ANNUAL REPORT 2022

Synlait

Doing Milk Differently For A Healthier World

We are a milk nutrition company. We are purpose-led, we are dynamic, and we are different. Accordingly, in 2018 we relaunched our corporate identity to reflect this. It is now flowing through to our product packaging. In March our new lactoferrin bags were released, and in August 2022, our new AMF drums arrived. Updated powder bags will be released this financial year (FY23).

WELCOME TO SYNLAIT'S ANNUAL REPORT

This Annual Report reviews Synlait Milk Limited's (Synlait) and subsidiaries' financial performance and business achievements for the year ended 31 July 2022.

We always look for ways to improve our reporting, please email any feedback to: **investors@synlait.com**

An online copy of this Annual Report and our previous annual, interim and sustainability reports are available at: **synlait.com/investors/**

B CORP™ CERTIFIED

Synlait's commitment to elevating people and planet to the same level as profit was recognised in June 2020 when it became part of the B Corp™ community.

B Corp™ is a community of leaders driving a global movement of people using business as a force for good. Certified B Corporations™ consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.

B Corp™ resonates strongly with Synlait's purpose of *Doing Milk Differently For A Healthier World*.

Learn more about what being a B Corporation™ means for our people, our community, and our customers at: **synlait.com/bcorp**

Certified B Corporation

CORPORATE GOVERNANCE

Good corporate governance is critical to protecting all stakeholder interests. Our Corporate Governance Statement describes Synlait's current compliance with the NZX Corporate Governance Code (NZX Code) recommendations in the year to 31 July 2022. To enable us to update this more regularly, this section of the Annual Report can be found on Synlait's website: **synlait.com/investors/corporate-governance**

SUSTAINABILITY REPORTING

For shareholders interested in Synlait's environmental and social impact, a standalone sustainability report is released annually in December. This report reviews Synlait's strategy and initiatives to deliver on our sustainability objectives and targets.

Process Engineer Liam Hawley weighs Synlait's lactoferrin at our Dunsandel facility.

LACTOFERRIN

Synlait manufactures high-quality spray-dried lactoferrin, an iron-binding protein that our multinational customers use globally.

Lactoferrin has proven benefits in early life, including helping reduce the risk of infection, helping establish healthy gut bacteria, and supporting iron absorption and metabolism. Recognition of these benefits has enabled premiumisation of infant formula resulting in broader use and higher dosages.

But increasingly, lactoferrin is used beyond early life thanks to its immunity-related benefits.

Lactoferrin's anti-inflammatory properties can also help provide vital benefits for healthy ageing, a category growing in size with increased awareness of its importance.

In conjunction with changing regulations and rising quality standards, strong demand appears to keep the supply of high purity lactoferrin tight, despite anticipated increases in global capacity.

One of our milk tankers at Synlait Pokeno's milk reception bay. We have 63 farmer suppliers in the North Island, responsible for 14% of Synlait's total milk supply, or 12.4 million kgMS.

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SYNLAIT COMPLETES PHASE 1 OF OFF-FARM DECARBONISATION ROADMAP

We have completed two key projects, which see the first phase of our decarbonisation roadmap completed.

The two projects will enable a reduction of scope 1 and 2 greenhouse gas (GHG) emissions by 38,000 tCO2e in FY23, progressively increasing to 58,000 tCO2e in FY26, when the projects are expected to reach full capacity. Based on Synlait's FY20 scope 1 and 2 GHG emissions, this would represent a 41% reduction in absolute emissions – a major step towards achieving our SBTi* approved target of reducing scope 1 and 2 emissions by 45% by FY28.

A summary of the two projects is below:

ELECTRODE BOILER

Synlait established its decarbonisation plan in 2018. The programme started with the commissioning of New Zealand's first large-scale electrode boiler at Synlait Dunsandel, which provides renewable process heat for the company's Advanced Dairy Liquid Packaging Facility.

The electrode boiler has been upgraded to a maximum 12 MW capacity (from 6 MW) and connected to the entire Dunsandel facility allowing it to increase its typical running rate from 2 MW to 10 MW. The upgrade includes an innovative system that enables Synlait to use electricity when time-of-use rates make it cheaper than coal.

The project was co-funded by Synlait and the Energy Efficiency and Conservation Authority's (EECA) Government Investment in Decarbonising Industry (GIDI) Fund.

BOILER TWO BIOMASS

Boiler 2 at Synlait Dunsandel has been converted to biomass (from coal) and will progressively increase its usage of wood pellets made from New Zealand forestry waste and sawmill residues.

The project was co-funded by GIDI and Synlait's strategic customer and shareholder, The a2 Milk Company.

* Science Based Targets initiative

The team behind Synlait's decarbonisation roadmap outside Boiler 2 at Synlait Dunsandel.

CHAIR REVIEW

Dr. John Penno

Dear shareholders

The Board and I are pleased to deliver the 2022 Annual Report on a much-improved year.

Synlait Milk Limited (Synlait) continues to focus on building scale and capability in the highest returning segments available to the New Zealand dairy industry. During the financial year ended 31 July 2022, we have grown our revenue to $1.6 billion (up 21%), re-established profitability with our net profit after tax at $38.5 million (up $67.0 million) and reduced our net debt to $341.9 million (down 29%). In most areas of our business, exit performance was significantly stronger than that at the start of the financial year, providing the Board with confidence that Synlait is on a path to return to robust profitability over the two-year period we set for ourselves.

While focusing on building revenue, reducing unnecessary costs, releasing working capital, and reducing capital expenditure, the Board remained committed to rebuilding diversity in our earnings. Our Ingredients business returned to its historical profitability, and our Nutritionals business returned to growth, including maintaining strong earnings in our Lactoferrin business. This was achieved while we invested heavily in customer development across all business units.

Our purpose, *Doing Milk Differently For A Healthier World*, demands that we build and conduct our business in a way that contributes to healthy people, a healthy planet, and healthy profits. Once again, we are proud that Synlait continues to be recognised as a global leader in this area by the multinational customers we supply.

This alignment is important to our customers and continues to deepen our relationships with them.

We are proud to pay our farmer suppliers a record average base milk price of $9.30 per kgMS for the 2021/2022 season. In addition, an average of $0.29 per kgMS was paid for incentives, taking the total average milk payment to $9.59 per kgMS for the 2021/2022 season. The record milk price was supported by a sustained period of exceptionally high commodity prices and a relatively weak New Zealand dollar. Part of the high milk price our farmer suppliers are currently enjoying is a result of declining milk production in Europe and the United States, as farmers in those countries respond to very high energy costs and increasingly stringent environmental requirements.

Of course, cost structures for farmer suppliers have increased rapidly in New Zealand over the last year. Our farming system, which focuses on pasture production, has cushioned some costs, but it must be acknowledged that dairy farming has been very tough due to increased fertiliser, feed, and compliance costs and labour challenges. Environmental and animal welfare requirements are also increasing. 66% of our farmer suppliers are certified under Synlait's Lead With Pride™ programme. The programme ensures our farmer suppliers implement best practices in environmental stewardship, animal welfare, milk quality, and care for their people and communities. These practices have positioned our farmer suppliers exceptionally well to deal with increased regulatory requirements. It also helps us engage with our multinational customers, who are focused on meeting the ever-increasing expectations of their consumers. Our refreshed strategy and structure will see us increase the pace in this area as we continue to offer our farmer suppliers and customers new opportunities.

Our Lead With Pride™ programme, supported by our long-term commitment to delivering a strong milk price, supports Synlait's strategy of growing our share of the milk produced in the regions we manufacture. We welcomed twelve new farms to Synlait over the past year, and we continue to progress opportunities for a small number of new farmer suppliers with aligned values to supply us with milk in FY24.

I want to thank our new CEO Grant Watson for the outstanding contribution he is already making to Synlait. Grant is setting a new pace and standard for our Executive Leadership Team and the entire company. In his report, Grant will outline the outcome of the strategy refresh he led with the Board. This work builds on the strategic choices made over recent years, accelerating market and customer opportunities which will increase asset utilisation and generate returns from our current investments.

I also want to thank all staff for their commitment and hard work over the year. In particular, I want to thank our CFO Rob Stowell who has worked tirelessly for the company. His knowledge of Synlait, built over the last 15 years, is invaluable. Rob has personally led the actions required to improve our balance sheet, and we are exiting this year with strong operating cashflows and lower debt.

Thanks also to our farming families for your continued support. It has been a tough couple of years for us all.

Lastly, I would like to acknowledge the work and commitment of our Board. Times like this often require unreasonable amounts of time from Directors. We are fortunate to have a strong, experienced team who have leaned into the challenge of returning Synlait to financial strength and growth.

Synlait has always been a company committed to growing into the significant opportunities we see in the international dairy industry. Despite the company's reset over the past year, we have many new and exciting prospects in our immediate future. At the end of FY23, the company will have completed its two-year recovery plan. As previously indicated, we intend to exit FY23 and enter FY24 with a similar level of profitability experienced before FY21. A full copy of our guidance statement can be found on page 27 of the accompanying Investor Presentation.

The past year has been an important period of refocusing and ensuring we have the right team, are focused on the right opportunities, and have the right resources to succeed. I look forward to your continued support as we work together to make our contribution to healthier people and a healthier planet.

Dr. John Penno
Co-Founder and Chair

OUR NEW MULTINATIONAL CUSTOMER AT SYNLAIT POKENO

Product trials are progressing, and our facilities are in the final stages of commissioning. There have been no material changes to previously communicated CAPEX spend or volume expectations across the contract term.

Commercial production starts in early 2023, with product planned for distribution in Southeast Asia during the second quarter of 2023. Our distribution markets have expanded to include Australia and New Zealand by the end of 2023 (calendar year).

We are also pleased to inform you that product trials are commencing towards the end of the 2022 calendar year for new products in the clinical nutrition category.

Construction at Synlait Pokeno for our new multinational customer has occurred over the last year. Process Systems Specialist Dwaine Henri, Senior Project Manager Carolijn van der Stok, and Production Manager - Dryer 1 Leon van Berkel stand in the space where products will be packaged and stored once construction is completed.

CEO REVIEW

Grant Watson

KEY TAKEAWAYS FROM THE RESULT

- Return to robust profitability on track – EBITDA up $91.8m to $129.1m.
- Balance sheet returned to normal metrics (net debt to EBITDA ratio of 2.6x) enabled by strong operating cashflows and inventory reduction.
- Review of Synlait strategy and Executive Leadership Team structure completed.
- SAP successfully implemented in August.
- Commercial production to start in early 2023 for Synlait Pokeno's multinational customer.
- Launch of Foodservice cream in China under JOYHANA brand in partnership with SAVENCIA Group.

All delivered while navigating Omicron. Our team's commitment to keeping our people safe, keeping their families safe, and keeping our facilities running was inspiring. Our response resulted in no more than 5.8% of our team being out of action with COVID-19 at any one time.

Kia ora shareholders

I would like to extend a massive thank you to our staff and farmer suppliers. It has been a challenging time with the transmission of the Omicron variant of COVID-19 throughout New Zealand over the past six months. While managing the health and well-being of ourselves and our families, we have made significant progress across the business. We have refreshed our strategy, realigned our organisational structure, and started adapting to a post-pandemic world. Our improved financial performance would not be possible without your hard work and desire to do things differently, an approach evident across the entire business. Thank you!

Progress

Reflecting on the past eight months since I joined Synlait, it has been energising and rewarding and given our ambitious agenda, it has also been somewhat relentless. Given the significant change at Synlait over the last two years, it was time to review and refresh our strategy to ensure it remained fit for purpose. Our refreshed strategy will transition us to an organisation with greater focus and accountability, which is essential for us to achieve our growth ambitions.

At the half year result, I shared our priorities for the second half of the 2022 financial year (FY22):

1. Deliver critical projects.
2. Ensure readiness to successfully commence commercial production at Pokeno for Synlait's new multinational customer.
3. Navigate Omicron's impact on our workforce and supply chains.
4. Review and refresh Synlait's strategy to ensure it is fit for purpose and focused.
5. Rebuild our team and culture following a period of constant change and reorganisation.

I have summarised our key achievements in each of these areas below.

1. Deliver critical projects

Successfully renew the State Administration for Market Regulation (SAMR) licence for The a2 Milk Company's Chinese labelled 至初® Infant Formula.

We received notification from SAMR earlier this month that our current registration had been renewed. The renewal allows us to manufacture Chinese labelled 至初® Infant Formula until 21 February 2023 under the previous GB (food safety) standard.

In parallel, we are working towards achieving re-registration under the new GB legislation. However, China's COVID-19 lockdowns have impacted the new GB registration timeline and process. We had previously disclosed that a re-registration decision was expected by the end of this calendar year. I acknowledge that this delay is disappointing, and that our shareholders are seeking certainty around this topic.

Engagement with SAMR and Ministry for Primary Industries officials is, however, very positive. Gaining re-registration for the new GB recipe is a top priority for Synlait and The a2 Milk Company. We are jointly working on stock transition plans and do not anticipate currently forecasted volumes of China-label a2 Platinum® Infant Formula to be impacted.

Successfully implement SAP in August 2022.

We are two months into operating with an SAP Enterprise Resource Management system. The cutover process was successful on balance, and there has been enthusiastic commitment from our staff to adapt to our new ways of working.

Alongside the additional support provided to all staff, we have seen teams working more closely together with a significant increase in collaboration. An integrated SAP system for Synlait moves us one step closer to being a process-enabled business. It means our teams better understand that every action we take has upstream and downstream implications. It means the data we hold in SAP is the one source of truth. It means we will deliver greater efficiency and productivity.

