

A photograph of a child's hands holding a glass of milk. The glass is filled with white milk and has the 'a2 Milk Company' logo overlaid on it. The logo is in a purple, rounded font. The background is blurred, showing other people in a crowd.

The a2 Milk Company™

Half yearly report
for the six months ended
31 December 2014

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Chairman's report

Dear Shareholder

I am pleased to report on the continuing progress of The a2 Milk Company Limited ("the Company" or "a2MC") during the six months to 31 December 2014.

The Company and its subsidiaries ("the Group") achieved Group revenue of \$74.79 million and Group profit after tax of \$0.13 million, reflecting the strong growth in the Australian business and continued investment in our strategic growth initiatives as we fund expansion into international markets. The balance sheet position remained strong with cash on hand at the balance sheet date of \$9.86 million.

During the period, the Australian business performed exceptionally well as it continued along its growth trend with sales and profit well ahead of the corresponding period last year. In the UK, progress is being made on the implementation of the revised business model, having received broad product acceptance with a growing retail distribution base. We have recommenced sales to China and continue to work on the establishment of strong distribution networks in the region. The USA market entry plan is near complete, with a launch expected in fourth quarter of FY15.

On 18 November 2014, the Company announced plans to seek a listing on the Australian Securities Exchange ("ASX") in addition to its New Zealand Exchange ("NZX") Listing. It is expected the listing will enable more Australian investors to participate in the Company's growth, will improve the liquidity of the Company's shares and will closer align the Company's capital markets profile and business operations. This process is well progressed and the application for the listing of the Company's securities on the ASX is imminent.

The CEO's report contains further detail on the Group's operational performance.

I wish to thank our management, staff and my fellow Directors for their significant efforts and also our customers, business partners and shareholders for their continued support.

Best regards



CJ Cook
Chairman
24 February 2015

CEO's report

Overview

The Group performed ahead of plan during the period and its strategic growth initiatives continued to gain momentum. The Company's strategic plan is based on funding growth in priority international markets from increasing Australian profits.

The Australian business achieved a record revenue and earnings result and the UK business achieved milestones consistent with the revised plan. The China infant formula business has been repositioned in response to the changes in regulation of imports during 2014, and the planning for the launch of a2 Milk™ into the United States in coming months has been progressed.

As foreshadowed at the general meeting in November 2014, the Company is finalising an application for the listing of its securities on the Australian Securities Exchange ("ASX") in addition to its existing NZX listing.

The unaudited Group profit after tax for the 6 months ended 31 December 2014 was \$125,000 and included:

- Total revenue of \$74.79 million, an increase of 38% over the prior corresponding period ("PCP");
- Group EBITDA of \$3.27 million before non-recurring items, an increase of 27% over the PCP;
- EBITDA after inter-company charges¹ for the Australian and New Zealand operations of \$4.88 million, an increase of 113% on the PCP;

- EBITDA associated with establishing the UK business of (\$1.92) million after inter-company charges;
- EBITDA associated with establishing the China business of (\$0.61) million after inter-company charges;
- Corporate EBITDA after inter-company charges of \$0.92 million (before non-recurring items of \$0.76 million); and
- Income tax charge of \$1.56 million.

The higher income tax charge represents higher non-deductible expenses (mainly related to development and ASX listing costs), and UK losses not tax effected.²

The balance sheet at 31 December 2014 includes cash on hand of \$9.86 million. The operating cash outflow for the half primarily reflects an increase in working capital associated with the growth in infant formula and milk sales.

Management believes that the 2016 revenue projection of \$230 million advised in the 2014 annual report remains appropriate. Whilst meaningful revenue from China and the UK is yet to emerge, these businesses are gaining traction and the Australian business continues to outperform expectations. In addition, sales in the USA market are expected to compensate for any shortfall in other markets.

Australian growth continues strongly

The Australian and New Zealand business continued to perform strongly with sales growth and operating earnings in Australia well ahead of the PCP. Total revenue growth for the Australian and New Zealand business relative to the PCP was ~39%. EBITDA before inter-company charges was \$13.96 million.

