as a vehicle for the Company to fund and manage investments in pursuit of its sustainability and decarbonisation goals.

The Company is committed to investing in tangible climate-related programmes that will create a positive impact on the planet. During the period this included installing solar panels at the Company's milk processing facility at Smeaton Grange and establishing a relationship with Sea Forest, a leader in the development of Asparagopsis (a type of seaweed) with the potential to reduce the methane produced by cows. Additional initiatives are under consideration with further updates to be provided later in the year.

The Company made additional progress in other focus areas during the period including enhancing its approach to animal welfare and its farm environmental plans.

2 "Milk Containing A2 β-Casein ONLY, as a Single Meal, Causes Fewer Symptoms of Lactose Intolerance than Milk Containing A1 and A2 β-Caseins in Subjects with Lactose Maldigestion and Intolerance: A Randomized, Double-Blind, Crossover Trial", Monica Ramakrishnan, Tracy K Eaton, Omer M Sermet, Dennis A Savaiano, https://www.mdpi.com/2072-6643/12/12/3855.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Board and management

Notwithstanding some recent management changes, the Company has a strong team in place. Significant investment has been made in developing and enhancing capabilities in the business in recent times. This includes important investments to develop the Company's leaders as well as expanding teams in critical areas to support executing the strategy.

With all the challenges and uncertainties of the past year, the Company has been fortunate to be led by Geoff Babidge. Geoff has made a significant contribution since he stepped back into the business and is supporting the business to ensure a smooth leadership transition.

Lisa Burquest, Chief People, Safety and Sustainability Officer, left the business in January having made a valuable contribution to the Company during her tenure. Chief Growth and Brand Officer, Susan Massasso, will also be stepping down from her role in April to pursue new opportunities in the next stage of her career. She too has made a significant contribution over many years and has agreed to maintain a future advisory relationship with the Company.

The Board is also undergoing a period of renewal. In November 2020, it was announced that Jesse Wu would retire from the Board. However, it is pleasing to confirm that Jesse has agreed to take up an on-going role of special advisor to the Chairman following his departure. The Company is undertaking a selection process for a new Director with an update expected shortly.

Outlook

FY21

Globally there continues to be unprecedented levels of uncertainty and volatility due to COVID-19.

The Company remains confident in the underlying fundamentals of the business and will continue to invest behind the brand and in its capability to drive long term growth.

However, the pace of recovery in the daigou/reseller channel and in the CBEC channel has been slower than previously anticipated and the Company now expects revenue to be at the lower end of the previous guidance range.

A lower EBITDA margin range is now expected due to lower revenue, higher brand investment, longer daigou/reseller support, movements in foreign currency and adverse channel mix relative to what was anticipated in December.

Accordingly, the Company's FY21 outlook is now as follows:

- Group revenue for FY21 in the order of $1.4 billion
- Group EBITDA margin for FY21 of 24% to 26% (excluding MVM acquisition costs).

The outlook for FY21 assumes the actions being taken to re-activate the daigou/reseller channel delivers a significant improvement in quarter-on-quarter growth from 3Q21 to 4Q21.

Reconciliation of Group EBITDA to profit for the year

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP measure. The Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business.

	Half year ended 31 Dec 20 $'000	Half year ended 31 Dec 19 $'000
Group EBITDA[3]	178,523	263,229
Depreciation and amortisation	(3,200)	(1,769)
EBIT	175,323	261,460
Interest income	2,114	3,055
Interest expense	(366)	(174)
Income tax expense	(57,028)	(79,415)
Profit for the period (NPAT)	**120,043**	**184,926**

3 Group EBITDA includes Mataura Valley Milk acquisition costs of $4,509,000 (2019: $nil)

FINANCIAL STATEMENTS

Directors' declaration
for the six months ended 31 December 2020

The Directors of The a2 Milk Company Limited are pleased to present the interim report for the six months ended 31 December 2020.

The interim report is unaudited and was authorised for issue by the Directors on 24 February 2021.