From the end of September, we move into a stabilisation period. Our support teams, made up of functional consultants and additional business support, will continue during this phase. The focus from this point will continue to be on the business building a deeper understanding of how all Synlait's end-to-end processes work together. We will remain on this transformation journey for some time as we iron out a range of the issues that will inevitably arise. We are very focused on delivering the benefits that come with SAP.

2. **Ensure readiness to successfully commence commercial production at Pokeno for Synlait's new multinational customer**

The project overall is on track. Product trials are progressing, and our facilities are in the final stages of commissioning. There have been no material changes to previously communicated CAPEX spend or volume expectations across the contract term. Commercial production starts in early 2023, with product planned for distribution in Southeast Asia during the second quarter. Our distribution markets have expanded to include Australia and New Zealand by the end of 2023 (calendar year).

We are also pleased to inform you that product trials are commencing towards the end of the 2022 calendar year for new products in the clinical nutrition category.

3. **Navigate COVID-19's impact on our workforce and supply chains**

Our team's commitment to keeping our people safe, keeping their families safe, and keeping our facilities running during the pandemic was inspiring. Our response resulted in no more than 5.8% of our team being out of action with COVID-19 at any one time, validating that our daily rapid antigen testing programme and onsite policies and procedures were extremely effective controls.

Our procurement and supply chain teams have also done a fantastic job of actively managing raw product inventory levels and shipping finished products, given the global supply chain challenges, to ensure we could meet customer demand.

As an additional precaution during New Zealand's Omicron outbreak, all staff would undergo daily rapid antigen testing on entry to our sites. Here a staff member is tested by our Health and Safety Team on arrival at work.

NEW EXECUTIVE LEADERSHIP TEAM STRUCTURE

Grant Watson
Chief Executive Officer

Rob Stowell
Chief Financial Officer

Tim Carter
CEO Dairyworks and Director of Consumer

Adam Maxwell
Director of Ingredients

Ruth Leary
Acting Director of Advanced Nutrition

Nigel Macdonald
Director of Operations

Dr Suzan Horst
Director of Quality, Regulatory and Laboratory

Boyd Williams
Director of People and Culture

In Progress
President China and Director of Foodservice

In Progress
Director of On-Farm Excellence and Business Sustainability

In Progress
Director of Strategy, Innovation and Corporate Affairs

4. **Rebuild our team and culture following a period of constant change and reorganisation**

Staff engagement

In my first month, I asked our staff to complete a Start, Stop and Continue Survey. It was important to gain everyone's perspective on what they thought was working well, what needed to improve, and what was missing at a company-wide level.

It was an invaluable way of capturing feedback from all staff. Key themes centred around a workforce stabilisation plan, which included tangible actions such as actively promoting internal talent, creating a performance accountability framework, and proactively sharing business performance to re-establish confidence after a challenging period. Our engagement results with staff demonstrate progress; however, we still have a way to go after an intense period of change and instability.

Starting with our Executive Leadership Team (ELT), we are resetting our health, safety, and well-being performance, which includes improving mindsets and behaviours and increasing organisational capability.

Farmer supplier engagement

I have thoroughly enjoyed getting to know our dedicated and loyal farmer suppliers. Delivering a competitive advantage for our farmer suppliers is critical to Synlait's success. It is not just about milk price and cash flow. It is about ensuring we add real value on-farm, create close working relationships throughout the supply chain from farmer suppliers to customers, and share a joint vision.

To make this vision real, I have spent time understanding what is important to our farmer suppliers. We completed the same Start, Stop and Continue Survey with farmer suppliers as we did with staff to support this. As a result, the responsibility for Milk Supply was elevated to our ELT as part of our refreshed strategy and structure. We have also developed an On-Farm Excellence workstream which encompasses cashflow and payment systems, digital tools, industry, community and farmer engagement and our Lead With Pride™ and Made With Better Milk programmes.

In line with the refreshed strategy changes (discussed on the next page), we announced an updated ELT structure. It will enable a greater focus on the Ingredients and Advanced Nutrition businesses and introduces a dedicated Foodservice business to increase the emphasis on this channel, and the China market more broadly.

Two new roles join the ELT. As mentioned, the Director of On-Farm Excellence and Business Sustainability will concentrate on the importance of milk supply, on-farm excellence, and sustainability to ensure our milk pools remain highly competitive while continuing to accelerate our sustainability targets on and off-farm. And aligned across all business units, the Director of Strategy, Innovation and Corporate Affairs will be responsible for Strategy development, Integrated Business Planning, Innovation, and Corporate Affairs.

As part of these changes, we welcomed Adam Maxwell to the ELT as Director of Ingredients. Adam was our Head of Ingredients and has played a critical role in the recovery of this business unit. Before Synlait, he was GM, Marketing and Sales at Dairyworks.

Underpinning these structural changes, we will introduce a high-performance framework to instil a greater level of accountability from the ELT down through our organisation.

We farewelled Martijn Jager, Hamish Reid, Deborah Marris, and Chris France from our ELT during the year. Each of them played a significant role in our growth story and left with our best wishes.

SYNLAIT'S STRATEGY FY23 – FY27

Our Purpose – *Doing Milk Differently For A Healthier World*

AMBITION
TO FY27

- B Corp™ Score of 115
- Farmer Net Promoter Score Top Quartile
- IWS Level 3
- Customer Net Promoter Score Top Quartile
- Return on Capital 15%
- Staff Engagement Top Quartile

RIGHT TO PLAY
OUR STRONG FOUNDATIONS

- Food Safety and Quality
- Regulatory
- Nutritionals Know-How
- Surety of Supply
- Efficient Manufacturing
- Sustainability Credentials

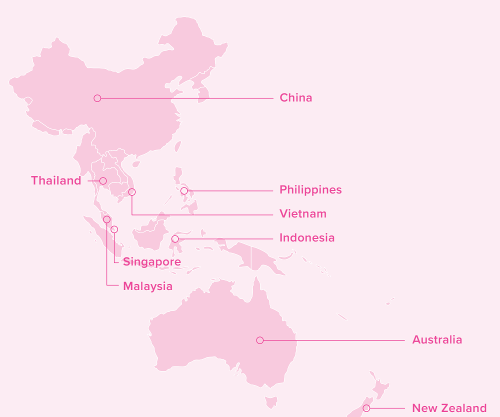
CHANNELS
OUR FOCUS BUSINESS TYPES

- Consumer
- Foodservice
- Manufacturing

CATEGORIES
OUR FOCUS PRODUCTS

- Milk Powder
- Beverages and Cream
- AMF and Butter
- Cheese
- Infant and Adult Nutrition
- Lactoferrin

GEOGRAPHIES
OUR GROWTH MARKETS



RIGHT TO WIN
OUR COMPETITIVE ADVANTAGE MODEL

FARMER SUPPLIERS

RIGHT TO WIN
OUR COMPETITIVE ADVANTAGE MODEL

CUSTOMERS

KEY ENABLERS
OF EXECUTION

- On-Farm Excellence
- Customer Engagement
- Disciplined NPD and NTD
- Employer of Choice
- Systems, Tools and Processes
- Manufacturing and Supply Chain

5. **Review and refresh Synlait's strategy to ensure it is fit for purpose and focused.**

   Our strategy refresh process ran from March to June and included a bottom-up review across our four business units. These business unit strategies have formed our consolidated Synlait strategy, which is summarised on the previous page.

   Our refreshed strategy clearly articulates what success looks like in FY27, what our right-to-play is (the strength of our foundations), how we gain competitive advantage (customer and farmer supplier right-to-win models), and most importantly, how we deliver executional excellence across our entire business (six key enablers).

   Our focus across channels, categories and geographies will ensure we reduce concentration risk and deliver diversified growth. In addition, we have increased our strategic focus across Milk Supply, Foodservice, and the China market.

   I am proud of the robust process we followed with our ELT and the Board to complete this work. Our strategy refresh is key to creating greater focus and accountability across Synlait. Over the next nine months, we will further refine our strategy as a part of the FY24 strategy review cycle.

Now that we have a clear strategy and the right structure, our focus turns to delivering a far greater level of execution.

Performance

You can find a complete summary of our financial performance on pages 46 to 115 of this Annual Report or in the accompanying Investor Presentation. In summary, Synlait is on track to return to robust profitability with our EBITDA up $91.8 million to $129.1 million and net profit after tax up $67.0 million to $38.5 million. Our balance sheet has also returned to normal metrics with a net debt to EBITDA ratio of 2.6x, enabled by strong operating cashflows and inventory reduction. It has been pleasing to see the outcomes of our financial and strategic reviews and corresponding work plans come to fruition sooner than expected in the face of a challenging trading environment.

Continuing to improve our operational performance and determining plans for our Temuka cheese plant are critical areas of focus for us in FY23 and beyond. You can read Synlait's complete FY23 guidance statement in the accompanying Investor Presentation released with this Annual Report.

Thanks

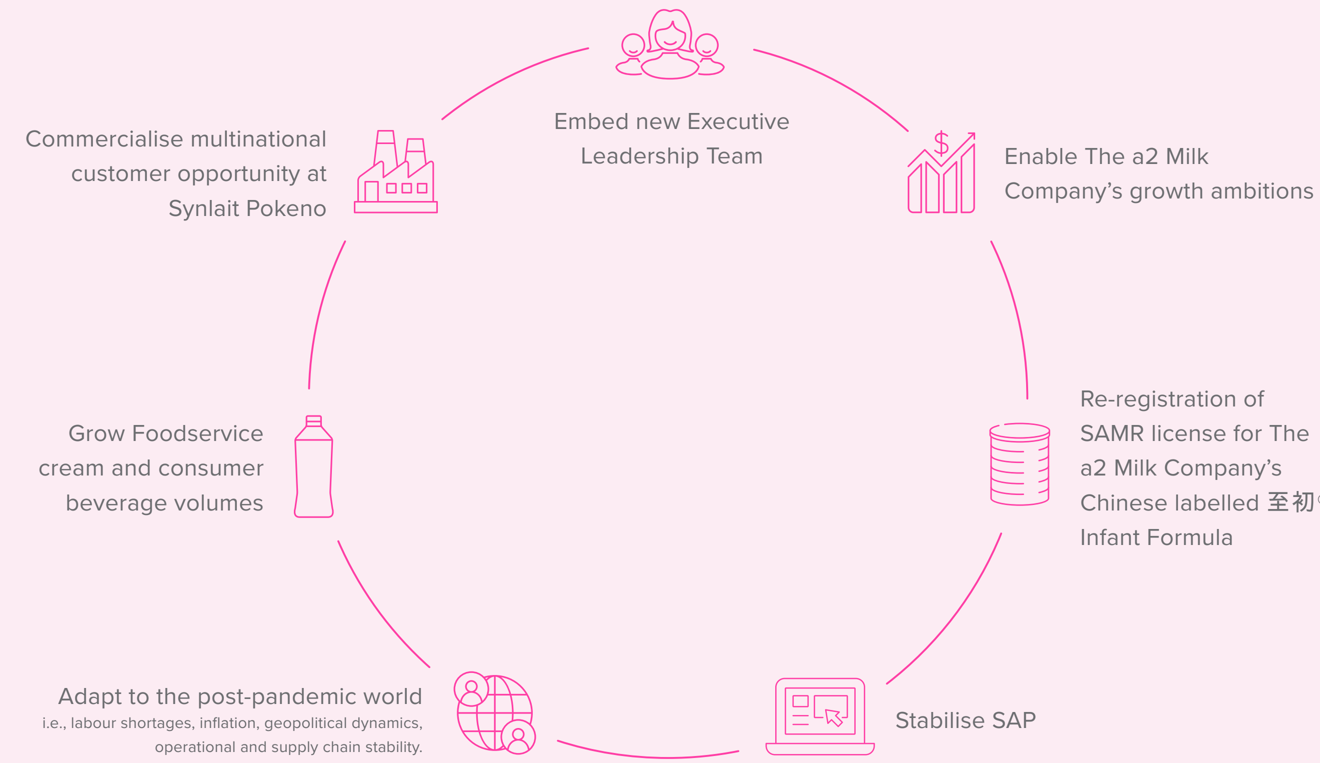
Our work is far from done. We have made progress across strategy, structure, capability, culture, and execution, and Synlait is well positioned as we enter the second year of our recovery. However, there is a great deal more to do. Continuing to strengthen our foundations will ensure we deliver improved financial performance for shareholders and continue to make Synlait a great place to work for our staff.

Thank you again to our staff, Board and farmer suppliers for your passion and commitment towards *Doing Milk Differently For A Healthier World*. Finally, thank you to our shareholders for your continued support. I look forward to meeting more of you at our Annual Meeting in December.

Ngā mihi nui

Grant Watson
CEO

OUR PRIORITIES FOR FY23



You can read Synlait's complete FY23 guidance statement in the accompanying Investor Presentation released with this Annual Report.

Head of South Island Milk Supply Juliette Maitland welcomes our farmer suppliers to Synlait's annual winter event in Christchurch in July.

FARMER SUPPLIER CONFERENCES AND DAIRY HONOURS AWARDS

We bring our farmer suppliers together at an annual winter event designed to update them about what is happening at Synlait and celebrate their successes at the Dairy Honours Awards. Congratulations to our 2022 award winners!

