



2023¹ INTERIM REPORT

We pioneer the future of Dairy for good

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FINANCIAL STATEMENTS

DIRECTORS' DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

The directors of The a2 Milk Company Limited are pleased to present the interim report for the six months ended 31 December 2022. The interim report is unaudited and was authorised for issue by the directors on 19 February 2023.

Signed on behalf of the Board by:



David Hearn

Chair



David Bortolussi

Managing Director and CEO

19 February 2023

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

	Notes	31 Dec 22 \$'000	31 Dec 21 \$'000
Sales	2	781,986	658,797
Cost of sales		(410,058)	(354,325)
Gross margin		371,928	304,472
Other revenue	2	1,353	1,749
Distribution expenses		(23,989)	(24,734)
Marketing expenses		(135,120)	(92,546)
Administrative expenses		(63,110)	(51,679)
Other expenses		(52,175)	(47,873)
Operating profit		98,887	89,389
Interest income		12,089	1,740
Finance costs		(2,288)	(677)
Net finance income		9,801	1,063
Profit before tax		108,688	90,452
Income tax expense		(40,215)	(34,372)
Profit for the period		68,473	56,080
Profit for the period attributable to:			
Owners of the Company		73,777	59,627
Non-controlling interests		(5,304)	(3,547)
		68,473	56,080
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation (loss)/profit		(9,759)	193
Cash flow hedges		15,461	480
Items not to be reclassified to profit or loss:			
Listed investment fair value profit/(loss)	9	17,774	(7,804)
Total other comprehensive income/(loss)		23,476	(7,131)
Total other comprehensive income/(loss) attributable to:			
Owners of the Company		22,422	(6,974)
Non-controlling interests		1,054	(157)
		23,476	(7,131)
Total comprehensive income		91,949	48,949
Total comprehensive income attributable to:			
Owners of the Company		96,199	52,653
Non-controlling interests		(4,250)	(3,704)
		91,949	48,949
Earnings per share			
Basic (cents per share)		9.95	8.02
Diluted (cents per share)		9.92	8.02

The accompanying notes form part of these financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Six months ended 31 December 2022	Attributable to owners of the Company											Total equity \$'000
	Foreign currency translation reserve \$'000	Fair value revaluation reserve \$'000	Employee equity settled payments reserve \$'000	Treasury shares reserve \$'000	Hedging reserve \$'000	Total reserves \$'000	Retained earnings \$'000	Share capital \$'000	Total \$'000	Non-controlling interests \$'000		
Balance 1 July 2022	(332)	(153,521)	46,311	(15,798)	(13,001)	(136,341)	1,167,561	149,157	1,180,377	13,583	1,193,960	
Profit after tax for the period	-	-	-	-	-	-	73,777	-	73,777	(5,304)	68,473	
Foreign currency translation differences - foreign operations	(9,759)	-	-	-	-	(9,759)	-	-	(9,759)	-	(9,759)	
Changes in cash flow hedges taken to equity	-	-	-	-	8,124	8,124	-	-	8,124	(1,678)	6,446	
Cash flow hedges reclassified to profit or loss	-	-	-	-	10,656	10,656	-	-	10,656	2,732	13,388	
Listed investment – fair value movement	-	17,774	-	-	-	17,774	-	-	17,774	-	17,774	
Income tax	-	-	-	-	(4,373)	(4,373)	-	-	(4,373)	-	(4,373)	
Total comprehensive income for the period	(9,759)	17,774	-	-	14,407	22,422	73,777	-	96,199	(4,250)	91,949	
Transactions with owners in their capacity as owners:												
Share buy-back	-	-	-	-	-	-	-	(90,255)	(90,255)	-	(90,255)	
Treasury shares transferred	-	-	(1,158)	1,158	-	-	-	-	-	-	-	
Share-based payments	-	-	8,740	-	-	8,740	-	-	8,740	-	8,740	
Total transactions with owners	-	-	7,582	1,158	-	8,740	-	(90,255)	(81,515)	-	(81,515)	
Balance 31 December 2022	(10,091)	(135,747)	53,893	(14,640)	1,406	(105,179)	1,241,338	58,902	1,195,061	9,333	1,204,394	