¹ Intercompany charges include royalties, licence fees and management fees payable to the Parent, and marketing and herd testing costs payable by the Parent

² To date, tax losses from the UK business have not been recognised as a deferred tax asset

Fresh milk sales of a2 Milk™ increased on the PCP in AUD by 16% as a result of continued growth in brand awareness and presence in the retail trade. In response to competitor activity, the business continues to actively communicate the features and potential benefits of a2MC branded products and the distinction between the Company's products and other dairy products or brands that contain A1 beta-casein protein. Latest data shows the market share of a2 Milk™ fresh milk in Australia has grown to approximately 9.3% by value in the grocery channel (Australian Grocery Weighted Scan December 2014 quarter).

Improvement in processing efficiencies at the Company's Smeaton Grange processing facility partly offset an increase in raw milk costs which took effect during the period. The Company's gross margin for the period remained strong at ~35%.

A further standout for the period was the growth in sales of a2 Platinum™ infant formula in Australia in both grocery and pharmacy channels, and also in New Zealand where sales grew from a low base. Total sales of infant formula in Australia and New Zealand for the half year were \$16.07 million. Our grocery distribution in Australia was broadened, with ranging in Woolworths achieved from November 2014 that complemented distribution previously achieved in Coles and major independents.

The Company continues to build milk supply in New Zealand to facilitate increased production of infant formula by our manufacturing partner, Synlait Milk Limited.

United Kingdom distribution to plan

The UK business has been implementing the revised business model as outlined in the most recent annual report. The model focuses on three key elements: (i) building distribution in existing accounts and extending into new accounts, (ii) increasing product awareness in a more targeted manner, and (iii) enhancing our price positioning and packaging formats to improve margins.

We are pleased with progress to date, with the new product positioning receiving broad acceptance across the retail trade. The new one litre semi-skimmed format was ranged in J Sainsbury stores (a new customer for a2MC) from November 2014, and one litre semi-skimmed

and whole milk was accepted for ranging in our existing retail partners Tesco, Waitrose, Ocado and Morrisons from early calendar 2015. In addition, the product is to be ranged in Whole Foods Market from February 2015 and a key London wholesaler, Marigold. In each of the retailer accounts, the product is being ranged in the speciality milk area. As a result, distribution of the new one litre product continues to grow – the product is expected to be ranged in approximately 1,000 retail outlets across the UK, which represents the broadest level of distribution achieved since entering the market in 2012. We have also commenced presenting a2 Milk™ UHT milk to the retail trade.

We have worked closely with, and been well supported by our supply partner Muller Wiseman Dairies (MWD) in managing the processing and logistical issues around the packaging change. The quality of packaged product supplied by MWD continues to be of a high standard.

With the improved distribution platform now in place, the key focus is building consumer awareness and rate of sales per store in the key customer accounts. The new marketing strategy will commence from this month, with a focus on welcoming consumers who currently limit their dairy intake or exclude dairy from their diets back to milk through targeted digital media and marketing activity in-store.

The investment in the UK business during the half was GBP2.2 million, which is consistent with the FY15 financial plan. Sales revenues, whilst modest, are forecast to double during the second half.

China infant formula business resumed

As previously reported, the regulatory environment for infant formula sold in China was evolving during calendar 2014. As part of this, there were changes to access arrangements for imported product including a requirement for manufacturing companies to achieve a new form of registration from May 2014. Our manufacturing partner, Synlait Milk Limited, achieved the new form of registration in September 2014.

As a result of the uncertainties arising from these changes, sales of a2 Platinum™ infant formula to China were on hold from May 2014 until a first order of approved registered product was dispatched in December 2014.

In addition, a2MC deemed it appropriate to provide one-off marketing funds to assist distributors in their selling activities. Accordingly, we incurred an elevated level of marketing spend in the half, notwithstanding that our sales were low.