DOING MILK DIFFERENTLY AWARD

Dewhirst Land Company Ltd

FOR A HEALTHIER WORLD AWARD

Hendersons Farm

KOTAHITANGA AWARD

Kokura Holdings Ltd

QUALITY BY DESIGN AWARD

Landcorp Farming Ltd Pamu

SUPREME LEAD WITH PRIDE™ AWARD

North Island: Green Grass Ltd
South Island: Craigmore Farming

GREENHOUSE GAS AWARD

North Island: Handy Farm
South Island: Phil and Joss Everest

BEST MILK QUALITY AWARD

North Island: Handy Farm
South Island: L&P Dairies

BEST MILK QUALITY AWARD

WEIGHTED BY FARM SIZE

North Island: Handy Farm
South Island: L&P Dairies

LOWEST SOMATIC CELL COUNT AWARD

North Island: MJ & G O'Sullivan
South Island: L&P Dairies

DairyHonours
AWARDS 2022

OUR BOARD

Dr. John Penno
Chair

Simon Robertson

Sam Knowles

Paul McGilvary

Min Chen

Dr. Gui Min

Sihang Yang

Hon. Ruth Richardson

OUR EXECUTIVE LEADERSHIP TEAM

Grant Watson
Chief Executive Officer

Rob Stowell
Chief Financial Officer

Tim Carter
CEO Dairyworks and Director of Consumer

Adam Maxwell
Director of Ingredients

Ruth Leary
Acting Director of Advanced Nutrition

Nigel Macdonald
Director of Operations

Dr Suzan Horst
Director of Quality, Regulatory and Laboratory

Boyd Williams
Director of People and Culture

Synlait continues its executive search for three additional Executive Leadership Team roles.

The President China and Director of Foodservice role will be Shanghai-based and provide increased emphasis on this channel and the China market. The Director of On-Farm Excellence and Business Sustainability will concentrate on the importance of milk supply, on-farm excellence, and sustainability to ensure our milk pool remains highly competitive while accelerating Synlait towards its sustainability targets. The Director of Strategy, Innovation and Corporate Affairs role will be responsible for strategy development, integrated business planning, Innovation, and Corporate Affairs.

Appointments will be announced as they are made.

SYNLAIT POKENO – DRYER 1

Synlait Pokeno was commissioned during the 2020 financial year. It is Synlait's second infant-capable powder manufacturing facility. It has enabled Synlait to grow and reduce its risk profile by diversifying processing facilities and milk pools beyond Synlait Dunsandel.

SYNLAIT POKENO'S KEY METRICS

Facility	Capacity	Output
Dryer	45,000 MT	• Infant formula base powder • Infant grade whole milk powder • Skim milk powder
Wetmix Kitchen	45,000 MT	

More than 100 Synlait Support Champions have been on the ground daily to support the transition to SAP. With key system and process knowledge, Support Champions have been the first point of call for staff to ask questions and get quick resolutions as needed. Support Champions Corinna Breig and Alex Oreta speak with Maintenance Engineer Connor Keenan at Dunsandel.

SYNLAIT IS TWO MONTHS INTO SAP

We are two months into operating with an SAP Enterprise Resource Management system. The cutover process was successful on balance, and there has been enthusiastic commitment from our staff to adapt to our new ways of working.

Alongside the additional support provided to all staff, we have seen teams working more closely together with a significant increase in collaboration. An integrated SAP system for Synlait moves us one step closer to being a process-enabled business. It means our teams better understand that every action we take has upstream and downstream implications. It means the data we hold in SAP is the one source of truth. It means we will deliver greater efficiency and productivity.

From the end of September, we move into a stabilisation period. Our support teams, made up of functional consultants and additional business support, will continue during this phase. The focus from this point will continue to be on the business building a deeper understanding of how all Synlait's end-to-end processes work together. We will remain on this transformation journey for some time as we iron out a range of the issues that will inevitably arise. We are now focused on delivering the benefits that come with SAP.

CFO REVIEW

Rob Stowell

Kia ora shareholders

Here is a summary of Synlait's financial result for the 12 months ended 31 July 2022. Our performance is detailed under our four business units:

INGREDIENTS

Whole milk powder (WMP), skim milk powder (SMP), anhydrous milk fat (AMF), and butter milk powder (BMP).

NUTRITIONALS

Consumer-packaged nutritional products, infant formula base powder, and lactoferrin.

BEVERAGES AND CREAM

Fresh milk and cream, and UHT (ultra-heat treated) products.

CONSUMER FOODS

Cheese, butter, and other consumer foods.

FINANCIAL PERFORMANCE

Sales and gross profit performance

Total revenues of $1,660.6 million are up $293.3 million or 21%, driven largely by higher ingredients commodity prices and volumes. Total sales volumes of 225,773 MT are 3% higher due to the sell down of excess inventories which were on hand at the end of FY21 due to international shipping delays. The inventory rebalancing from The a2 Milk Company caused by the COVID-19 pandemic in FY21 means our product mix is currently still heavily weighted to Ingredients in FY22. However, we expect this to start to move back towards Nutritionals in FY23 and beyond.

Sales (metric tonnes)	FY22	FY21	Change %
Ingredients	132,481	125,914	5%
Nutritionals	33,506	34,362	(2%)
Beverages and Cream	31,972	31,500	1%
Consumer Foods	27,814	26,983	3%
Total	**225,773**	**218,759**	**3%**

Gross profit by business unit[1]

		Ingredients	Nutritionals	Beverages and Cream	Consumer Foods	Total
FY22	Sales Volume (MT)	132,481	33,506	31,972	27,814	225,773
	Gross Profit ($ millions)	57.5	70.0	(1.4)	22.8	148.9
	Gross Profit/MT	434.0	2,089.0	(44.6)	818.5	659.2
FY21	Sales Volume (MT)	125,914	34,362	31,500	26,983	218,759
	Gross Profit ($ millions)	14.5	42.8	(4.9)	15.3	67.7
	Gross Profit/MT	115.1	1,246.2	(154.2)	567.8	309.8
% Change	Sales Volume	5%	(2%)	1%	3%	3%
	Gross Profit ($ millions)	297%	64%	71%	49%	120%
	Gross Profit/MT	277%	68%	71%	44%	113%

Ingredients

Ingredients sales remained at higher-than-normal levels as we sold down excess inventories on hand at the end of FY21 and continued to produce ingredients at above historical (FY20 and earlier) levels because of the slow recovery of demand.

Ingredients sales increased 5% to 132,481 MT and gross profit per MT improved by 277% to $434/MT. A focus on sales premiums and phasing, optimising product mix in favour of the SMP/AMF lead-bucket, and favourable FX cover contributed to the improved FY22 result. The result was also helped by cost reductions in operations carried out in the first half of FY22.

[1] Gross profit not attributable to business units is not included.

FINANCIAL PERFORMANCE (CONTINUED)

Despite ingredients production at higher than historical levels, production compared to FY21 decreased by 12% to 122,330 MT because of increased production of infant base powder displacing ingredients production, and our milk supply being down 4% due to poor weather conditions.

Nutritionals

Nutritionals sales volumes fell 2% to 33,506 MT driven largely by The a2 Milk Company's rebalancing of inventory levels. Nutritionals gross profit per MT increased 68% to $2,089 due to higher recoveries of manufacturing overheads as we increased production of infant formula base powders, driving an overall production increase of 48% to 31,016 MT. Nutritionals margins also benefited from cost reductions in operations and a strong FX position.

Our lactoferrin business continues to perform with sales increasing 4 MT or 12% to 37 MT driven by increased production, stable pricing, and steady demand.

Beverages and Cream

Sales volumes were largely consistent with FY21 as we faced delays with the launch of new product developments. Our focus continues to be on developing and nurturing new high-value, future focused products for the Oceania and China markets.

We expect volumes and profitability to begin lifting in FY23 as we launch our JOYHANA branded UHT cream product in China in Q1 FY23, and also begin commercialising a UHT coffee beverage product for an existing multinational customer. The single-serve, ready-to-drink, on-the-go product, will be distributed across New Zealand and Australia. Volumes depend on rate-of-sale as it is a new consumer product.

Overall, the beverages and creams business delivered a gross margin loss of ($1.4) million, $3.5 million favourable to FY21 because of cost saving initiatives and updated pricing to reflect the higher milk prices encountered in the 2021/2022 milk season.

Consumer Foods

Synlait enjoyed another year of solid performance from its Dairyworks subsidiary, whose gross profit increased 49% or $7.5 million to $22.8 million. While sales volumes increased only slightly by 3% to 27,814 MT, we were pleased with the underlying performance of the core cheese business. Contributing to the improved margins were strong commodity procurement gains, the implementation of a new consolidated cool store and distribution centre, and the idling of the Temuka cheese plant.

New product development continued with the launch of Dairyworks branded fresh milk, spreadable butter, and the refreshed Talbot Forest Cheese brand which received several packaging and design awards leading to the launch of the brand in Australia with Woolworths as the exclusive retailer. Cashflow returned from Dairyworks to Synlait was outstanding for the year because of much reduced working capital for the business with reductions in inventory and the implementation of a receivables assignment programme. Dairyworks' EBITDA contribution was 75% higher at $18.0 million.

Milk price and milk supply

Raw milk remains our most significant component of cost of goods sold.

Our final base milk price for the 2021/22 season is $9.30 per kgMS, compared to the 2020/21 base milk price of $7.55 per kgMS. We paid an additional $0.29 per kgMS in incentive and premium payments through a2, Lead With Pride™ and winter milk payments, increasing the average total milk price to $9.59 per kgMS, compared with $7.82 per kgMS in 2020/21. This increase resulted in our contracted suppliers receiving a total of $23.8 million in additional value-added premiums in the 2021/22 season, compared to $23.5 million in 2020/21.

We received 83.0 million kgMS from our contracted suppliers, 3.8 million kgMS less than FY21, as a challenging season due to poor weather conditions saw reduced production from our suppliers. We also sold (net) 4.1 million kgMS over the season, resulting in an overall 5% or 3.8 million kgMS decrease in milk processed in FY22. The milk sales allowed us to manage our strategic relationships with other North Island processors, maximise the SMP/AMF lead-bucket and optimise dryer capacity during peak milk months.

Average reference commodity prices started the season strongly, falling away until August, increasing sharply through to March, before falling again for the remainder of the season. The average reference basket price in the 2021/22 season increased to USD$4,119, a 23% increase vs the 2020/21 season. This increase is the key contributor to the $1.75 per kgMS increase in the average base milk price paid to our suppliers in 2021/22.

Overhead expenditure

Overhead expenses increased $3.5 million to $92.3 million. The most significant drivers were higher distribution costs ($1.9 million higher), employee costs ($1.6 million higher), and information services costs ($1.5 million higher).

Distribution costs increased because of higher freight costs and volumes shipped while employee cost increases were driven by higher than anticipated staff cover during COVID-19 and a general out-of-cycle increase to all employees of 3% given in May to reflect market movements and to recognise employees' hard work during COVID-19. Non-capitalisable costs relating to our SAP implementation project drove an increase in information services costs and also contributed to the increase in employee costs. Higher COVID-19 protection costs of $0.9 million due to the Omicron outbreak and one-time marketing initiative (Talbot Forest Cheese re-brand and launch of Made With Better Milk) costs of $1.3 million also contributed to the increase.

These cost increases were offset by across-the-board savings of $3.7 million achieved through the cost reduction initiatives which were carried out in the first half of FY22.

FINANCIAL PERFORMANCE (CONTINUED)

EBITDA

Earnings before interest, tax, depreciation (including non-cash impairment of property, plant, and equipment) and amortisation (EBITDA) increased $91.8 million or 246% to $129.1 million.

$ million	FY22	FY21
Profit before tax	41.6	(39.2)
Add back: net financing costs	21.0	21.5
EBIT	**62.6**	**(17.7)**
Add back: depreciation and amortisation (including non-cash impairment)	66.5	55.0
EBITDA	**129.1**	**37.3**
Less: gain on sale and leaseback	(11.9)	-
EBITDA (adjusted)	**117.2**	**37.3**

Net financing costs

Net financing costs decreased 2.3% to $21.0 million.

$ million	FY22	FY21	Change
Gross term debt interest	(16.6)	(16.2)	(0.4)
Less capitalised interest	5.6	2.3	3.3
Net term funding interest	**(11.0)**	**(13.9)**	**2.9**
Working capital funding interest	(6.6)	(6.0)	(0.6)
Interest received	0.1	0.0	0.1
Loss on derecognition of financial assets	(2.4)	(1.0)	(1.4)
Net short-term funding interest	**(8.9)**	**(7.0)**	**(1.9)**
Interest on lease liabilities	(1.1)	(0.6)	(0.5)
Net finance costs	**(21.0)**	**(21.5)**	**0.5**

The $0.5 million decrease in net financing costs is due to an increase in capitalised interest, partially offset by increased interest costs on our debt facilities.

Gross interest on term debt increased by $0.4 million to $16.6 million with higher interest rates offset by lower average debt balances. Capitalised interest increased by $3.3 million to $5.6 million.

Working capital funding interest rose $0.6 million due to rising interest rates during the FY22 fiscal year with some offset from lower debt.

Loss on derecognition of financial assets is the financing cost associated with our receivables financing programme. It increased $1.4 million to $2.4 million because of higher interest rates combined with higher utilisation including new receivables purchase agreements.

Synlait incurred $1.1 million interest on lease liabilities, up $0.5 million.

Foreign exchange

Management of foreign exchange exposure is one of Synlait's key risks with many product sales being to overseas markets, creating a primarily USD exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average New Zealand Dollar (NZD/USD) exchange rate for the year. In FY22 we achieved a net annual average NZD/USD export exchange rate of 0.6732 (FY21: 0.6659).