The accompanying notes form part of these financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Six months ended 31 December 2021	Attributable to owners of the Company										
	Foreign currency translation reserve \$'000	Fair value revaluation reserve \$'000	Employee equity settled payments reserve \$'000	Treasury shares reserve \$'000	Hedging reserve \$'000	Total reserves \$'000	Retained earnings \$'000	Share capital \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance 1 July 2021	(11,405)	(130,978)	36,058	(3,773)	-	(110,098)	1,044,937	149,121	1,083,960	-	1,083,960
Profit after tax for the period	-	-	-	-	-	-	59,627	-	59,627	(3,547)	56,080
Foreign currency translation differences – foreign operations	193	-	-	-	-	193	-	-	193	-	193
Changes in cash flow hedges taken to equity	-	-	-	-	637	637	-	-	637	(157)	480
Listed investment – fair value movement	-	(7,804)	-	-	-	(7,804)	-	-	(7,804)	-	(7,804)
Total comprehensive income for the period	193	(7,804)	-	-	637	(6,974)	59,627	-	52,653	(3,704)	48,949
Transactions with owners in their capacity as owners:											
Issue of ordinary shares	-	-	-	-	-	-	-	45	45	-	45
Share issue costs	-	-	-	-	-	-	-	(9)	(9)	-	(9)
Employee withholding tax payments	-	-	(249)	-	-	(249)	-	-	(249)	-	(249)
Treasury shares purchased	-	-	-	(13,306)	-	(13,306)	-	-	(13,306)	-	(13,306)
Treasury shares transferred	-	-	(93)	93	-	-	-	-	-	-	-
Share-based payments	-	-	4,659	-	-	4,659	-	-	4,659	-	4,659
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	22,578	22,578
Income tax	-	-	6	-	-	6	-	-	6	-	6
Total transactions with owners	-	-	4,323	(13,213)	-	(8,890)	-	36	(8,854)	22,578	13,724
Balance 31 December 2021	(11,212)	(138,782)	40,381	(16,986)	637	(125,962)	1,104,564	149,157	1,127,759	18,874	1,146,633

The accompanying notes form part of these financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2022

	Notes	31 Dec 22 \$'000	30 Jun 22 \$'000
Assets			
Current assets			
Cash and term deposits	7	777,195	887,308
Trade and other receivables		78,738	83,510
Prepayments		95,547	54,537
Inventories	6	181,979	140,044
Other financial assets	9	5,297	-
Income tax receivable		-	5,841
Total current assets		1,138,756	1,171,240
Non-current assets			
Property, plant and equipment		240,379	240,547
Right-of-use assets		14,231	16,030
Investment property		15,923	15,663
Intangible assets		108,598	109,322
Other financial assets	9	153,421	135,260
Prepayments		969	2,059
Deferred tax assets		26,509	25,731
Total non-current assets		560,030	544,612
Total assets		1,698,786	1,715,852
Liabilities			
Current liabilities			
Trade and other payables		348,727	376,082
Customer contract liabilities		1,148	3,171
Lease liabilities		2,695	3,128
Loans and borrowings	8	40,000	40,794
Income tax payable		18,516	-
Other financial liabilities	10	3,722	16,999
Total current liabilities		414,808	440,174
Non-current liabilities			
Trade and other payables		495	416
Lease liabilities		12,883	14,224
Loans and borrowings	8	66,206	66,206
Other financial liabilities	10	-	872
Total non-current liabilities		79,584	81,718
Total liabilities		494,392	521,892
Net assets		1,204,394	1,193,960
Equity			
Share capital	5	58,902	149,157
Retained earnings		1,241,338	1,167,561
Reserves		(105,179)	(136,341)
Total equity attributable to owners of the Company		1,195,061	1,180,377
Non-controlling interests		9,333	13,583
Total equity		1,204,394	1,193,960

The accompanying notes form part of these financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