In November 2014, the Company advised of changes to the supply and distribution arrangements with China State Farm Holding Shanghai Company (CSF). Under the revised arrangements, CSF has become the exclusive import agent for a2 Platinum™ infant formula imported into China and will provide government advice and support on an on-going basis. As a result, a2MC has assumed overall responsibility for distribution of infant formula products in this market and is assessing new third party distribution arrangements to expand the network in the near term. The Company continues to oversee the marketing and communication activities for the brand and is progressing development of new marketing initiatives including establishing our own e-commerce capability for sales into China. The Company considers these changes better position the business for success.

The Company continues to develop its plans and structure for sale of fresh milk and UHT milk in China, with other Asian markets to follow. As part of the market entry strategy, from September 2014, a2 Milk™ branded fresh milk sourced from the Company's Smeaton Grange facility has been airfreighted to Shanghai for home delivery direct to consumers. It is currently the largest fresh milk brand by volume being exported from Australia.

USA market entry plan being finalised

As previously advised, the Company has been developing a plan to launch a2MC branded milk into the USA market during fourth quarter FY15. Significant progress was made during the half in recruiting the core management team, developing the launch product and marketing plan, identifying milk supply and commencing discussions with the retail trade.

Our plan centres on a launch into the West Coast region commencing in the fourth quarter FY15. Since December 2014, we have completed presentations to key retailers in this market and progressed the appointment of a high quality milk processing partner. Whilst the opportunity is potentially nationwide, a phased entry plan is focused on achieving agreed milestones in the launch region prior to extending distribution into further state markets. Taking this into account, the Company will focus its selling activities in the West Coast region and will base its administration activities in the centrally located State of Colorado in anticipation of further expansion over time.

Intellectual property and developments in scientific research continues

The results of a human digestion trial sponsored by a2MC and conducted by Curtin University of Western Australia were published in the European Journal of Clinical Nutrition in August 2014. This trial provided new support for the digestive benefits in humans of a2MC products and supported previous findings in published animal studies. The Company has commenced human studies in a number of markets to further build on this research.

a2MC remains committed to the continued development of its unique portfolio of intellectual property. During the half, a2MC acquired full ownership, from the NZ Milk Institute, of an Australian/New Zealand and China registered patent that relates to benefits of A2 based formulations containing additional supplements.



Geoffrey Babidge
Chief Executive Officer
24 February 2015

RECONCILIATION OF EBITDA

	Half year ended 31 Dec 14 NZ \$000	Half year ended 31 Dec 13 NZ \$000	Movement %
EBITDA ³	2,504	2,576	-3%
EBITDA before non-recurring items	3,266	2,576	27%
Depreciation/amortisation	(912)	(849)	7%
EBIT before non-recurring items	2,354	1,727	36%
Share of associate/joint venture losses	-	(1,361)	-
Non-recurring items ⁴	(762)	-	-
Net interest income	88	240	-63%
Income tax/(expense)	(1,555)	37	-
Net profit after tax	125	643	-81%

3. EBITDA is a non GAAP measure, however, the Company believes that it provides investors with a comprehensive understanding of the underlying performance of the business

4. Non-recurring items in 2014 relate to costs associated with the ASX listing process during the period

Directors' declaration

For the six months ended 31 December 2014

The Directors of The a2 Milk Company Limited are pleased to present the Interim Financial Statements for the half-year ended 31 December 2014.

The Statements presented are signed for and on behalf of the Board and were authorised for issue on 24 February 2015.

The Interim Statements are unaudited.



CJ Cook
Chairman
24 February 2015



GH Babidge
Managing Director

Auditor's review report

For the six months ended 31 December 2014



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Review Report to the Shareholders of The a2 Milk Company Limited ("the company") and its subsidiaries (together "the group")

We have reviewed the interim financial statements on pages 10 to 19, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information

This report is made solely to the company's shareholders, as a body, in accordance with section 205 (1) of the Companies Act 1993. 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 work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with generally accepted accounting practice in New Zealand 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.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with ISRE (NZ) 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. ISRE (NZ) 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the applicable financial reporting framework. As the auditor of The a2 Milk Company Limited, ISRE (NZ) 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with ISRE (NZ) 2410 is a limited assurance engagement. The auditor performs procedures, primarily 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). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 10 to 19, do not present fairly, in all material respects, the financial position of the company as at 31 December 2014 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 24 February 2015 and our findings are expressed as at that date.