Earnings per share and return on capital employed

Our reported basic and diluted earnings per share (EPS) was 17.62 cents and 17.58 cents respectively, against (13.77) cents and (13.77) cents in FY21. The dilutive shares are basic EPS adjusted for contingently issuable shares in accordance with our employee share scheme. Synlait also generated a pre-tax return on average capital employed of 5.4% in FY22 compared with (1.5%) in FY21.

FINANCIAL POSITION

Overview

Synlait actively managed its working capital – with a focus on improving working capital management and reducing capital expenditure which together delivered a $137.5 million reduction to net debt.

Our reported net profit after tax of $38.5 million has increased total retained earnings to $332.1 million from $293.6 million. Total shareholders' equity decreased to $748.4 million because of the net adverse movement in hedging reserves exceeding profit after tax by $18.9 million.

We also successfully extended our working capital facility in September with continued and appreciated support from the banking syndicate.

Trade and other receivables

At $91.1 million, trade and other receivables decreased by $17.3 million. The decrease primarily relates to an increase in the balance of receivables assigned at 31 July 2022 with more customers entering into receivables assignment agreements during the year. The balance of receivables assigned as at 31 July 2022 was $175.6 million, an increase of $63.2 million.

Inventories

Our inventory holdings reduced $38 million to $232.9 million. Base infant formula and consumer-packaged infant formula holdings volumes reduced 24% representing our focus on working capital management. Holdings of ingredients decreased significantly as the prior year closed with substantial excess volumes from difficulties faced shipping product because of the COVID-19 pandemic. Reductions in holdings of work in progress and finished goods have been partially offset by this year's higher milk price. Conversely our raw materials volumes increased as we face difficulty with longer lead times.

	FY22		FY21	
	$ million	MT	$ million	MT
Synlait Milk Limited	192.3	32,762*	216.7	41,099*
Dairyworks Limited	40.6	4,576*	54.2	6,955*
Total	232.9	37,338	270.9	48,054

* Inventory not measured in metric tonnes is excluded as not material to our volumes.

Raw material inventories at $95.8 million (17,738 MT) increased on the prior year (FY21: $74.4 million, 13,733 MT) primarily due to extended lead times following disruption to global supply chains.

Work in progress, reduced to $56.7 million (7,934 MT) from prior year (FY21: $84.2 million, 12,896 MT) due to lower holdings of infant base powder and the idling of the Temuka cheese plant.

Finished goods inventory decreased to $80.4 million (FY21: $112.3 million) with tonnage decreasing to 11,666 MT (FY21: 21,425 MT). As noted above, this relates to a significantly lower holding of ingredients products, and a slightly lower volume of our nutritional products.

Inventories were reviewed for impairment, resulting in a stock impairment provision totalling $6.2 million (FY21: $8.3 million). $2.2 million is attributable to finished goods (FY21: $3.6 million), $0.7 million attributable to work in progress (FY21: $4.0 million) and $3.3 million attributable to raw materials (FY21: $0.7 million). We have no onerous contracts provision in FY22 (FY21: $2.1 million).

Property, plant and equipment

Property, plant, and equipment at $1,015.9 million, is down $11.3 million. The decrease is a consequence of total capital expenditure of $61.5 million, less depreciation of $47.2 million, impairment of $12.2 million, and net disposals of $13.4 million.

The capital expenditure of $61.5 million primarily relates to the Synlait Pokeno processing modifications project for our new multinational customer with $43.0 million of total spend in FY22 for total project to date spend of $81.0 million.

Operational capital expenditure decreased to $18.3 million from $24.7 million.

The impairment charge of $12.2 million relates to the continued idling of our Temuka cheese plant. We continue to evaluate plans for resumptions of operations, however the continued idling with consideration of relevant accounting standards constituted an indicator of impairment and resulted in us taking an impairment charge in FY22. Net disposals of $13.4 million relate primarily to our Auckland land and building which we sold and leased back in the year resulting in total proceeds of $30.1 million.

Intangible assets also increased by $33.8 million. The increase was primarily the result of our SAP ERP implementation project which went live in August, for which total project to date spend was $57.5 million.

We also recognised biological assets in the year with $3.3 million spent to acquire livestock (dairy cows) for our Dunsandel farming operation.

Trade and other payables

Trade and other payables at $323.1 million are up $59.1 million. This is largely driven by an increase in raw materials purchases arriving late in July due to supply chain delays and an increase in general trade payables and accruals.

Operating cash flows and total net debt

Operating cash flows came in at a record high of $232.9 million, up $214.5 million on FY21. The increase in cash flow is attributed to the increase in profitability year-on-year, favourable working capital movements with decreases in inventory and receivables, increased payables, and reduced capital spend. Total net debt (excluding lease liabilities) at year end, including current and term debt facilities less cash on hand, was $341.9 million, a decrease of $137.5 million.

FINANCIAL POSITION (CONTINUED)

$ million	FY22	FY21
Current debt	58.9	33.3
Term debt (carrying amount)	295.6	459.6
Transaction costs	1.9	2.5
Cash on hand	(14.5)	(16.0)
Total net debt (excluding lease liabilities)	**341.9**	**479.4**

Cash outflow from investing activities totalled $65.6 million, a decrease of $73.7 million. As noted, spend included modifications at Synlait Pokeno to service our new multinational customer and further spend on our SAP project which went live in August. Synlait also completed the sale and leaseback of its Auckland premises providing cash inflow of $30.5 million. Interest paid and repayment of lease liabilities totalled $30.1 million, up $2.5 million on prior year.

With net debt of $341.9 million, our gearing (net debt/net debt + equity) is 30.0% (FY21: 38.7%) and our adjusted leverage (net debt/EBITDA) is 2.9x (unadjusted: 2.6x) down from 12.9x in FY21.

Derivatives

At 31 July 2022 we held USD$800.7 million (net), AUD$9.7 million and EUR€1.1 million in foreign exchange contracts as detailed in note 18 of the Financial Statements. These have been placed across a 24-month future period, in accordance with our Treasury Policy.

Given the depreciation in the NZD/USD exchange rate across the last 24 months, we have mark to market unrealised losses associated with these contracts at year-end of $49.5 million after tax, a movement of ($59.9) million after tax. As our foreign exchange contracts hedge against future USD receipts and payments, this unrealised loss is recognised in other reserves in equity rather than through the income statement. The impact of these foreign exchange contracts will play out in the periods in which they mature, and they will form part of our annual average NZD/USD exchange rate in those periods.

We also have in place a nominal balance of $40.0 million of interest rate swap agreements at year-end (FY21: $40.0 million) at various weighted average interest rates. The agreements have unrealised mark to market losses of $0.3 million after tax, a positive movement of $2.2 million after tax on FY21. The movement is a result of the increase in the bank bill rate over the second half of the financial year in line with Reserve Bank of New Zealand Official Cash Rate interest rate increases.

We continue to use dairy commodity derivatives to support the management of the risk of movement in dairy commodity prices. Dairy commodity derivatives with a nominal balance of NZD $12.9 million were in place at year end (FY21: NZD $13.9 million). These derivatives have mark to market unrealised gains of $0.4 million after tax (FY21: $0.2 million).

Most unrealised gains and losses on derivatives detailed above are deferred to the cash flow hedge reserve. Year-on-year there was a ($57.4) million movement in the reserve due to derivative movements from $8.1 million in FY21 to ($49.3) million in FY22. The movement is explained by the decrease in foreign exchange derivatives partially offset by the decrease in interest rate swap agreements loss and increase in value of the dairy derivatives held.

Funding facilities and covenants

Synlait has four syndicated bank facilities in place with ANZ and BNZ:

1. Working Capital Facility – reviewed annually with a year-end facility limit of $250 million.
2. Revolving Credit Facility A – maturing 1 October 2023 with a fixed facility limit of $66.7 million, amortising $33.3 million on 31 July 2023.
3. Revolving Credit Facility B (ESG loan) – maturing 1 October 2023 with a fixed facility limit of $50 million.
4. Revolving Credit Facility C (ESG loan) – maturing 1 October 2023 with a fixed facility limit of $50 million.

In addition to banking facilities, Synlait has an NZX-listed $180 million unsecured, subordinated, fixed rate bond maturing 17 December 2024.

At 31 July 2022, Synlait had five key bank covenants in place within our syndicated bank facility agreement. These were:

1. Interest cover ratio – EBITDA to interest expense of no less than 3.0x.
2. Minimum shareholders' funds – must exceed $600.0 million.
3. Working capital ratio – inventory and debtors to working capital facility outstanding of no less than 1.5x
4. Total debt/EBITDA – total debt to EBITDA is no greater than 4.5x.
5. Senior debt/EBITDA – total debt (excluding subordinated bonds) to EBITDA is no greater than 3.0x.

Synlait was compliant with its bank covenants at all times during the financial year.

Ngā mihi nui

Rob Stowell
CFO

FINANCIAL AND PERFORMANCE METRICS

Key financial metrics[1] Currency as stated (in millions)	FY18	FY19	FY20	FY21	FY22
Income statement					
Revenue	879.0	1,024.3	1,302.0	1,367.3	1660.6
Gross profit	166.5	186.3	203.7	67.3	146.8
EBITDA[2]	138.6	150.8	169.6	37.3	129.1
EBIT[2]	113.0	123.1	122.0	(17.7)	62.6
NPAT	**74.5**	**81.2**	**74.3**	**(28.5)**	**38.5**
Revenue (USD per MT)	4,815	4,384	4,435	4,162	4,952
Gross profit per MT (NZD)	1,294	1,174	1,043	308	650
EBIT per MT sold (NZD)	879	776	625	(81)	277
Net cash from/(used in) operating activities	**98.4**	**136.7**	**103.8**	**15.9**	**232.9**
Balance sheet					
Capital employed	538.9	824.4	1,128.2	1,244.0	1,090.3
Net operating assets[3]	493.1	632.4	1,040.5	1,152.3	995.2
Return on net operating assets	24.6%	21.9%	14.6%	(1.6%)	5.8%
Net return on capital employed (pre-tax)	22.6%	18.0%	12.5%	(1.5%)	5.4%
Debt/debt + equity (excl. derivatives)	20.9%	39.3%	47.2%	38.7%	30.0%
Net debt/EBITDA[5]	0.8	2.2	3.1	12.9	2.6
Earnings per share	**41.55**	**45.33**	**41.45**	**(13.77)**	**17.62**
Average FX conversion rate (NZD:USD)	**0.7047**	**0.6792**	**0.6651**	**0.6659**	**0.6732**
Base milk price	6.65	6.40	7.05	7.55	9.30
Total milk price (kgMs)[4]	**6.78**	**6.58**	**7.30**	**7.82**	**9.59**
Key operational metrics					
Sales (MT)[6]					
Ingredients	86,424	98,499	97,561	125,914	132,481
Nutritionals	42,177	51,231	52,871	34,362	33,506
Beverages and Cream	-	8,947	32,803	31,500	31,972
Consumer Foods	-	-	12,015	26,983	27,814
Total sales (MT)	**128,601**	**158,677**	**195,250**	**218,759**	**225,773**
Production (net production) (MT)[6]					
Ingredients	88,448	96,158	94,188	138,971	122,330
Nutritionals	51,048	50,165	63,857	20,990	31,016
Beverages and Cream	-	9,466	32,893	31,491	31,620
Consumer Foods	-	-	11,850	23,597	21,274
Total production (MT)	**139,496**	**155,789**	**202,788**	**215,049**	**206,240**
Milk purchases ('000 kg MS)					
Milk purchased from contracted supply	63,639	64,189	76,551	86,814	82,978
Milk purchased from other suppliers	(2,854)	1,877	(6,079)	(4,077)	(4,044)
Total milk purchases ('000 kg MS)	**60,785**	**66,066**	**70,472**	**82,737**	**78,934**

1 The group uses several non-GAAP measures when discussing financial performance. Management believes these measures provide useful insight on the performance of the business, to analyse trends and to assist stakeholders in making informed decisions.

2 EBIT is calculated by excluding financing costs and income tax, with EBITDA also excluding depreciation, amortisation, and non-cash impairment accordingly. A reconciliation of EBIT and EBITDA is provided in the CFO Review on page 35.

3 Net operating assets includes current assets, property, plant, and equipment, right-of-use assets, and intangible assets. It deducts trade payables and excludes capital work in progress, derivative balances, loans and borrowings, goodwill, and tax balances.

4 Total milk price for Synlait Milk suppliers on standard milk supply contract, includes value and seasonal premiums. This is a milk season reflective payment that runs 1 June to 31 May.

5 Net debt calculation excludes lease liabilities.

6 Prior period volumes have been restated to conform to current year presentation.

MILK PRICE

This table shows how Synlait takes the milk supplied by our contracted farmer suppliers, values milk components, and makes a pay-out via the average base milk price.

The 2021/22 milk price has not fully been paid out at the time of annual report release, figures represent what has been paid and is accrued to be paid.

It also highlights the incentive payments made to our farmer suppliers in addition to the average base milk price.

This information represents payments made in the milk season which runs 1 June to 31 May as opposed to Synlait's financial year.

For the recently completed 2021/2022 milk season we paid out an average base milk price of $9.30 with an average additional incentive payment of $0.29 per kgMS.