Signed on behalf of the Board by:

David Hearn
Chair

24 February 2021

Julia Hoare
Deputy Chair and Chair of the
Audit and Risk Management Committee

Auditor's review report
for the six months ended 31 December 2020

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")

Conclusion

We have reviewed the interim financial statements the group which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and 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 2020, and its financial performance and its cash flows for the year ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

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.

Other than in our capacity as auditor we have no relationship with, or interest in, the Company or any of its subsidiaries. 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.

Directors' Responsibility for the Interim Financial Statements

The Directors of the Group 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 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*.

Auditor's review report
for the six months ended 31 December 2020 (continued)

EY
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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.

Ernst & Young

Ernst & Young
Sydney
24 February 2021

Consolidated statement of comprehensive income (unaudited)
for the six months ended 31 December 2020

	Notes	31 Dec 20 $'000	31 Dec 19 $'000
Continuing operations			
Sales		676,546	804,946
Cost of sales		(336,090)	(344,282)
Gross margin		340,456	460,664
Other revenue		816	374
Distribution expenses		(22,572)	(19,811)
Administrative expenses		(34,732)	(44,189)
Marketing expenses		(67,416)	(83,861)
Other expenses		(41,193)	(48,421)
Operating profit		175,359	264,756
Interest income		2,114	3,048
Finance costs		(402)	(195)
Net finance income		1,712	2,853
Profit before tax		177,071	267,609
Income tax expense		(57,028)	(79,415)
Profit from continuing operations		**120,043**	**188,194**
Discontinued operation			
Loss from discontinued operation, net of tax	4	–	(3,268)
Profit for the period		**120,043**	**184,926**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		(1,728)	(973)
Items not to be reclassified to profit or loss:			
Listed investment fair value loss	9	(65,688)	(9,664)
Total comprehensive income		**52,627**	**174,289**
Earnings per share			
Basic (cents per share)		16.18	25.15
Diluted (cents per share)		16.16	24.90
Earnings per share – continuing operations			
Basic (cents per share)		16.18	25.59
Diluted (cents per share)		16.16	25.34

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity (unaudited) for the six months ended 31 December 2020

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

Six months ended 31 December 2019	Foreign currency translation reserve $'000	Fair value revaluation reserve $'000	Employee equity settled payments reserve $'000	Total reserves $'000	Retained earnings $'000	Share capital $'000	Total equity $'000
Balance 1 July 2019	(15,341)	59,723	20,535	64,917	578,442	144,495	787,854
Profit after tax for the period	–	–	–	–	184,926	–	184,926
Foreign currency translation differences – foreign operations	(973)	–	–	(973)	–	–	(973)
Listed investment – fair value movement	–	(9,664)	–	(9,664)	–	–	(9,664)
Total comprehensive income for the period	(973)	(9,664)	–	(10,637)	184,926	–	174,289
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	–	–	–	–	–	525	525
Share issue costs	–	–	–	–	–	(32)	(32)
Share-based payments	–	–	2,404	2,404	–	–	2,404
Income tax	–	–	9,546	9,546	–	–	9,546
Total transactions with owners	–	–	11,950	11,950	–	493	12,443
Balance 31 December 2019	(16,314)	50,059	32,485	66,230	763,368	144,988	974,586

The accompanying notes form part of these financial statements.

Consolidated statement of financial position (unaudited) as at 31 December 2020

	Notes	31 Dec 20 $'000	30 Jun 20 $'000
Assets			
Current assets			
Cash and short-term deposits		774,643	854,178
Trade and other receivables		64,305	70,700
Prepayments		45,424	56,336
Inventories	7	198,558	147,332
Income tax receivable		6,271	–
Total current assets		**1,089,201**	**1,128,546**
Non-current assets			
Property, plant and equipment		17,081	14,206
Right-of-use assets		16,526	16,144
Investment property	8	16,352	–
Intangible assets		17,223	13,640
Other financial assets	9	226,734	252,580
Deferred tax assets		16,657	28,201
Total non-current assets		**310,573**	**324,771**
Total assets		**1,399,774**	**1,453,317**
Liabilities			
Current liabilities			
Trade and other payables		191,808	281,919
Customer contract liabilities		3,319	3,773
Lease liabilities		3,520	3,407
Income tax payable		–	16,328
Total current liabilities		**198,647**	**305,427**
Non-current liabilities			
Employee entitlements		450	392
Lease liabilities		13,952	13,436
Total non-current liabilities		**14,402**	**13,828**
Total liabilities		**213,049**	**319,255**
Net assets		**1,186,725**	**1,134,062**
Equity attributable to owners of the Company			
Share capital	6	148,589	146,933
Retained earnings		1,084,322	964,279
Reserves		(46,186)	22,850
Total equity		**1,186,725**	**1,134,062**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows (unaudited) for the six months ended 31 December 2020