Ernst & Young
Sydney

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Condensed consolidated statement of comprehensive income

For the six months ended 31 December 2014

	Notes	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
Continuing operations			
Sales		74,659	54,008
Cost of sales		(48,543)	(34,078)
Gross margin		26,116	19,930
Interest income		88	240
Other revenue		126	147
Administrative expenses	3	(6,770)	(4,746)
Finance costs		(41)	(18)
Marketing expenses.....	4	(6,886)	(5,395)
Occupancy expenses		(263)	(226)
Other expenses	5	(10,690)	(7,965)
Profit before tax and share of associate/joint venture loss		1,680	1,967
Share of associate/joint venture loss		-	(1,361)
Profit before tax		1,680	606
Income tax (expense)/benefit		(1,555)	37
PROFIT AFTER TAX FOR THE PERIOD		125	643
Items of other comprehensive income that may be reclassified to profit or loss:			
Foreign currency translation loss	6	(1,545)	(3,179)
TOTAL COMPREHENSIVE LOSS		(1,420)	(2,536)
Earnings per share			
Basic (cents per share)		0.02	0.11
Diluted (cents per share)		0.02	0.11

Condensed consolidated statement of comprehensive income

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity
 For the six months ended 31 December 2014

Notes	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
	58,644	59,930
	(1,420)	(2,536)
	<u>57,224</u>	<u>57,394</u>
TRANSACTIONS WITH OWNERS		
	419	240
	-	1,323
	<u>57,643</u>	<u>58,957</u>
EQUITY COMPRISES:		
Share capital		
	86,264	84,253
	-	1,323
	<u>86,264</u>	<u>85,576</u>
Retained earnings/(deficit)		
	(23,974)	(23,984)
	125	643
	<u>(23,849)</u>	<u>(23,341)</u>
Foreign currency translation reserve		
	(6,665)	(2,168)
	(1,545)	(3,179)
	<u>(8,210)</u>	<u>(5,347)</u>
Employee equity settled payments reserve		
	3,019	1,829
	419	240
	<u>3,438</u>	<u>2,069</u>
	<u>57,643</u>	<u>58,957</u>

The accompanying notes form part of these financial statements.

Condensed consolidated statement of financial position

As at 31 December 2014

	Notes	As at 31 Dec 14 (Unaudited) \$'000	As at 30 Jun 14 (Audited) \$'000
ASSETS			
Current assets			
Cash & short term deposits		9,863	15,979
Trade and other receivables		30,680	27,358
Prepayments		4,257	1,992
Inventories		8,126	5,583
Current tax asset		210	225
Total current assets		<u>53,136</u>	<u>51,137</u>
Non-current assets			
Property, plant & equipment		8,534	9,163
Goodwill		10,360	10,587
Other intangible assets		5,763	4,194
Deferred tax asset		1,876	1,562
Total non-current assets		<u>26,533</u>	<u>25,506</u>
TOTAL ASSETS		<u>79,669</u>	<u>76,643</u>
LIABILITIES			
Current liabilities			
Accounts payable		21,607	17,875
Total current liabilities		<u>21,607</u>	<u>17,875</u>
Non-current liabilities			
Accounts payable		138	124
Deferred tax liability		281	-
Total non-current liabilities		<u>419</u>	<u>124</u>
TOTAL LIABILITIES		<u>22,026</u>	<u>17,999</u>
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	7	86,264	86,264
Retained earnings/(deficit)		(23,849)	(23,974)
Foreign currency translation reserve		(8,210)	(6,665)
Employee equity settled payments reserve		3,438	3,019
TOTAL EQUITY		<u>57,643</u>	<u>58,644</u>
TOTAL LIABILITIES & EQUITY		<u>79,669</u>	<u>76,643</u>

Condensed consolidated statement of financial position

The accompanying notes form part of these financial statements.