	2017/18	2018/19	2019/20	2020/21	2021/22
kgMS collected	63,616,077	63,438,694	76,550,913	86,812,624	82,865,662
Average fat %	4.86	4.91	4.90	4.90	4.93
Average protein %	3.89	3.92	3.98	3.97	3.98
Average lactose %	4.99	4.99	4.99	4.98	4.97
Volume of components collected (kg)					
Fat	35,289,377	35,270,506	42,252,084	47,954,515	45,849,217
Protein	28,327,076	28,168,188	34,298,829	38,858,109	37,016,444
Lactose	36,221,310	35,894,766	42,977,611	48,760,985	46,179,993
Component value[1]					
Fat	$6.97	$7.36	$8.44	$8.73	$9.43
Protein	$4.63	$4.18	$4.20	$5.02	$7.31
Lactose	$2.03	$1.53	$1.67	$1.68	$2.32
Component value ratio					
Fat	1	1	1	1	1
Protein	0.664	0.567	0.497	0.575	0.775
Lactose	0.291	0.208	0.198	0.193	0.246
Total $ paid per component					
Fat	$245,903,402	$259,645,339	$356,688,641	$418,541,147	$432,333,479
Protein	$131,063,290	$117,657,713	$143,911,349	$194,874,913	$270,614,780
Lactose	$73,377,129	$54,987,988	$71,818,527	$82,136,925	$107,203,660
Volume charge	-$27,289,173	-$26,283,402	-$32,746,784	-$40,117,675	-$39,501,267
Average base milk price[2]	**$6.65**	**$6.40**	**$7.05**	**$7.55**	**$9.30**
Total incentive payment	$8,127,045	$11,530,895	$19,249,791	$23,518,487	$23,801,594
Average incentive payment per kgMS[3]	$0.13	$0.18	$0.25	$0.27	$0.29
Total average Synlait payment per kgMS[4]	**$6.78**	**$6.58**	**$7.30**	**$7.82**	**$9.59**

1 Rounded to two decimal places.

2 Amount paid for components + volume charge/kgMS collected = base milk price.

3 Includes incentives and winter milk premiums.

4 Base milk price + average incentive payment.

FINANCIAL STATEMENTS CONTENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, Dairyworks (Australia) Pty Limited, Synlait Milk (Holdings) No.1 Limited, and Synlait Milk (Dunsandel Farms) Limited (together "the Group") as set out on pages 46-115 for the year ended 31 July 2022.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2022 and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

For and on behalf of the Board.

Dr. John Penno
Chair
27 September 2022

Simon Robertson
Independent Director
27 September 2022

INCOME STATEMENT

For the year ended 31 July 2022

	Notes	2022 $'000	2021 $'000
Revenue	1	1,660,601	1,367,349
Cost of sales	3	(1,513,827)	(1,300,042)
Gross profit		**146,774**	**67,307**
Other income	1	20,306	3,870
Share of loss from associate	21	-	(33)
Sales and distribution expenses	3	(39,423)	(36,791)
Administrative and operating expenses	3	(52,829)	(52,018)
Impairment of Temuka cheese plant assets	8	(12,231)	-
Earnings before net finance costs and income tax		**62,597**	**(17,665)**
Finance expenses	12	(18,730)	(20,488)
Finance income	12	170	44
Loss on derecognition of financial assets	12,5	(2,427)	(1,045)
Net finance costs		**(20,987)**	**(21,489)**
Profit/(loss) before income tax		**41,610**	(39,154)
Income tax (expense)/benefit	20	(3,087)	10,703
Net profit/(loss) after tax for the year		**38,523**	**(28,451)**
Earnings per share			
Basic earnings per share (cents)	15	17.62	(13.77)
Diluted earnings per share (cents)	15	17.58	(13.77)

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2022

	Notes	2022 $'000	2021 $'000
Profit/(loss) for the period		38,523	(28,451)
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	18	(79,701)	(6,330)
Exchange differences on translation of foreign operations		24	10
Income tax benefit on other comprehensive income	20	22,316	1,772
Total items that may be reclassified subsequently to profit and loss		(57,361)	(4,548)
Other comprehensive income for the year, net of tax		(57,361)	(4,548)
Total comprehensive income for the year		(18,838)	(32,999)

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2022

Group	Notes	Share capital $'000	Employee benefits reserve $'000	Hedging reserves $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity $'000
Equity as at 1 August 2020		268,544	1,322	12,647	(12)	322,006	604,507
Profit/(loss) for the year		-	-	-	-	(28,451)	(28,451)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	18	-	-	(6,330)	-	-	(6,330)
Exchange differences on translation of foreign operations		-	-	-	10	-	10
Income tax on other comprehensive income	18,20	-	-	1,772	-	-	1,772
Total other comprehensive income		-	-	(4,558)	10	-	(4,548)
Issue of new shares	15	196,082	-	-	-	-	196,082
Employee benefits reserve	15,16	148	(624)	-	-	-	(476)
Total contributions by and distributions to owners		196,230	(624)	-	-	-	195,606
Equity as at 31 July 2021		464,774	698	8,089	(2)	293,555	767,114
Equity as at 1 August 2021		464,774	698	8,089	(2)	293,555	767,114
Profit/(loss) for the year		-	-	-	-	38,523	38,523
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	18	-	-	(79,701)	-	-	(79,701)
Exchange differences on translation of foreign operations		-	-	-	24	-	24
Income tax on other comprehensive income	18,20	-	-	22,316	-	-	22,316
Total other comprehensive income		-	-	(57,385)	24	-	(57,361)
Employee benefits reserve	15,16	-	120	-	-	-	120
Total contributions by and distributions to owners		-	120	-	-	-	120
Equity as at 31 July 2022		464,774	818	(49,296)	22	332,078	748,396

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 July 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents		14,493	16,020
Trade and other receivables	5	91,096	108,380
Intangible assets	10	2,692	3,712
Goods and services tax refundable		5,649	4,461
Prepayments and income accruals		16,638	14,297
Inventories	6	232,941	270,944
Derivative financial instruments	18,19	6,530	30,943
Current tax asset		554	1,743
Other current assets		-	2,500
Total current assets		**370,593**	**453,000**
Non-current assets			
Property, plant and equipment	8	1,015,860	1,027,149
Biological assets	9	3,892	-
Intangible assets	10	94,467	59,631
Goodwill	10	64,189	64,189
Other investments	21	110	110
Derivative financial instruments	18,19	1,661	53
Right-of-use assets	11	25,205	14,018
Total non-current assets		**1,205,384**	**1,165,150**
Total assets		**1,575,977**	**1,618,150**
LIABILITIES			
Current liabilities			
Trade and other payables	7	323,123	264,068
Loans and borrowings	13	58,885	33,333
Derivative financial instruments	18,19	55,941	10,770
Lease liabilities	11	4,301	3,243
Total current liabilities		**442,250**	**311,414**
Non-current liabilities			
Loans and borrowings	13	295,592	459,584
Deferred tax liabilities	20	41,866	59,433
Derivative financial instruments	18,19	20,573	8,830
Lease liabilities	11	24,750	11,775
Other non-current liabilities	14	2,550	-
Total non-current liabilities		**385,331**	**539,622**
Total liabilities		**827,581**	**851,036**
Equity			
Share capital	15	464,774	464,774
Reserves	17	(48,456)	8,785
Retained earnings	17	332,078	293,555
Total equity attributable to equity holders of the Group		**748,396**	**767,114**
Total liabilities and equity		**1,575,977**	**1,618,150**

The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 July 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Cash receipts from customers		1,711,573	1,327,444
Cash paid for milk purchased		(804,665)	(653,132)
Cash paid to other creditors and employees		(675,834)	(649,876)
Net movement in goods and services tax		(1,188)	1,937
Income tax refunds/(payments)		3,034	(7,979)
Net cash inflow from operating activities	4	**232,920**	**18,394**
Cash flows from investing activities			
Interest received		170	44
Acquisition of property, plant and equipment		(53,855)	(116,163)
Proceeds from sale of property, plant and equipment		30,467	1,102
Acquisition of intangible assets		(39,053)	(26,731)
Proceeds from sale of intangible assets		-	2,450
Acquisition of biological assets		(3,350)	-
Net cash outflow from investing activities		**(65,621)**	**(139,298)**
Cash flows from financing activities			
Repayment of borrowings		(82,500)	(50,000)
Net movement in working capital facility		(56,537)	12,586
Interest paid		(26,051)	(23,108)
Repayment of lease liabilities		(4,079)	(4,499)
Receipt of cash from issue of shares	15	-	196,082
Net cash inflow from financing activities		**(169,167)**	**131,061**
Net (decrease)/increase in cash and cash equivalents		(1,868)	10,157
Cash and cash equivalents at the beginning of the financial year		16,020	5,887
Effects of exchange rate changes on cash and cash equivalents		341	(24)
Cash and cash equivalents at end of year		**14,493**	**16,020**

The accompanying notes form part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

REPORTING ENTITY

The consolidated financial statements (“financial statements”) presented are those of the Group, including Synlait Milk Limited and its subsidiaries Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, Dairyworks (Australia) Pty Limited, Synlait Milk (Holdings) No.1 Limited, and Synlait Milk (Dunsandel Farms) Limited.

Synlait Milk Limited and its subsidiaries are primarily involved in the manufacture and sale of dairy products.

The parent company, Synlait Milk Limited (“the Company”), is a profit oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange and the Australian Securities Exchange. Synlait Milk Limited is an FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards (‘NZ IFRS’) and other applicable Financial Reporting Standards, as applicable for profit oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards (‘IFRS’).

Certain comparative figures have been reclassified during the year for consistency with the current year presentation and in account of trivial rounding differences. These classifications had no effect on the reported results of operations.

The financial statements were authorised for issue by the Directors on 27 September 2022.

Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain items as identified in specific accounting policies.

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (‘the functional currency’). The financial statements are presented in New Zealand Dollars ($), which is the Company’s functional currency and the Group’s presentation currency, and are rounded to the nearest thousand ($’000).

Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Use of accounting estimates and judgements

The preparation of these financial statements in conformity with NZ IFRS requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty and key judgements relate to derecognition of financial assets, the assessment of impairment of inventory and property plant and equipment, and the assessment of impairment for goodwill and any other intangible assets. The individual notes in the financial statements provide additional information.

MATERIAL EVENTS AND OTHER SIGNIFICANT ITEMS

Impairment of Temuka cheese plant assets

The Group has recorded a $12.2m impairment charge against its Temuka cheese manufacturing plant assets in the year ended 31 July 2022. The plant was idled in July 2021 with the intention of resuming operations by July 2023 upon completion of plant modifications which would allow the Group to generate value from whey produced as part of the cheese manufacturing process. However, further progress was delayed while the Group shifted focus to other strategic projects.

The Group continues to plan for the resumption of operations at a slowed rate. It was determined on 27 September 2022 that impairment was required as a result of sufficiently high uncertainty around when operations will resume because of future uncertainty in global cheese markets and a desire to ensure any capital or other resource required for the resumption of operations is first allocated to potential higher returning projects. Refer to note 8 for further information.

Sale and leaseback of Auckland land and building

On 4 October 2021, the Group completed the sale and leaseback of its Auckland land and building located at 89 Richard Pearse Drive which had a book value of $12.6m at the time of sale. Total proceeds were $30.1m resulting in a tax exempt gain on sale of $17.1m (net of transaction costs of $0.4m) of which $11.9m was recognised in other income. Refer to note 11 for further information on this transaction.

MATERIAL EVENTS AND OTHER SIGNIFICANT ITEMS (CONTINUED)

COVID-19

Current global economic conditions continue to be volatile due to the COVID-19 pandemic, which was declared in March 2020. During the period, the highly transmissible Omicron variant of COVID-19 emerged as the dominant strain of COVID-19 globally and within New Zealand. The Group ensured contingency and risk mitigation plans were in place to reduce the impact of COVID-19 on the Group's operations which included but are not limited to: vaccine mandates, mandatory rapid antigen testing at all sites, availability of non-operations staff and management to fill staff shortages, safety stock of key raw materials and packaging inventories, establishment of continuity plans with key suppliers, enhanced hygiene practices and use of personal protective equipment, and mandatory employee distancing.

Ongoing uncertainty around the risk of a resurgence and new variants of COVID-19 and related magnitude, duration and severity could affect the significant estimates and judgements used in the preparation of these financial statements. The Group continues to assess the impact of COVID-19 on all aspects of the Group's operations, supply chain, foreign and domestic regulatory requirements, and financial performance and position, in particular the carrying value of receivables and inventory, the impact of key customer demand on revenue, the timing of receivables collection on cashflows, impairment of assets such as goodwill and intangibles, and any impact from currency volatility on the Group portfolio of derivatives.

China State Administration for Market Regulation (SAMR) licence

On 12 September 2022, the Group extended its current China State Administration for Market Regulation licence, which allows it to produce China label infant formula for sale by The a2 Milk Company, until 21 February 2023.

The Group is currently working towards achieving re-registration of its SAMR licence under new China food safety legislation and requirements. The new registration timeline and process has been impacted by China's COVID-19 lockdowns. The re-registration remains a top priority for the Group and positive and constructive engagement with SAMR officials is ongoing.

Extension of working capital facility

In September 2022 the Group extended its working capital facility which was due to mature on 1 October 2022. The maturity date has been extended to 1 October 2023. Refer to note 13 for further information.

Climate risk

The Group's operations may be impacted by future climate change. These impacts may be physical (e.g. severe or unusual weather patterns and events) or transitional (e.g. changes to government regulations or customer and supplier needs and demands).