	Notes	31 Dec 20 $'000	31 Dec 19 $'000
Cash flows from operating activities			
Receipts from customers		684,581	810,788
Payments to suppliers and employees		(627,461)	(543,169)
Interest received		2,114	3,055
Interest paid		(337)	(174)
Taxes paid		(68,070)	(109,945)
Net cash (outflow)/inflow from operating activities	10	**(9,173)**	**160,555**
Cash flows from investing activities			
Payments for property, plant and equipment		(4,273)	(1,655)
Payment for investment property	8	(16,352)	–
Payments for intangible assets		(3,674)	(216)
Payment for listed investment	9	(39,841)	–
Net cash outflow from investing activities		**(64,140)**	**(1,871)**
Cash flows from financing activities			
Payments of lease principal		(1,627)	(677)
Proceeds from issue of equity shares	6	1,656	493
Net cash inflow/(outflow) from financing activities		**29**	**(184)**
Net (decrease)/increase in cash and short-term deposits		(73,284)	158,500
Cash and short-term deposits at the beginning of the period		854,178	464,805
Effect of exchange rate changes on cash		(6,251)	(4,885)
Cash and short-term deposits at the end of the period		**774,643**	**618,420**

The accompanying notes form part of these financial statements.

Notes to the interim financial statements for the six months ended 31 December 2020

1. Basis of preparation

The a2 Milk Company Limited (the Company and, together with its subsidiaries, 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 the New Zealand Stock 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 from cows that produce milk naturally containing only the A2 protein type.

These consolidated financial statements were authorised for issue by the Directors on 24 February 2021.

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 2020, available at www.thea2milkcompany.com/investor-centre/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 2020.

Certain comparative amounts have been restated 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 2020.

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 2020, 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 on geographical location along with a corporate function, and in the current financial year has three reportable operating segments as follows:

- The *Australia and New Zealand segment* receives external revenue from infant nutrition, milk and other dairy products, along with royalty, licence fee and rental income.
- The *China and Other Asia segment* receives external revenue from infant nutrition, milk and other dairy products.
- The *USA segment* receives external revenue from milk sales and licence fees.

In August 2019, the Board announced its decision to withdraw from fresh milk operations in the UK (previously reported as the UK segment), with all the UK fresh milk trading operations ceasing in the period to 31 December 2019. Comparative information for the six months to 31 December 2019 includes the UK segment as a discontinued operation (refer to Note 4).

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 2020 (continued)

2. Operating segments (continued)

Six months to 31 December 2020	Continuing operations: 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[1]				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

Six months to 31 December 2019	Continuing operations: Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000	Discontinued operation UK $'000	Total $'000
Consolidated sales	459,851	317,140	27,955	804,946	1,397	806,343
Other revenue	354	20	–	374	–	374
Reportable segment revenue	460,205	317,160	27,955	805,320	1,397	806,717
Reportable segment results (Segment EBITDA)	227,943	117,470	(30,006)	315,407	(3,239)	312,168
Corporate EBITDA				(48,939)	–	(48,939)
Group EBITDA				266,468	(3,239)	263,229
Reconciliation to consolidated statement of comprehensive income:						
Interest income						3,055
Interest expense						(174)
Depreciation and amortisation						(1,769)
Income tax expense						(79,415)
Consolidated profit after tax						184,926

1 Group earnings before interest, tax, depreciation and amortisation (Group EBITDA) is a non-GAAP measure. 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 consolidated profit for the period is shown on page 7.