	Notes	31 Dec 22 \$'000	31 Dec 21 \$'000
Cash flows from operating activities			
Receipts from customers		806,651	673,419
Payments to suppliers and employees		(792,045)	(546,134)
Interest received		5,715	1,655
Interest paid		(1,638)	(512)
Taxes paid		(21,878)	(30,022)
Net cash (outflow)/inflow from operating activities	12	(3,195)	98,406
Cash flows from investing activities			
Payments for property, plant and equipment		(6,214)	(2,407)
Payment for investment property		(1,257)	(58)
Payments for intangible assets		(95)	(48)
Acquisition of subsidiary		-	(213,746)
Payments for term deposits		(50,000)	-
Receipts from term deposits		150,000	-
Net cash inflow/(outflow) from investing activities		92,434	(216,259)
Cash flows from financing activities			
Payments for share buy-back	5	(90,255)	-
Payments of lease principal		(1,949)	(2,008)
Purchase of treasury shares		-	(13,306)
Proceeds from issue of equity shares		-	36
Proceeds from borrowings		13,000	-
Repayment of borrowings		(13,794)	-
Net cash outflow from financing activities		(92,998)	(15,278)
Net decrease in cash and short-term deposits		(3,759)	(133,131)
Cash and short-term deposits at the beginning of the period		437,308	875,150
Effect of exchange rate changes on cash		(6,354)	5,151
Cash and short-term deposits at the end of the period	7	427,195	747,170

The accompanying notes form part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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 New Zealand's Exchange (NZX), the Australian Securities Exchange (ASX) and Cboe-X Australia (Cboe-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 19 February 2023.

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 2022, 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 2022, 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 2022.

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 2022, 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 Half Year Results Commentary, which has been lodged concurrently with the 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 period has four reportable operating segments as follows:

- The *Australia and New Zealand segment* receives external revenue from infant milk formula, milk and other nutritional products, along with rent, royalty, and licence fee income.
- The *China and Other Asia segment* receives external revenue from infant milk formula, other nutritional products and milk.
- The *USA segment* receives external revenue from milk sales and licence fees.
- The *Mataura Valley Milk segment* 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 2022

2. Operating segments (continued)

Six months to 31 December 2022	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	Mataura Valley Milk \$'000	Eliminations \$'000	Total \$'000
Consolidated sales	212,474	471,579	52,273	45,660	-	781,986
Other revenue	1,188	-	165	-	-	1,353
Total external revenue	213,662	471,579	52,438	45,660	-	783,339
Inter-segment revenue	-	-	-	17,229	(17,229)	-
Reportable segment revenue	213,662	471,579	52,438	62,889	(17,229)	783,339
Reportable segment results (Segment EBITDA)	62,012	111,479	(12,216)	(13,408)	-	147,867
Corporate EBITDA						(40,054)
Group EBITDA						107,813
<i>Reconciliation to consolidated statement of comprehensive income</i>						
Interest income						12,089
Interest expense						(2,232)
Depreciation and amortisation						(8,982)
Income tax expense						(40,215)
Consolidated profit after tax						68,473

Six months to 31 December 2021	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	Mataura Valley Milk ¹ \$'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
<i>Reconciliation to consolidated statement of comprehensive income</i>					
Interest income					1,740
Interest expense					(627)
Depreciation and amortisation					(8,234)
Income tax expense					(34,372)
Consolidated profit after tax					56,080

1 Mataura Valley Milk results are for the five months from acquisition on 30 July 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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 2022	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	Mataura Valley Milk \$'000	Total \$'000
Infant nutrition:					
China label	-	270,727	-	-	270,727
English and other labels ¹	109,365	175,600	-	-	284,965
Liquid milk	91,963	7,454	52,273	-	151,690
Other	12,334	17,798	165	45,660	75,957
	213,662	471,579	52,438	45,660	783,339

Six months to 31 December 2021	Australia and New Zealand \$'000	China and Other Asia \$'000	USA \$'000	Mataura Valley Milk ² \$'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

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 milk formula sales to customers in the Australia and New Zealand segment are ultimately consumed in China.

2 Mataura Valley Milk results for the five months from acquisition on 30 July 2021.

4. Expenses

	31 Dec 22 \$'000	31 Dec 21 \$'000
Profit before income tax includes the following items:		
Salary and wage costs	48,806	41,241
Equity settled share-based payments	8,740	4,659
Bad and doubtful debts	286	-
Professional service fees	9,173	12,334
Insurance	12,780	11,150
Depreciation and amortisation	8,982	8,234
Net foreign exchange (gains)/losses	(6,527)	3,573
Cash flow hedge losses	13,388	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

5. Share capital

Movements in contributed equity:	Number of shares	Share Capital \$'000
Fully paid ordinary shares:		
Balance 30 June 2022	743,656,528	149,157
Movements in the period:		
Share buy-back	(13,471,219)	(90,255)
Balance 31 December 2022	730,185,309	58,902

Share buy-back

When the Company re-acquires its own ordinary shares as the result of a share buy-back, those shares are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs is recognised directly in equity.