The Group regularly assesses its operating environment with regard to the impact of climate change. Specific consideration has been given in these financial statements to the impact of future climate change on the useful lives of the Group's property, plant, and equipment, impairment of intangible assets (NZUs), and carrying value of loans and borrowings (ESG linked loans). No significant impacts have been noted.

GOING CONCERN

In preparing these financial statements, the Directors have assessed the Group's ability to continue as a going concern. In making this assessment, the Directors have considered the level of debt and facilities the Group had available at 31 July 2022, and the Group's forecast financial results for the 12 months subsequent to the date of issue of these financial statements. While the future is always uncertain, the Directors consider that the Group remains a going concern.

The Group's current liabilities exceed its current assets by $71.7m as a result of the working capital facility being classified as a current liability at 31 July 2022. The facility was extended in September 2022.

BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of Synlait Milk Limited and its subsidiaries, accounted for using the acquisition method, and the results of its associates, accounted for using the equity method. Intercompany transactions and balances between group companies are eliminated upon consolidation.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies, accounting estimates and judgements that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes and are designated by a shaded area.

Standards, amendments and interpretations adopted during the period

NZ IFRS 9, IAS 39, IFRS 7, IFRS 4, Insurance contracts and IFRS 16 Leases – Interest Rate Benchmark Reform, Phase 2

In August 2020, the IASB issued amendments to NZ IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement , IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases as a result of Phase 2 of the IASB's Interest Rate Benchmark Reform project. The amendments address issues arising in connection with reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. The amendments were effective for the Group from 1 August 2021.

As at 31 July 2022, these amendments did not affect the Group's financial statements as it has not yet transitioned any agreements that are exposed to Inter-bank Offered Rates (IBOR) to an alternative benchmark interest rate. The Group expects to transition its USD working capital facility from LIBOR to SOFR, a like for like rate, in the first quarter of FY23. The replacement of the rate will not result in a significant change in the Group's interest rate risk and related risk management strategy.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards, amendments and interpretations to existing standards that are not yet effective

IAS 37 – Cost of Fulfilling a Contract

On May 14, 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. NZ IAS 37 requires that a provision be taken for the costs of fulfilling a contract. The amendments clarify that the costs of fulfilling a contract comprise both incremental costs (e.g. direct labour and materials) and an allocation of other direct costs (e.g. an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling the contract). These amendments are effective for the Group from 1 August 2022 and the Group intends to adopt these amendments prospectively in FY23.

The adoption of this amendment is not expected to have a significant impact on the Group's financial statements (onerous contracts provision) as the Group does not incur significant incremental or other directs cost to fulfil a contract past the point of converting raw materials and work-in-process inventory into finished goods

NZ CS 1, CS 2, CRDC - Climate related disclosures

In December 2022, The External Reporting Board ('XRB') of New Zealand will issue Aotearoa New Zealand Climate Standards, a new climate-related disclosure framework. Three new standards are expected to be issued: NZ CS 1 Climate-related Disclosures, NZ CS 2 Adoption of Climate-related Disclosures, and NZ CRDC Climate-related Disclosures Concepts. It is expected the guidance will be aligned to the International Task Force on Climate-related Disclosures ('TCFD') disclosure framework which focuses on governance, strategy, risk management, and metrics and targets.

The Group is currently undertaking a project to build on and leverage its existing sustainability reporting framework in preparation for the release of its first climate statement under these new standards. This is expected to be issued by the Group as at 31 July 2024, with mandatory assurance required on the greenhouse gas emissions amounts reported in the climate statements in the Group's 2025 annual report.

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

PERFORMANCE

This section covers the Group's financial performance and includes the following notes:

01. REVENUE RECOGNITION

Sales of goods

The Group manufactures and sells a range of milk powder, milk powder related products, liquid milk, cheese, and butter to customers. Revenue from contracts with customers is recognised when the control of the goods has been transferred to customers, being at the point when the goods are delivered. Delivery of goods is completed (i.e. the performance obligation is fulfilled) when the goods have been delivered pursuant to the terms of the specific contract agreed with the customer and the risks associated with ownership have been transferred to the customer.

Revenue is measured according to the contracted price agreed with customers, which represents expected consideration received or receivable, net of returns, discounts, and allowances. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The payment terms vary depending on the individual contracts. No deemed financing components are present as there are no significant timing differences between the payment terms and revenue recognition.

	2022	2021
	$'000	$'000
Dairy products	1,660,601	1,367,349
Other income	20,306	3,870
Total income	**1,680,907**	**1,371,219**

The increase in other income is primarily attributable to the one time $11.9m gain on sale and leaseback of the Group's Auckland land and building. Refer to note 11 for further information on the gain on sale and leaseback.

02. SEGMENT REPORTING

(a) Reportable segments

NZ IFRS 8 Operating Segments requires disclosure of information about operating segments, products and services, geographical areas of operation, and major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

The Group has identified the following segments:

- Manufacture and sale of fresh milk and milk powder related products (nutritionals, ingredients, fresh milk).
- Manufacture and sale of cheese and other products (cheese, butter, yoghurt).

The accounting policies of the Group have been consistently applied to the operating segments. Net Profit After Tax (NPAT) is the measure reported to the chief operating decision-maker ("the Board") for the purposes of resource allocation and assessment of performance for the Group. A consistent measure has been used for the purpose of reporting the performance of each operating segment. Inter-segment pricing is determined on an arm's length basis.

(b) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	31 July 2022 $000's	31 July 2022 $000's	31 July 2022 $000's	31 July 2022 $000's
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
External revenue	1,397,012	263,589	-	1,660,601
Inter-segment revenue from sale of goods	1,310	-	(1,310)	-
Revenue from sale of goods	1,398,322	263,589	(1,310)	1,660,601
Net profit/(loss) after tax for the period	40,373	(1,850)	-	38,523
Finance income	159	11	-	170
Finance expense	(15,852)	(2,878)	-	(18,730)
Depreciation and amortisation	(48,203)	(6,038)	-	(54,241)
Impairment of Temuka cheese plant	-	(12,231)	-	(12,231)
Income tax (expense)/benefit	(4,386)	1,299	-	(3,087)
Total assets	1,401,915	174,062	-	1,575,977
Total liabilities	(784,057)	(43,524)	-	(827,581)
Net assets	617,858	130,538	-	748,396

	31 July 2021 $000's	31 July 2021 $000's	31 July 2021 $000's	31 July 2021 $000's
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
External revenue	1,138,302	229,047	-	1,367,349
Inter-segment revenue from sale of goods	12,785	-	(12,785)	-
Revenue from sale of goods	1,151,087	229,047	(12,785)	1,367,349
Net (loss)/profit after tax for the period	(28,802)	351	-	(28,451)
Finance income	14	30	-	44
Finance expenses	(16,876)	(3,612)	-	(20,488)
Depreciation and amortisation	(48,855)	(6,117)	-	(54,972)
Income tax benefit/(expense)	10,985	(282)	-	10,703
Total assets	1,405,478	212,672	-	1,618,150
Total liabilities	(737,675)	(113,361)	-	(851,036)
Net assets	667,803	99,311	-	767,114

02. SEGMENT REPORTING (CONTINUED)

(c) Sales by geographical area

The Group operates in one principal geographical area being New Zealand. Although the Group sells to many different countries, it is understood that a significant portion of both infant nutritional and ingredients sales are ultimately consumed in China.

The proportion of sales revenue by geographical area is summarised below:

	Year ended 31 July 2022 $'000	Year ended 31 July 2021 $'000
China	12%	14%
Rest of Asia	27%	24%
Middle East and Africa	3%	5%
New Zealand	48%	47%
Australia	7%	8%
Rest of World	3%	2%
Total	100%	100%

All Group non-current assets are in New Zealand, other than $0.3m (2021: $0.5m) located in China.

(d) Major customers

Revenues of approximately 40% (2021: 42%) are derived from the top three external customers.

03. EXPENSES

	2022 $'000	2021 $'000
The following items of expenditure are included in cost of sales		
Depreciation and amortisation	46,962	46,890
Employee benefit expense	76,841	82,644
Export freight	14,642	10,770
Rent and storage	3,787	4,028
(Decrease)/increase in inventory provision	(2,118)	6,257
(Decrease)/increase in onerous contract provision	(2,101)	1,777
The following items of expenditure are included in sales and distribution expense		
Depreciation and amortisation	3,852	4,400
Employee benefit expense	16,934	16,668
Insurance	1,492	1,198
Distribution	5,238	3,305
Consultancy	1,682	751
Rent and storage	934	1,965
The following items of expenditure are included in administrative and operating expenses		
Depreciation and amortisation	3,427	3,682
Employee benefit expense	29,388	28,097
Information services	9,575	8,657
Directors' fees	829	829
Share based payments expense/(recovery)	115	(610)
Impairment of intangible assets	-	530
Consultancy	4,256	4,623
Strategic Initiatives	56	1,181
*PwC and Deloitte services included in administrative and operating expenses**		
Statutory audit fee	299	270
Half year accounts review	68	62
Other assurance services	-	23
Taxation compliance	-	69
Consultancy	31	-
Total fees paid to Group auditor	398	424

* PwC was appointed as the Group's auditor effective 1 August 2022 replacing Deloitte, the Group's previous auditor. 2022 and 2021 amounts reflect payments to PwC and Deloitte, respectively. 2022 payments to PwC reflect $12k for finalisation of reports related to unusual transaction analysis and historic performance analysis performed prior to appointment as statutory auditors. Training services were performed during the period amounting to $19k.

04. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2022	2021
	$'000	$'000
Profit/(loss) for the year	38,523	(28,451)
Non-cash and non-operating items		
Depreciation and amortisation of non-current assets	50,030	50,236
Depreciation of right-of-use assets	4,211	4,736
(Gain)/loss on sale of property, plant and equipment	(11,699)	100
Impairment of property, plant and equipment and intangible assets	12,231	2,242
New Zealand Units surrendered	2,407	2,526
Share of loss from associate	-	33
Non-cash share based payments expense/(recovery)	120	(476)
Interest costs classified as financing cash flow	18,730	20,488
Interest received classified as investing cash flow	(170)	(44)
Loss on derecognition of financial assets	2,427	1,045
Deferred tax	4,749	7,329
Loss/(gain) on derivative financial instruments	18	(64)
Unrealised foreign exchange (gain)/loss	(341)	24
Gain on revaluation of biological assets	(558)	-
Movements in working capital		
Decrease/(increase) in trade and other receivables	17,284	(45,323)
Increase in prepayments	(2,341)	(1,893)
Decrease/(increase) in inventories	38,003	(1,561)
Decrease in goods and services tax refundable and other current assets	1,312	1,937
Increase in trade and other payables	56,795	31,814
Decrease/(increase) in current tax assets	1,189	(26,304)
Net cash inflow from operating activities	**232,920**	**18,394**

WORKING CAPITAL

The working capital section gives information about the short-term assets and liabilities of the Group. This section includes the following notes:

05. TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

Impairment

The Group recognises a loss allowance for expected credit losses ("ECL") on trade and other receivables. The Group measures the provision for ECL using the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group's credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The model is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no reasonable and realistic prospect of recovery.

Furthermore, other impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument-by-instrument basis. All individual instruments that are considered significant are subject to this approach.

Credit Risk Management

The Group activities expose it to credit risk which refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade and other receivables are potentially subject to credit risk. The Group performs credit evaluations on trade customers. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers, nor has there been historical non-performance of these customers. The Group also maintains strict controls for any credit reviews such as credit increases.

The receivables assignment processes ensure that the Group's trade receivables are materially managed in an efficient and effective basis.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Included in trade receivables are debtors which are past due at balance date, as payment was not received within 30 days, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. No collateral is held over these balances and trade credit insurance cover was not obtained in respect of these receivables. Interest is not charged on overdue debtors.

In the past seven financial years, the Group has not written off any bad debts, although it has recognised provisions for debts when collection was considered doubtful. The historical analysis of bad debts on a customer basis assists in the determination of any increases in credit risk since initial recognition. There are no significant credit risk concentrations as at 31 July 2022. Three customers represent 59% of the overdue receivables. There were no other forward-looking indicators to indicate increases in credit risk.

For cash and cash equivalents the Group has determined that all bank balances have low credit risk at each reporting period as they are held by reputable international banking institutions.

The Group has not changed its overall strategy regarding the management of risk from 2021.

	2022 $'000	2021 $'000
Trade receivables	85,573	101,243
Provision for doubtful and impaired receivables	(3,658)	(2,583)
Net trade receivables	**81,915**	**98,660**
Other receivables	9,181	9,720
Total receivables	**91,096**	**108,380**

05. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Impaired receivables

As at 31 July 2022, trade receivables of $12.1m were overdue (2021: $13.3m). These relate to several independent customers for whom there is no recent history of default. The majority has since been collected except for $5.8m which remains unpaid and is expected to be collected in the 2023 financial year.

The aging analysis of these overdue trade receivables is as follows:

	2022 $'000	2021 $'000
Overdue by		
0 to 30 days	5,674	8,306
30 to 60 days	978	673
Over 60 days	5,428	4,330
Total overdue trade receivables	**12,080**	**13,309**

(b) Allowance for bad and doubtful receivables

The Group has recognised a loss of $1.0m in relation to provisions raised for potentially unrecoverable trade receivables during the year (2021: $1.5m). This relates to debtors that are overdue by more than 60 days. The Group has also recognised a loss of $0.2m for estimated receivables impairment under NZ IFRS 9 Financial Instruments (2021: $0.1m).