Notes to the interim financial statements for the six months ended 31 December 2020 (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 2020	Continuing operations: 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

Six months to 31 December 2019	Continuing operations: Australia and New Zealand $'000	China and Other Asia $'000	USA $'000	Total $'000	Discontinued operation UK $'000	Total $'000
Infant nutrition:						
China label	–	146,733	–	146,733	–	146,733
English and other labels[1]	352,036	160,469	–	512,505	–	512,505
Liquid milk	74,682	1,778	27,955	104,415	1,397	105,812
Other	33,487	8,180	–	41,667	–	41,667
	460,205	317,160	27,955	805,320	1,397	806,717

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

Notes to the interim financial statements for the six months ended 31 December 2020 (continued)

4. Results of discontinued operation

In August 2019, the Board announced its decision to withdraw from fresh milk operations in the UK (reported as the UK segment) to focus instead on strengthening the Group's position in core regions, which offer more significant scale potential and a platform for further new product development.

All the UK fresh milk trading operations ceased in the period to 31 December 2019.

	31 Dec 19 $'000
Results	
Revenue	1,397
Expenses	(4,670)
Results from operating activities	(3,273)
Net finance income	5
Income tax	–
Results from operating activities, net of tax	(3,268)
Earnings per share	
Basic and diluted (cents per share)	(0.44)
Cash flow	
Operating	(2,824)
Net cash outflow for the period	(2,824)

5. Expenses

	31 Dec 20 $'000	31 Dec 19 $'000
Profit before income tax includes the following significant items:		
Salary and wage costs	28,587	32,447
Equity-settled share-based payments	(927)	2,404
Professional service fees	3,267	19,140
Insurance	9,905	5,350
Depreciation and amortisation	3,200	1,733
Net foreign exchange loss	5,600	4,600
Mataura Valley Milk Limited acquisition costs (refer to Note 11)	4,509	–
Carbon credits and emissions reduction initiatives[1]	943	4,576

1 The value of offsets incurred in the prior period includes credits purchased to offset emissions for the year ended 30 June 2019, and amounts accrued for the six months to 31 December 2019. From FY21, carbon credits will be purchased to offset direct emissions only, with the remaining annual commitment used to progress initiatives targeting the long-term decarbonisation of the Group's supply chain.

Notes to the interim financial statements for the six months ended 31 December 2020 (continued)

6. Share capital

Movements in contributed equity:	Number of shares	Share capital $'000
Fully paid ordinary shares:		
Balance 30 June 2020	739,830,151	146,933
Movements in the period:		
Exercise of options	2,400,000	1,512
Gift shares	7,144	–
Vesting of time-based rights	38,820	–
Vesting of performance rights	320,000	–
Share match programme	10,822	159
Share issue costs	–	(15)
	2,776,786	1,656
Balance 31 December 2020	742,606,937	148,589

Treasury Shares

As at 31 December 2020, the trustee of the a2MC Group Employee Share Trust held 639,589 of the Company's shares (30 June 2020: 743,676 shares) purchased on market and available solely to participants in Group employee share plans.

7. Inventories

	31 Dec 20 $'000	30 Jun 20 $'000
Raw materials	18,119	10,306
Finished goods	137,919	68,457
Goods in transit	42,520	68,569
Total inventories at the lower of cost and net realisable value	198,558	147,332

The higher level of inventory is a consequence of managing the uncertainties and complexities of COVID-19 impacting supply chains. However, due to the recent challenges in the daigou and CBEC channels, the running down of this inventory has been slower than expected.

During the period $23.3 million (2019: $nil) was recognised as an expense in cost of sales for inventories written down to net realisable value.

8. Investment property

In September 2020 the Group acquired the manufacturing facilities of the Kyvalley Dairy Group (Kyvalley), the Group's long-term fresh milk supplier in Victoria. Kyvalley will continue to operate the facility under a long-term operating lease and a long-term supply agreement.