On 29 August 2022, the Company announced an on-market buy-back of shares with an aggregate value of up to \$150 million, which commenced on 7 November 2022. From 7 November 2022 to 31 December 2022 the Company purchased and cancelled 13,471,219 ordinary shares at a total cost of \$90,255,000 including brokerage costs at an average price of \$6.69 excluding brokerage costs.

Treasury Shares

As at 31 December 2022, the trustee of the a2MC Group Employee Share Trust held 2,198,839 of the Company's shares (30 June 2022: 2,372,842 shares) purchased on market and available solely to participants in Group employee share plans:

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 AUD 1,000.

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

Vesting of matching shares: Shares vested in September 2022 for employees participating in the FY21 Share Match Programme who continued in employment to September 2022.

6. Inventories

	31 Dec 22 \$'000	30 Jun 22 \$'000
Raw materials	17,094	17,974
Finished goods	162,074	119,505
Goods in transit	2,811	2,565
Total inventories at the lower of cost and net realisable value	181,979	140,044

At period end \$12.6 million (2021: \$4.4 million) was recognised as an expense in cost of sales for inventories written down or written off, with \$6.9 million (2021: \$0.8 million) relating to MVM inventory.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

7. Cash and term deposits

	31 Dec 22 \$'000	30 Jun 22 \$'000
Cash at banks and on hand	261,719	331,646
Short-term deposits	165,476	105,662
Cash and short-term deposits	427,195	437,308
Other current term deposits	350,000	450,000
Cash and term deposits	777,195	887,308

Other current term deposits comprise term deposits with a maturity greater than three months and less than twelve months. The purpose for which the term deposits are held is to meet short-term cash commitments rather than for investment or other purpose.

Term deposits are presented as cash equivalents in the statement of cash flows if they have a maturity of three months or less and are readily convertible to known amounts of cash with no significant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	31 Dec 22 \$'000	30 Jun 22 \$'000
Cash at banks and on hand	261,719	331,646
Short-term deposits	165,476	105,662
Cash and short-term deposits	427,195	437,308

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

8. Loans and borrowings

	31 Dec 22 \$'000	30 Jun 22 \$'000
Current		
Secured:		
Bank loans	40,000	27,000
Unsecured:		
Loan from MVM's non-controlling shareholder	-	13,794
	40,000	40,794
Non-current		
Secured:		
Bank loan	30,000	30,000
Unsecured:		
Loan from MVM's non-controlling shareholder	36,206	36,206
	66,206	66,206

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

The bank loans are secured against MVM's property at Pease Street, Gore, New Zealand, and are subject to compliance with financial covenants requiring the maintenance of specified financial ratios, related solely to MVM. All borrowing covenant ratios and limits have been complied with as at 31 December 2022.

The non-current bank loan matures in July 2024. The interest rate applicable as at 31 December 2022 was 5.57%.

The average interest rate applicable at 31 December 2022 for the current bank loans was 5.17%.

Finance facilities available to MVM:

- Total bank debt facilities of \$75 million, of which \$70 million was drawn as at 31 December 2022.
- A performance guarantee facility of \$10 million, of which \$6.2 million was drawn as at 31 December 2022.

The unsecured subordinated loan is provided by MVM's non-controlling shareholder. The non-current loan has an initial term through to FY27, to be repaid thereafter at a time to be agreed by the shareholder lenders. The current loan was repaid during the period. The interest rate applicable as at 31 December 2022 was 2.56%.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

9. Other financial assets

	31 Dec 22 \$'000	30 Jun 22 \$'000
Current		
Foreign currency forward contracts	5,297	-
Non-current		
Foreign currency forward contracts	387	-
Listed investment	153,034	135,260
	153,421	135,260

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.

Listed investment

The listed investment is in Synlait Milk Limited (Synlait). Synlait is a dairy processing company (listed on NZX and the ASX) with which the Group has an ongoing Nutritional Powders Manufacturing and Supply Agreement. No dividends were received from this investment during the period (2021: \$nil).

A fair value gain of \$17,774,000 (2021: loss \$7,804,000) was recognised for the period.