Condensed consolidated statement of cash flows

For the six months ended 31 December 2014

	Notes	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to):			
Receipts from customers		71,413	50,933
Interest received		88	240
Other income		126	13
Payments to suppliers & employees		(71,967)	(52,814)
Taxes paid		(3,767)	(629)
Net cash inflow (outflow) from operating activities.....	11	(4,107)	(2,257)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to):			
Payment for property, plant & equipment		(266)	(685)
Investment in other intangible assets		(1,895)	(369)
Investment in The a2 Milk Company Limited (UK)		-	(4,574)
Net cash outflow from investing activities		(2,161)	(5,628)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from issue of equity shares		-	1,323
Net cash inflow from financing activities		-	1,323
Net decrease in cash & short term deposits		(6,268)	(6,562)
Cash & short term deposits at the beginning of the period		15,979	20,187
Effect of exchange rate changes on cash		152	(469)
Cash and short term deposits at the end of the period		9,863	13,156
COMPRISED OF:			
Cash & short term deposits		9,863	13,156

The accompanying notes form part of these financial statements.

Notes to the condensed consolidated financial statements

For the six months ended 31 December 2014

1. STATEMENT OF COMPLIANCE

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

The principal activity of the Group is the commercialisation of a2MC branded milk and related products as supported by the ownership of intellectual property that enables the identification of cattle for the production of a2MC branded milk. The Group sources and supplies a2MC branded milk in Australia through its 100% owned subsidiary

The a2 Milk Company (Australia) Pty Limited and in the UK through its subsidiary The a2 Milk Company Limited (UK). The Group supplies a2MC branded infant nutrition through its 100% owned subsidiaries A2 Infant Nutrition Limited and A2 Infant Nutrition Australia Pty Limited.

The a2 Milk Company Limited is registered in New Zealand under the Companies Act 1993. The Group is a Financial Markets Conduct entity for the purposes of the Financial Markets Conduct Act 2013 and its financial statements comply

with that Act and the Companies Act 1993. The shares of The a2 Milk Company Limited are publicly traded on the New Zealand Stock Exchange (NZX).

The unaudited interim financial statements have been prepared in accordance with New Zealand equivalent to International Accounting Standard 34 (NZ IAS-34) *Interim Financial Reporting*. The financial statements should be used in conjunction with the Group’s annual report for the 12 months ended 30 June 2014.

The following Standards and Interpretations were effective in the current period:

Pronouncement	Effective for periods beginning
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendment to IAS 36 Impairment of Assets	1 January 2014
Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Amendment to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	1 January 2014
IFRIC 21 Levies	1 January 2014
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014

The above Standards and Interpretations have not led to any changes in the Company’s accounting policies, and have no measurement or recognition impact on the period presented in these interim financial statements.

At period end date, a number of Standards and Interpretations were in issue but not yet effective. None is expected to have a significant effect on the Company’s financial statements.

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

2. BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in New Zealand dollars.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Group's financial statements for the year ended 30 June 2014.

3. ADMINISTRATIVE EXPENSES

Administrative expenses have increased compared to the prior corresponding period by \$2,024,000 primarily in relation to employee and travel costs associated with the growth of the business. Included in this number is the increase associated with the consolidation of the UK business from 1 January 2014.

4. MARKETING EXPENSES

Marketing expenses have increased compared to the prior corresponding period by \$1,491,000 primarily in relation to growth initiatives in the UK and China segments.

5. OTHER EXPENSES

	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
Freight	4,655	4,107
Other operating expenses	5,273	3,858
Non-recurring items – ASX listing process	762	–
	<u>10,690</u>	<u>7,965</u>

Other operating expenses have increased compared to the prior corresponding period by \$1,415,000 primarily in relation to selling and consulting expenses associated with business growth. Included in this number is the increase associated with the consolidation of the UK business from 1 January 2014.