The investment property acquired, at a total cost of $16,352,000, consists of land, buildings and integral plant and equipment subject to the lease and transaction costs.

Under the agreement the Group will also undertake a future expansion and upgrade of the facility, subsidised by increased rent.

Recognition and measurement

Investment property is held primarily to earn rental income and capital appreciation. It is measured initially at cost, including transaction costs such as transfer taxes and professional fees for legal services. Subsequent to initial recognition, the Group has elected to measure investment property using the cost model (carried at historical cost less accumulated depreciation and impairment).

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term, and is included in other revenue in the Statement of comprehensive income.

Notes to the interim financial statements for the six months ended 31 December 2020 (continued)

9. Financial assets and liabilities

Other financial assets of $226,734,000 (30 June 2020: $252,580,000) consist of shares in Synlait Milk Limited (Synlait), a dairy processing company listed on the New Zealand Stock Exchange and the Australian Securities Exchange.

In November 2020 the Company participated in Synlait's institutional placement of securities, acquiring an additional 7,777,863 shares for $39,841,000. There was no change to the Company's total percentage holding in Synlait, which remains at 19.8% (30 June 2020: 19.8%).

This listed investment is the only financial instrument carried by the Group at fair value and is classified at fair value through other comprehensive income; valued using Level 1 valuation inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.

A fair value loss of $65,688,000 (2019: loss of $9,664,000) was recognised for the period.

The carrying amounts of cash and short-term deposits, and trade and other receivables and payables, are a reasonable approximation of their fair values.

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 2020	35,575	248,941	7.10	252,580	3,640
Placement	7,778	39,841			
Balance 31 Dec 2020	43,353	288,782	5.23	226,734	(62,048)
Fair value loss in period					(65,688)

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

	31 Dec 20 $'000	31 Dec 19 $'000
Net profit for the period	120,043	184,926
Adjustments for non-cash items:		
Depreciation and amortisation	3,200	1,769
Share-based payments	(927)	2,404
Net foreign exchange loss	4,687	4,025
Net gain on disposals	(2)	–
Deferred tax	10,851	319
Changes in working capital:		
Trade and other receivables	6,395	(5,546)
Prepayments	10,912	(6,190)
Inventories	(51,226)	(9,709)
Trade and other payables	(90,053)	15,648
Customer contract liabilities	(454)	4,433
Income tax payable	(16,328)	(31,524)
Income tax receivable	(6,271)	–
Net cash (outflow)/inflow from operating activities	(9,173)	160,555

Notes to the interim financial statements for the six months ended 31 December 2020 (continued)

11. Mataura Valley Milk acquisition

In December 2020 the Company announced that binding agreements had been entered into to acquire a 75% controlling interest in Mataura Valley Milk Limited (MVM), a dairy nutrition business, located in Southland, New Zealand. The terms of the transaction provide for the acquisition of that interest in MVM for a total consideration of $268.5 million, based on an enterprise value of circa $385 million. The acquisition will be undertaken on a debt-free, cash-free basis and funded from the Group's existing cash reserves.

Completion of the transaction is subject to the approval of the New Zealand Overseas Investment Office, with completion expected to occur on 31 May 2021.

To enable MVM to produce consumer packaged nutritional products, a blending and canning facility and associated infrastructure will be established, requiring an additional investment in the order of $120 million over the first two to three years following the completion of the transaction.

It is expected that acquisition costs of approximately $10 million will be incurred in FY21, of which $4.5 million has been expensed in the half year.

12. Subsequent events

As at 31 December 2020 the market value of the Company's investment in Synlait Limited was $226,734,000 ($5.23 per share). As at 24 February 2021 the market value has decreased to $185,549,000 ($4.28 per share). The investment is measured at fair value through other comprehensive income so that any changes in market value are recognised through the fair value revaluation reserve, with no effect on profit or loss.

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

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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)

Jesse Wu (Independent, Non-Executive Director)

Corporate website

www.thea2milkcompany.com

Our a2 Milk™ difference

Conventional cows' milk contains two main types of beta casein protein, A2 protein and A1 protein – our branded milk is different from conventional cows' milk because it comes from cows selected to naturally produce only the A2 protein type and no A1.