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 2022	43,353	288,781	\$3.12	135,260	(153,521)
Balance 31 Dec 2022	43,353	288,781	\$3.53	153,034	(135,747)
Fair value gain in period					17,774

10. Other financial liabilities

	31 Dec 22 \$'000	30 Jun 22 \$'000
Current		
Foreign currency forward contracts	3,722	16,999
Non-current		
Foreign currency forward contracts	-	872

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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:

	Hierarchy level	31 December 2022		30 June 2022	
		Carrying amount \$'000	Fair Value \$'000	Carrying amount \$'000	Fair Value \$'000
Cash and term deposits		777,195	777,195	887,308	887,308
Trade and other receivables		78,738	78,738	83,510	83,510
Foreign currency forward contracts	2	1,962	1,962	(17,871)	(17,871)
Listed investment	1	153,034	153,034	135,260	135,260
Secured bank loans	2	(70,000)	(70,000)	(57,000)	(57,000)
Unsecured loan from MVM's non-controlling shareholder	2	(36,206)	(29,432)	(50,000)	(45,108)
Trade and other payables - excluding employee entitlements		(328,956)	(328,956)	(347,675)	(347,675)
		575,767	582,541	633,532	638,424

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 period 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 term deposits, trade and other receivables and payables - carrying amount equals fair value.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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

	31 Dec 22 \$'000	31 Dec 21 \$'000
Net profit for the period	68,473	56,080
Adjustments for non-cash items:		
Depreciation and amortisation	8,982	8,234
Share-based payments	8,740	4,659
Net foreign exchange gain	(2,212)	(4,483)
Income tax on hedges	(4,373)	-
Deferred tax	(778)	27,913
Changes in working capital:		
Trade and other receivables	4,772	(3,171)
Prepayments	(39,920)	(20,137)
Inventories	(41,935)	(7,548)
Trade and other payables	(27,278)	33,538
Customer contract liabilities	(2,023)	27,005
Income tax payable	18,516	-
Income tax receivable	5,841	(23,684)
Net cash (outflow)/inflow from operating activities	(3,195)	98,406

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

13. 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 management with shareholders.

During the period the Board authorised the issue of 2,423,557 performance rights to senior management under the LTI plan.

The performance rights vest subject to:

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

Performance rights grants:	Performance period	EPS CAGR	Revenue CAGR hurdles		
			50% vest	85% vest	100% vest
FY22 plan					
5,000 rights	3 years to 30 June 2024	20%	6%	8%	10%
FY23 plan					
2,418,557 rights	3 years to 30 June 2025	10%	6%	8%	10%

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, on-market share buy-backs, 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.

Fair value of performance rights granted during the period and assumptions

Grant date	30 Sep 22
Fair value at measurement date	\$6.12
Share price at grant date	\$6.12
Performance rights life	3 years

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 AUD 1,000.

Amounts recognised in the consolidated statement of comprehensive income

During the period a \$8,740,000 expense was recognised in the consolidated statement of comprehensive income for equity settled share-based payment awards (2021: \$4,659,000).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

14. 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 ASX or the NZX 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 5 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 NZX: (1) prior to 19 August 2020, and retained those shares until a date after 28 September 2020; or (2) during the Relevant Period.

On 14 June 2022, the Supreme Court of Victoria approved the proposal to consolidate the proceedings filed by Slater & Gordon Lawyers and Shine Lawyers (the Australian Proceedings). The consolidated claim is brought on behalf of shareholders who acquired an interest in fully paid ordinary shares in the Company on the ASX or the NZX: (1) during the Relevant Period; and (2) prior to 19 August 2020 and retained those shares until a date after 28 September 2020. The claim makes allegations under both Australian and New Zealand law. On 28 November 2022, the Victorian Supreme Court ruled that it has jurisdiction to hear and determine the claims brought under New Zealand law.

On 18 May 2022, the Company announced that a representative proceeding had been filed in the High Court of New Zealand which names the Company as the defendant (the New Zealand Proceeding). The New Zealand Proceeding, filed by Thorn Law and funded by CHC Investment Fund III Pty Limited relates to the same period (19 August 2020 to 9 May 2021) and makes allegations under New Zealand law only which are substantially the same as those advanced in the Australian Proceedings. The claim is commenced on behalf of group members who acquired an interest in ordinary shares in the Company on the ASX or the NZX: (1) during the Relevant Period; and (2) prior to the Relevant Period and continued to hold some or all of those shares for part or all of the Relevant Period.

The Company filed an interlocutory application for a stay of the New Zealand Proceedings under the Trans-Tasman Proceedings Act 2010 (NZ) on 23 June 2022. On 23 January 2023, the Auckland High Court granted the Company's application for a stay of the New Zealand Proceeding, pending judgment on liability or a final settlement of the Australia Proceeding, whichever occurs first.