Non-recurring items represent costs associated with the ASX listing process during the six months to 31 December 2014.

6. FOREIGN CURRENCY TRANSLATION LOSS

The foreign currency translation loss in the six months to 31 December 2014 has primarily arisen on the translation of Australian dollar advances to subsidiary companies which have been negatively impacted by the strengthening of the NZD/AUD rate in the period.

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

	As at 31 Dec 14 (Unaudited) \$'000	As at 30 Jun 14 (Audited) \$'000
7. SHARE CAPITAL		
a) Share capital		
Balance at beginning of period	86,264	84,253
Ordinary Shares: Partly paid shares fully paid	-	2,011
Balance at end of period	<u>86,264</u>	<u>86,264</u>
	As at 31 Dec 14 (Unaudited) No.	As at 30 Jun 14 (Audited) No.
b) Number of ordinary shares on issue		
(i) Fully paid ordinary shares		
Balance at beginning of period	633,066,979	615,165,990
Shares issued	-	17,900,989
Balance at end of period	<u>633,066,979</u>	<u>633,066,979</u>
(ii) Partly paid ordinary shares		
Balance at beginning of period	27,000,000	30,000,989
Shares fully paid	-	(17,500,989)
Shares issued	-	14,500,000
Balance at end of period	<u>27,000,000</u>	<u>27,000,000</u>
(iii) Total shares on issue		
Fully paid ordinary shares	633,066,979	633,066,979
Partly paid ordinary shares	27,000,000	27,000,000
Balance at end of period	<u>660,066,979</u>	<u>660,066,979</u>

Partly paid ordinary shares carry the same rights and entitlements on a fractional basis, as fully paid ordinary shares, with such fractions being equivalent to the proportion which the amount paid on the shares is of the total amount paid and amounts still payable on the shares.

Issue of Shares

There were no fully paid or partly paid shares issued during the period.

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

8. OPERATING SEGMENT INFORMATION

The Group has adopted NZ IFRS-8 Operating Segments. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

For management purposes, the group is organised into business units based on their geographical location and has four reportable operating segments as follows:

- The Australia and New Zealand segment receives external revenue from milk, cream and infant formula sales, and royalty and licence fee income.
- The China and Other Asia segment receives external revenue from milk and infant formula sales.

This segment is responsible for the infant formula supply chain to all markets.

- The United Kingdom and USA segment receives external revenue from milk sales. Prior to 1 January 2014 this segment comprised a share of joint venture profits and losses which related to a2MC's 50% shareholding of the UK business. a2MC acquired the remaining 50% shareholding of this business on 1 January 2014, from which point the UK business was 100% consolidated in the financial results and therefore included in segment profit.
- The Corporate and other segment external revenue comprises external royalty and licence fee income. Corporate and other segment profit also includes:

– internal royalty, licence fee and management fee income from subsidiaries; and

– costs, such as marketing and herd testing costs, associated with development of intellectual property globally.

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 evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Segment Revenue		Segment EBITDA	
	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
CONTINUING OPERATIONS				
Australia and New Zealand	72,794	52,317	4,876	2,292
China and other Asia	1,076	1,822	(610)	660
UK and USA ⁵	892	–	(1,919)	(127)
Corporate and other	23	16	157	(249)
Segment revenue & EBITDA ⁶	74,785	54,155	2,504	2,576
Net Interest income			88	240
Share in associate/ joint venture losses			–	(1,361)
Depreciation and amortisation			(912)	(849)
Income tax income/(expense)			(1,555)	37
CONSOLIDATED SEGMENT PROFIT			125	643

Over 68% of sales come from three customers in Australia (2013: over 84% from three customers).