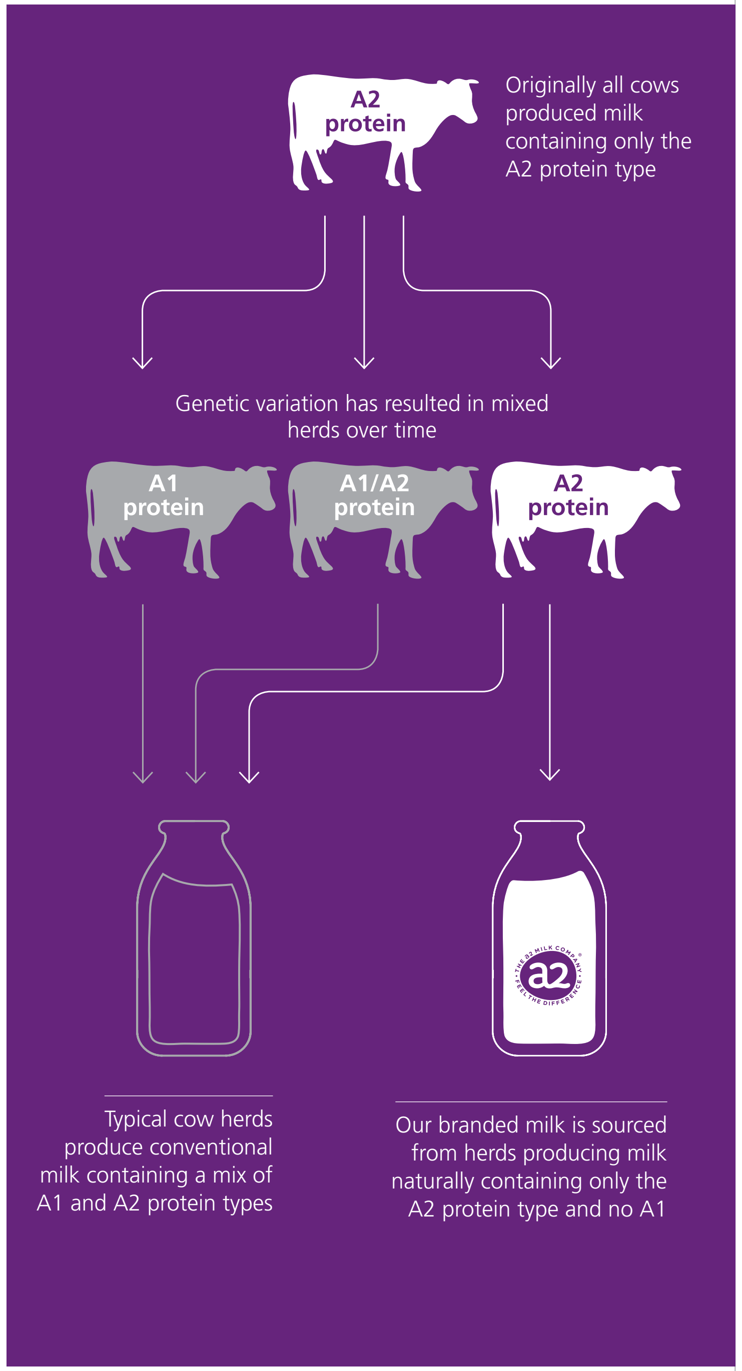
Our milk is comparable to conventional cows' milk in other respects.

Our branded milk is naturally occurring and not a product of genetic engineering or technological processes.

Many consumers and healthcare professionals report that some people who experience digestive issues drinking conventional cows' milk may experience benefits when they switch to *a2 Milk*™.

a2 Milk™ brand is much more than just a difference between A1 and A2 protein types. Our brand stands for a series of wonderful qualities from where we source our milk, the extra special care we take from cow to consumer, and how we educate and engage with our consumers.

That's why there is only one *a2 Milk*™ from The a2 Milk Company.



thea2milkcompany.com

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