The Company considers that it has at all times complied with its disclosure obligations, denies any liability and will vigorously defend the proceedings. The Company filed its defence in the Australian Proceedings on 8 November 2022. The Company has not filed a defence in the New Zealand Proceeding, which is now stayed.

The claims of group members have not yet been and are not required to be quantified. Based on the current status of the Australian Proceedings and the New Zealand 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.

15. Subsequent events

No 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.



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Independent auditor's review report to the shareholders of The a2 Milk Company Limited

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 2022, 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 2022, 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 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 2022



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 Glenn Maris.

A handwritten signature in cursive script that reads 'Ernst & Young'.

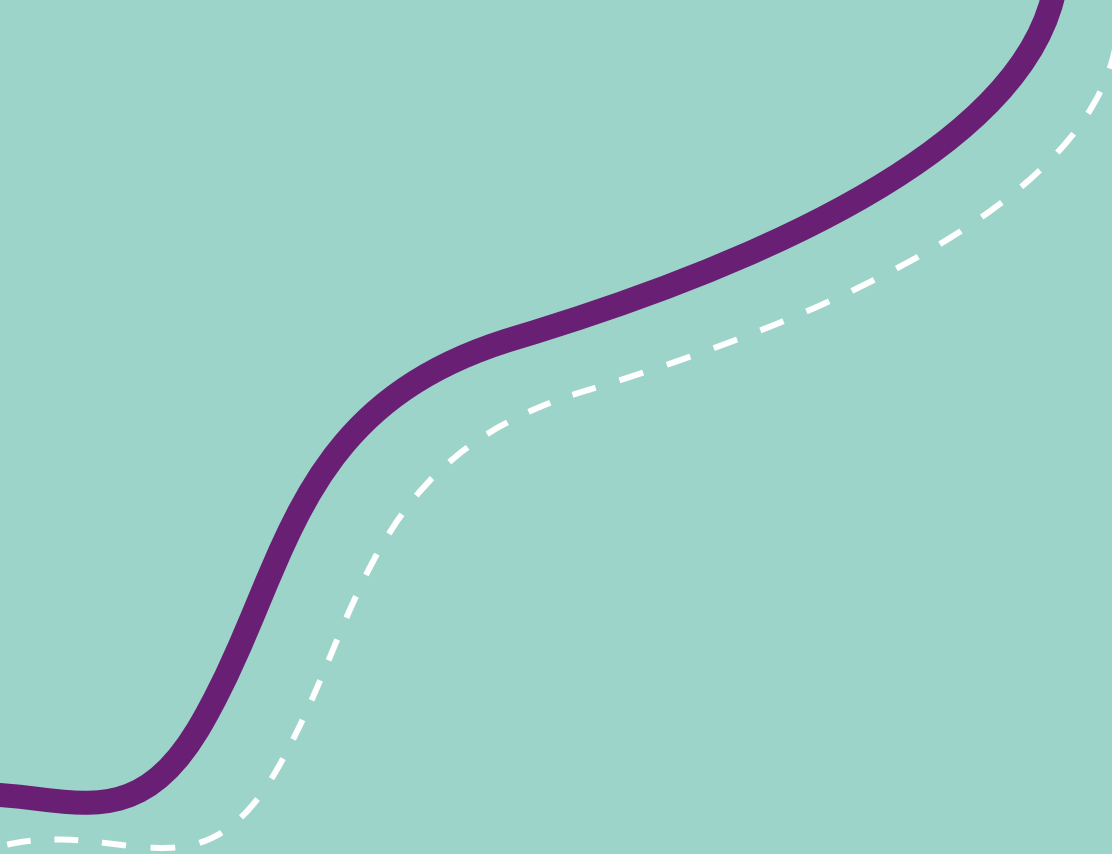
Ernst & Young
Sydney
19 February 2023

CORPORATE DIRECTORY

Company	The a2 Milk Company Limited	
New Zealand share registry	Link Market Services Limited PO Box 91976 Victoria Street West Auckland 1142 New Zealand Telephone: +64 9 375 5998	
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	
Corporate website	www.thea2milkcompany.com	
Company Secretary	Jaron McVicar	
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) Sandra Yu (Independent, Non-Executive Director) David Wang (Independent, Non-Executive Director)	



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