⁵ The Company plans to launch in the USA during the second quarter of calendar 2015 and therefore there is no revenue from the USA included in the UK and USA Segment for the period ended 31 December 2014

⁶ EBITDA is a non-GAAP measure and represents earnings before interest, taxation, depreciation and amortisation

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

8. OPERATING SEGMENT INFORMATION CONT.

	Depreciation & Amortisation		Additions to Non-Current Assets	
	6 Months	6 Months	6 Months	6 Months
	31 Dec 14 (Unaudited) \$'000	31 Dec 13 (Unaudited) \$'000	31 Dec 14 (Unaudited) \$'000	31 Dec 13 (Unaudited) \$'000
Australia and New Zealand	566	590	48	594
China and other Asia	195	140	-	35
UK and USA	32	-	1,712	-
Corporate and other	119	119	401	425
	<u>912</u>	<u>849</u>	<u>2,161</u>	<u>1,054</u>
	Assets		Liabilities	
	31 Dec 14	30 Jun 14	31 Dec 14	30 Jun 14
	(Unaudited) \$'000	(Audited) \$'000	(Unaudited) \$'000	(Audited) \$'000
Australia and New Zealand	80,131	63,455	28,646	36,979
China and other Asia	4,171	4,854	249	997
UK and USA	5,724	3,305	14,149	9,416
Corporate and other, including eliminations	(10,357)	5,029	(21,018)	(29,393)
	<u>79,669</u>	<u>76,643</u>	<u>22,026</u>	<u>17,999</u>

Additions to Non-Current Assets include additions to property, plant and equipment, and other intangibles, and excludes additions to investments in associates and joint ventures in the prior year.

9. CHANGES TO COMPARATIVES

Where necessary, comparatives have been adjusted for better comparison with current period figures.

10. SUBSEQUENT EVENTS

At a Special Meeting of shareholders held on 27 January 2015, a new constitution was adopted in place of the previous constitution. The changes to the constitution approved by shareholders primarily allow a reduction in the minimum number of Directors who must be ordinarily resident in New Zealand from three to the minimum number required by the NZX Main Board Listing Rules, currently two.

Notes to the condensed consolidated financial statements cont.

For the six months ended 31 December 2014

11. RECONCILIATION OF NET SURPLUS

AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	6 Months 31 Dec 14 (Unaudited) \$'000	6 Months 31 Dec 13 (Unaudited) \$'000
Net surplus for the year	125	643
Adjustments for non-cash items:		
Depreciation & amortisation expense	912	849
Loss on disposal	16	-
Expense recognised in profit & loss in respect of equity-settled share-based payments	419	240
Net foreign exchange gain	(1,174)	(1,085)
Share of loss of associates/joint ventures and other obligations	-	1,361
Deferred tax	(32)	505
	<u>266</u>	<u>2,513</u>
Movements in working capital		
(Increase)/decrease in trade and other receivables	(3,322)	(612)
(Increase)/decrease in prepayments	(2,265)	(2,010)
(Increase)/decrease in inventories	(2,543)	(775)
Increase/(decrease) in accounts payable	5,166	591
Increase/(decrease) in current tax liabilities	(1,409)	(1,964)
Net cash outflow from operating activities	<u>(4,107)</u>	<u>(2,257)</u>

Corporate directory

Company number	1014105	Auditor	Ernst & Young, Sydney
Issued capital	660,066,979 Fully Paid and Partly Paid Ordinary Shares as at 31 January 2015	Bankers	National Australia Bank, Sydney Bank of New Zealand, Auckland
Registered office	C/-Simpson Grierson Level 27 88 Shortland Street Auckland	Solicitor (Commercial)	Simpson Grierson, Auckland
Share registrar	Link Market Services Limited PO Box 91976 Victoria Street West Auckland 1142 New Zealand Telephone +64 9 375 5998	Solicitor (Commercial)	DLA Piper, Sydney
Directors	Mr C Cook (Chairman) Mr G Babidge (Managing Director & Chief Executive Officer) Mr D Hearn (Deputy Chairman) Mr R Le Grice Mr D Mair Ms J Hoare Mr M Miles	Solicitor (Intellectual property)	Catalyst Intellectual Property, Wellington



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