(c) Trade and other receivables

Accounts receivable are amounts incurred in the normal course of business.

Receivables denominated in currencies other than the functional currency comprise NZ$50.7m (2021: $59.4m) of USD and AUD denominated trade receivables.

(d) Derecognised financial assets

The Group has derecognised trade receivables that have been sold to two banks under the terms of receivables purchase agreements entered into during January 2015, January 2016, and April 2022. The Group routinely assess the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the banks. Receivables selected for assignment are with customers with strong credit ratings and good payment histories. This minimises the risk (and therefore consequences) of late payment or default, as well as resulting in little volatility in the present value of future cash flows in relation to assigned receivables under the various scenarios detailed in the terms of the four agreements. An evaluation of external evidence of credit risk has also been performed for each customer. The Group has $175.6m of receivables assigned as at 31 July 2022 (2021: $112.4m).

The Group has assessed its continuing involvement in the assigned receivables and determined that the fair value of continuing involvement is immaterial. The Group reassesses the facility for qualification for derecognition at each reporting date, when the terms of the facility are amended, and assesses each new customer at the initial assignment of a receivable. Two new customers were assigned during the period.

If the Group's customers defaulted on all trade receivables that have been derecognised at balance date, the Group would be required to pay a late payment charge of $19,630 per day (2021: $4,550) for each day that these receivables remain overdue, assuming that market conditions remain unchanged from reporting date. The likelihood that debtors will fall overdue or remain overdue for a long period of time is small, given the strong credit ratings and good payment histories of the customers whose receivables have been selected for assignment.

The loss for the period of $2.4m (2021: $1.0m) arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

06. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated based on normal operating capacity. Cost is determined on a weighted average basis and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Key judgement is applied in assessing inventory impairment, and therefore net realisable value of inventory. Impairment is tested in three ways, being stock provision, onerous contracts provision, and inventory impairment. The stock provision considers the condition of inventory and therefore requires a high level of judgement, whereas the onerous contracts and impairment calculations are largely formulaic.

The stock provision tests for the physical impairment of raw materials, work in progress, and finished goods. Physical impairment can be for a variety of reasons, including damage, expiry, or obsolescence. Judgement is required as often indicators of impairment can be mitigated through further investigation or rework meaning that no write down to net realisable value is required. The Group consider historical rework process results and future rework plans in making that judgement.

Estimates are required in relation to net realisable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Net realisable value is determined by reference to historic achieved market prices, future contracted sales and global dairy trade auction results. Reviewing the net realisable values is carried out by the Group on a monthly basis, using judgement in determining expected future proceeds based on current indicators of the condition of inventory.

A key estimation in determining inventory cost is the Monthly Milk Price which is derived from a forecast milk price for the year. The Monthly Milk Price forms a key component of the product cost through the year.

	2022 $'000	2021 $'000
Raw materials		
Raw materials at cost	94,777	74,390
Raw materials at net realisable value	997	-
	95,774	74,390
Work in progress		
Work in progress at cost	56,541	82,647
Work in progress at net realisable value	195	1,593
	56,736	84,240
Finished goods		
Finished goods at cost	75,965	82,496
Finished goods at net realisable value	4,466	29,818
	80,431	112,314
Total inventories	232,941	270,944

Raw material inventories at $95.8m (17,738 MT) have significantly increased from the prior year (2021: $74.4m, 13,733 MT), primarily due to extended lead times following global disruption to supply chains.

Work in progress inventories at $56.7m (7,934 MT) have decreased (2021: $84.2m, 12,896 MT) due to lower holding of our core infant base powder and the idling of the Temuka cheese plant.

Finished goods have decreased to $80.4m (11,666 MT), (2021: $112.3m, 21,424 MT). The decrease is driven by management focus on efficient working capital management and on time shipment of contracted sales in FY22. Higher inventory on hand in FY21 was due in part to global shipping delays. Finished goods held at net realisable value have decreased due to a lower stock condition provision and nil onerous contract commitments.

The cost of inventories recognised as an expense during the year was $1,446.6m (2021: $1,212.4m). The cost of inventories recognised as an expense includes $7.0m (2021: $10.1m) in respect of write downs of inventory to net realisable value.

The total inventory provision as at reporting date was $6.2m, of which $2.2m related to finished goods, $0.7m to work in progress and $3.3m to raw materials (2021: $8.3m, $3.6m related to finished goods, $4.0m related to work in progress and $0.7m related to raw materials).

Onerous contracts provision as at reporting date was $nil (2021: $2.1m).

Infant base powder inventories of $50.2m (7,161 MT) (2021: $67.7m, 10,720 MT) have been reclassified from finished goods to work in progress to better reflect their state of completion.

07. TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less, otherwise, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Payables that are settled within a short duration are not discounted.

	2022 $'000	2021 $'000
Trade payables	140,455	101,121
Accrued expenses	168,512	150,378
Employee entitlements	14,156	12,569
Total trade and other payables	**323,123**	**264,068**

Payables denominated in currencies other than the functional currency comprise NZ$38.5m (2021: $14.9m) of USD, EUR, GBP, RMB, SGD, and AUD denominated trade payables and accruals.

LONG TERM ASSETS

The assets section provides information about the long-term investments made by the Group to operate the business and generate returns to shareholders. This section includes the following notes:

08. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Property, plant and equipment are initially measured at cost less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located where the Group has an obligation to remove and restore.

When a self-constructed asset meets the definition of a qualifying asset under NZ IAS 23 Borrowing Costs, borrowing costs directly attributable to the construction of the asset are capitalised until such a time as the asset is substantially ready for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation of property, plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

Estimation and judgement is also required in the selection and application of useful lives. It is the Group's best estimate that the useful lives adopted adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of property, plant, and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- **Buildings** 10-60 years
- **Plant and equipment** 3-35 years
- **Fixtures and fittings** 2-25 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Impairment

Estimation and judgement is required in the impairment of property, plant, and equipment. The Group estimates or exercises judgement in assessing indicators of impairment, forecasting future cash flows, and determining other key assumptions used for assessing fair values (less costs of disposal) or value in use.

	Land $'000	Buildings $'000	Plant and equipment $'000	Fixtures and fittings $'000	Capital work in progress $'000	Total $'000
Cost						
Balance as at 1 August 2020	**36,765**	**290,776**	**720,882**	**25,262**	**67,208**	**1,140,893**
Additions	-	-	-	-	111,955	111,955
Reclassification/transfer	23,890	33,584	59,679	4,338	(121,491)	-
Impairment	-	-	(969)	-	(1,244)	(2,213)
Disposals	-	(185)	(3,471)	(982)	(11)	(4,649)
Balance as at 31 July 2021	**60,655**	**324,175**	**776,121**	**28,618**	**56,417**	**1,245,986**
Balance as at 1 August 2021	**60,655**	**324,175**	**776,121**	**28,618**	**56,417**	**1,245,986**
Additions	-	-	-	-	61,529	61,529
Reclassification/transfer	-	29	14,308	848	(15,185)	-
Impairment	-	-	(11,865)	(16)	(350)	(12,231)
Disposals	(3,890)	(8,688)	(1,763)	(510)	(119)	(14,970)
Balance as at 31 July 2022	**56,765**	**315,516**	**776,801**	**28,940**	**102,292**	**1,280,314**
Accumulated depreciation						
Balance as at 1 August 2020	-	29,426	138,361	8,002	-	175,789
Depreciation (note 3)	-	7,393	35,068	4,379	-	46,840
Impairment	-	-	(500)	-	-	(500)
Disposals	-	(158)	(2,188)	(946)	-	(3,292)
Balance as at 31 July 2021	-	**36,661**	**170,741**	**11,435**	-	**218,837**
Balance as at 1 August 2021	-	**36,661**	**170,741**	**11,435**	-	**218,837**
Depreciation (note 3)	-	7,120	35,966	4,113	-	47,199
Impairment	-	-	-	-	-	-
Disposals	-	(331)	(1,019)	(232)	-	(1,582)
Balance as at 31 July 2022	-	**43,450**	**205,688**	**15,316**	-	**264,454**
Carrying amounts						
As at 31 July 2021	**60,655**	**287,514**	**605,380**	**17,183**	**56,417**	**1,027,149**
As at 31 July 2022	**56,765**	**272,066**	**571,113**	**13,624**	**102,292**	**1,015,860**

08. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Impairment

During the period, property, plant, and equipment has been examined for impairment. A $12.2m (2021: $1.7m) impairment charge has been recognised to reflect the write-down of select assets to the higher of their fair value less costs of disposal (FVLCOD) and value-in-use. The current period charge is the result of the Group's decision to continue idling its Temuka cheese plant while it further evaluates plans for the resumption of operations. The charge is calculated as the excess of the carrying value of plant and equipment assets over their estimated net realisable value after considering selling and removal costs for individual assets based on their age and condition, as determined by an expert third party valuer. Refer to the "Material events and other significant items" section of these notes for additional information.

(b) Capital work in progress

Assets under construction includes capital expenditure projects until they are commissioned and transferred to property, plant and equipment. Capital work in progress of $102.3m is higher than 2021 ($56.4m) due primarily to $81.0m (2021: $34.5m) of work in progress spend relating to the Group's ongoing Pokeno processing upgrade project, with the balance comprising of routine capital expenditure.

(c) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $5.6m (2021: $2.3m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset. In the year, borrowing costs were capitalised for the Pokeno processing upgrade and ERP implementation (refer to note 10) projects.

09. BIOLOGICAL ASSETS

Biological assets comprise livestock (dairy cows) and are measured at fair value less costs to sell at both initial recognition and at the end of each reporting period. Changes in the fair value of biological assets are recognised in profit or loss. The fair value of biological assets is determined by an independent valuer with reference to local area market prices at the end of each reporting period. The fair value measurement of livestock is facilitated by grouping livestock by age and type. All of the Group's biological livestock assets are classified as bearer biological assets.

	2022 $'000	2021 $'000
Balance as at 1 August	-	-
Purchases	3,334	-
Gain/loss arising from changes in fair value less selling costs	558	-
Balance as at 31 July	3,892	-

As at 31 July 2022 there were 1,851 dairy cows on hand (2021: $nil). There were no sales of livestock during the period. The dairy cows are used for the purposes of producing milk to be consumed in the Group's milk processing operations.

10. INTANGIBLE ASSETS

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the cost of the acquisition over the net of the fair values of the assets and liabilities of the subsidiaries acquired. Goodwill is tested for impairment annually and is carried at cost as established at the date of acquisition of the subsidiary, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGU) that are expected to benefit from the business combination in which the goodwill arose. The recoverable amount of CGUs is the higher of fair value less costs to sell and value in use. If this recoverable amount is less than the carrying amount of the CGU an impairment loss is recognised immediately in the profit and loss, and it is not subsequently reversed.

Brands

Purchased brands have been assessed as indefinite life intangible assets, after considering factors such as the expected use of the assets, the period of legal control, the typical product life cycle of these assets, the industry in which the assets are operating, and the level of maintenance expenditure required. Purchased brands are initially recognised at fair value if acquired as part of a business combination, and are tested for impairment annually, or more frequently if there are any indicators of impairment, on the same basis as goodwill.

Patents, trademarks and other rights

Separately acquired patents, trademarks, and other rights are shown at historical cost. Patents, trademarks, and other rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents, trademarks, and other rights over their estimated useful lives of 4 to 20 years.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, testing, and implementation of identifiable and unique software products controlled by the Group are recognised as intangible assets. Amortisation is calculated using the straight-line method to allocate the cost of computer software over an estimated useful life of 4 to 10 years.

New Zealand Units (NZU)

New Zealand Units are purchased to offset carbon emissions under the New Zealand Emissions Trading Scheme. The units are measured at cost and expensed on a first-in first-out basis. The units are surrendered in May of each year to meet obligations for the previous calendar year.

10. INTANGIBLE ASSETS (CONTINUED)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any other assets in the unit (or group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. An impairment loss in relation to goodwill is not reversed.

	Goodwill	Brands	Patents, trademarks and other intangibles	Computer software	Intangibles in progress	New Zealand Units	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 31 July 2021							
Opening net book amount	65,545	17,545	1,414	5,847	10,271	8,911	109,533
Additions	-	-	-	1,249	21,918	3,672	26,839
Impairment charge	-	-	-	-	(530)	-	(530)
Amortisation charge (note 3)	-	-	(414)	(2,982)	-	-	(3,396)
Asset disposals/surrendered	(1,356)	(976)	(52)	(4)	-	(2,526)	(4,914)
Closing net book value	**64,189**	**16,569**	**948**	**4,110**	**31,659**	**10,057**	**127,532**
Year ended 31 July 2021							
Current	-	-	-	-	-	3,712	3,712
Non-current	64,189	16,569	948	4,110	31,659	6,345	123,820
Closing net book value	**64,189**	**16,569**	**948**	**4,110**	**31,659**	**10,057**	**127,532**
Year ended 31 July 2022							
Opening net book value	64,189	16,569	948	4,110	31,659	10,057	127,532
Additions	-	-	263	1,077	30,260	7,532	39,132
Impairment	-	-	-	-	-	-	-
Amortisation charge (note 3)	-	-	(371)	(2,460)	-	-	(2,831)
Asset disposals/surrendered	-	-	-	(78)	-	(2,407)	(2,485)
Closing net book value	**64,189**	**16,569**	**840**	**2,649**	**61,919**	**15,182**	**161,348**
Year ended 31 July 2022							
Current	-	-	-	-	-	2,692	2,692
Non-current	64,189	16,569	840	2,649	61,919	12,490	158,656
Closing net book value	**64,189**	**16,569**	**840**	**2,649**	**61,919**	**15,182**	**161,348**

Intangibles in progress of $61.9m at balance date is comprised primarily of project to date spend on the Group's implementation of an on-premise, perpetually licensed ERP system (SAP) which was commissioned on 1 August 2022.

10. INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for indefinite life intangibles

As at 31 July 2022 the Group has determined that there is no impairment of any CGU's containing goodwill.

For the purposes of goodwill impairment testing, goodwill has been allocated to two CGU groups; the Synlait Milk CGU (nutritionals, ingredients, fresh milk) and Dairyworks CGU (cheese, butter, yoghurt).

At 31 July 2022, $58.2m (2021: $58.2m) of goodwill and $16.6m (2021: $16.6m) of brand assets were allocated to the Dairyworks CGU. $6.0m (2021: $6.0m) of goodwill and $nil (2021: $nil) of brand assets were allocated to the Synlait Milk CGU.

The value-in-use calculation uses five-year future cash flows based on Board approved business plans. Based on projected future cash flows, the Group has determined that the recoverable amount of each CGU exceeds its carrying amount and therefore goodwill is not impaired. The business plans were modelled using the following key assumptions:

	2022	2021
Annual revenue growth rates	1.3% - 21.1%	(7.2%) - 15.3%
Allowance for increase in expenses	0.8% - 22.0%	(9.7%) - 8.6%
Pre-tax discount rate	9.5% - 10.4%	9.5% - 11.7%
Terminal growth rate	2.0%	2.0%

The range of annual revenue growth rates and allowance for increase in expenses is primarily attributable to the impact of higher commodity prices and resulting sales prices.

Indefinite life intangibles, which is comprised entirely of brands, have been tested using the relief from royalty method. Brand royalty rates for the year ended 31 July 2022 are based on a percentage of revenue. The impairment testing was modelled using the following key assumptions:

	2022	2021
Annual revenue growth rates	4.9% - 22.1%	1.5% - 6.4%
Allowance for increase in expenses	2.0% - 4.0%	2.0% - 4.0%
Royalty rate	3.75% - 4.25%	3.75% - 4.25%
Pre-tax discount rate	11.5%	13.7%
Terminal growth rate	2.0%	2.0%

The Group has carried out a sensitivity analysis and believe that any reasonably possible change in the key assumptions would not cause the book value of any of the CGU's, or groups of CGU's, to exceed their recoverable amount.

11. LEASES

Measurement of right-of-use assets and lease obligations

Right-of-use ("ROU") assets are initially measured equal to the corresponding present value of the remaining lease liability. Subsequent additions are measured at the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently depreciated on a straight-line basis over the shorter of the term of the lease, or the useful life of the asset determined on the same basis as the Group's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

Measurement of lease obligations

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Group is reasonably certain to exercise.

The lease obligation is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group exercises a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

The Group does not recognise ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognised as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated income statement. The Group has also elected to apply a single discount rate to portfolios of leases with reasonably similar characteristics.

11. LEASES (CONTINUED)

	Buildings $'000	Plant and equipment $'000	Total $'000
Cost			
Balance as at 1 August 2020	22,206	1,234	23,440
Additions and acquisitions	-	243	243
Disposals	(3,939)	(88)	(4,027)
Foreign exchange differences	22	-	22
Balance as at 31 July 2021	**18,289**	**1,389**	**19,678**
Balance as at 1 August 2021	18,289	1,389	19,678
Additions and acquisitions	9,025	185	9,210
Additions through sale and leaseback	11,390	-	11,390
Sale and leaseback adjustment	(5,186)	-	(5,186)
Disposals	(1,065)	(342)	(1,407)
Foreign exchange differences	50	-	50
Balance as at 31 July 2022	**32,503**	**1,232**	**33,735**
Accumulated Depreciation			
Balance as at 1 August 2020	4,697	246	4,943
Disposals	(3,939)	(88)	(4,027)
Depreciation	4,362	374	4,736
Foreign exchange differences	8	-	8
Balance as at 31 July 2021	**5,128**	**532**	**5,660**
Balance as at 1 August 2021	5,128	532	5,660
Sale and leaseback adjustment	(432)	-	(432)
Disposals	(1,065)	(304)	(1,369)
Depreciation	4,297	346	4,643
Foreign exchange differences	28	-	28
Balance as at 31 July 2022	**7,956**	**574**	**8,530**
Carrying amounts			
Balance as at 31 July 2021	13,161	857	14,018
Balance as at 31 July 2022	24,547	658	25,205

Sale and leaseback of Auckland land and building

On 4 October 2021, the Group completed the sale and leaseback of its Auckland land and building located at 89 Richard Pearse Drive which had a book value of $12.6m at the time of sale. The transaction was entered into as a result of the assets being identified as non-core, to take advantage of record property prices, and to reduce debt and related interest costs.

Total proceeds were $30.1m resulting in a tax exempt gain on sale of $17.1m (net of transaction costs of $0.4m) of which $11.9m was recognised in other income. The measurement requirements of NZ IFRS 16 require the unrecognised $5.2m portion of the gain to be allocated to the right of use asset, reflecting the proportion of the previous carrying amount of the land and building that relates to the right of use retained, and to be amortised over the life of the lease. The leaseback gave rise to a right of use asset of $6.2m (including future site restoration costs of $2.5m), a lease liability of $8.9m, and a deferred tax asset of $1.5m.

The lease term is 10 years with two rights of renewal of 6 years each and annual lease payments of $1.1m, increasing at 2% per annum.

	2022 $'000	2021 $'000
Lease obligations		
Contractual, undiscounted cash flows associated with the Group's lease obligations are as follows:		
Within one year	5,718	3,760
Between one and five years	20,668	11,325
Beyond five years	9,301	1,455
Total undiscounted lease obligations	**35,687**	16,540
Discounted lease obligations recognised on the Group's consolidated balance sheet are as follows:		
Current	4,301	3,243
Non-current	24,750	11,775
Total discounted lease obligations	**29,051**	**15,018**

Interest expense on lease obligations for the year ended 31 July 2022 was $1.2m (2021: $0.6m) and is included in finance expense. Operating lease expense relating to short-term and low-value leases not included in the measurement of lease obligations for the year ended 31 July 2022 is $1.4m (2021: $1.7m). The Group's weighted average cost of borrowing at 31 July 2022 was 5.13% (2021: 3.53%)

DEBT AND EQUITY

The debt and equity section gives information about the Group's capital structure and financing costs related to this structure. This section includes the following notes:

12. FINANCE INCOME AND EXPENSES

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Interest expense on borrowings, bank and facility fees and transaction costs are recognised in the income statement over the period of the borrowings, using the effective interest rate method, unless such costs relate to funding capital work in progress. Interest expense on lease obligations are also recognised in the income statement in accordance with NZ IFRS 16.

	2022 $'000	2021 $'000
Interest income on loans and deposits	170	44
Total finance income	**170**	**44**
Interest and facility fees	(23,192)	(22,223)
Capitalised borrowing cost	5,592	2,325
Interest on leases	(1,130)	(590)
Total finance costs	**(18,730)**	**(20,488)**
Loss on derecognition of financial assets	(2,427)	(1,045)
Net finance costs	**(20,987)**	**(21,489)**

13. LOANS AND BORROWINGS

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the statement of comprehensive income over the period of the borrowings using the effective interest method.

	2022			2021		
	Drawn facility amount $'000	Transaction costs $'000	Carrying amount $'000	Drawn facility amount $'000	Transaction costs $'000	Carrying amount $'000
Working capital facility USD	58,885	-	58,885	-	-	-
Revolving credit facility	-	-	-	33,333	-	33,333
Current liabilities	**58,885**	**-**	**58,885**	**33,333**	**-**	**33,333**
Working capital facility NZD	-	-	-	60,495	-	60,495
Working capital facility USD	-	-	-	54,928	-	54,928
Retail bonds	180,000	(1,692)	178,308	180,000	(2,353)	177,647
Revolving credit facility	117,500	(216)	117,284	166,667	(153)	166,514
Non-current liabilities	**297,500**	**(1,908)**	**295,592**	**462,090**	**(2,506)**	**459,584**
Total loans and borrowings	**356,385**	**(1,908)**	**354,477**	**495,423**	**(2,506)**	**492,917**

(a) Terms of loans and borrowings

The revolving credit facility and working capital facility within the Group are secured under the terms of the General Security Deed dated 26 June 2013, by which all present and future property is secured to the ANZ Bank and Bank of New Zealand.

The Group facilities include:

- A secured revolving credit facility (Facility A) of NZD $66.7m maturing 1 October 2023, with NZD $33.3m amortising 31 July 2023 and the remainder maturing on 1 October 2023. The amount due to amortise on 31 July 2023 was not drawn at 31 July 2022.
- A secured revolving credit facility (Facility B) of NZD $50m maturing 1 October 2023.
- A secured revolving credit facility (Facility C) of NZD $50m maturing 1 October 2023.
- A secured working capital facility of NZD $250m maturing 1 October 2022.

Facilities B and C are Environmental, Social, and Governance (ESG) linked loans. These facilities are eligible for lower interest rates if the Group achieves ESG targets and higher rates if it falls short of targets.

Subsequent to year end, the Group extended the secured working capital facility of NZD $250m for a period of twelve months, with a temporary increase to NZD $300m from 20 October 2022, decreasing NZD $20m on 6 January 2023 and decreasing NZD $30m on 28 February 2023 to NZD $250m.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group met all externally imposed capital requirements for the twelve months ended 31 July 2022.

The following summarises key banking covenants:

1. Total shareholder funds of no less than $600.0m at all times.
2. Working capital ratio of no less than 1.5x at all times.
3. Interest cover ratio of no less than 3.0x on and from 31 July 2022.
4. Leverage ratio of no greater than 4.5x for the 31 July 2022 reporting date, increasing to no greater than 4.0x on and from 31 July 2023.
5. Senior leverage ratio of no greater than 3.0x on and from 31 July 2022.

Retail Bonds

Borrowings under the retail bond programme are supported by a Master Trust Deed and supplemented by the Series Supplement entered into between the Group and the New Zealand Guardian Trust Company Limited. The retail bonds are unsecured and unsubordinated and mature on 17 December 2024. At 31 July 2022, the retail bond had a fair value of $164.2m (2021: $175.0m), based on NZX Debt Market valuation.

	Nominal interest rate %	Financial year of maturity	Carrying amount 2022	Carrying amount 2021
Secured revolving credit facility (Facility A, B & C) - ANZ/BNZ	4.86%	2024	117,500	200,000
Secured working capital facility - ANZ/BNZ - USD	4.22%	2023	58,885	54,928
Secured working capital facility - ANZ/BNZ - NZD	4.62%	2023	-	60,495
Subordinated retail bonds	3.83%	2025	180,000	180,000

The nominal interest rate is calculated by adding the BKBM rate for NZD facilities, US LIBOR rate for USD facilities and the applicable margin rate. It excludes line fees and swap costs. Nominal interest rate for the subordinated retail bonds excludes transaction costs.

14. OTHER NON-CURRENT LIABILITIES

The Group records liabilities for make-good obligations, such as those which arise upon the end of a building lease, in the period a reasonable estimate can be made. The liability is determined using estimated future costs and discounted using an appropriate discount rate. On initial recognition, the carrying value of the liability is added to the carrying amount of the associated asset and depreciated over its useful life or expensed when there is no related asset. The liability is accreted over time through charges to finance expense and reduced by actual costs of settlement. Make-good liabilities are reviewed annually and changes to estimates result in an adjustment of the carrying amount of the associated asset or, where there is no asset, they are credited or charged to profit or loss

Make-good liabilities are discounted at the risk-free rate at the balance date and accreted over time through periodic charges to profit or loss. The liabilities are reduced by actual costs of settlement.

	2022 $'000	2021 $'000
Make-good liability		
Balance as at 1 August	-	-
Liabilities recognised	2,473	-
Accretion	77	-
Balance as at 31 July	**2,550**	-

The make-good liability relates to future costs to be incurred with respect to the lease which arose in the sale and leaseback transaction detailed in note 11 and is included in the carrying amount of the related right-of-use lease asset. The total undiscounted amount of the estimated cash flows required to satisfy this obligation is $3.6m (31 July 2021: $nil). The obligation has been discounted using an interest rate of 3.75% (31 July 2021: not applicable).

15. SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

During the reporting period, no new ordinary shares were granted to participants of the Group's Long Term Incentive scheme as a result of share options that were granted under the scheme vesting and being converted to ordinary shares (2021: 59,068). Shares issued in the prior year to participants were at no cost. Refer to note 16 for further information.

No other shares were issued in the period.

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
(a) Share capital				
Ordinary shares				
On issue at beginning of period	218,581,661	179,306,908	464,774	268,544
Issue of share capital under employee share plans	-	59,068	-	148
Issue of share capital under equity raise	-	32,785,933	-	167,208
Issue of share capital under underwritten placement	-	6,429,752	-	32,791
Transaction costs for issue of share capital	-	-	-	(3,917)
On issue at end of period	**218,581,661**	**218,581,661**	**464,774**	**464,774**

None of the above shares are held by the Group or its subsidiaries.

(b) Ordinary shares

All issued shares are fully paid and have no par value. Ordinary shares are entitled to one vote per share at meetings of Synlait Milk Limited. All ordinary shares rank equally with regard to Synlait Milk Limited's residual assets.

15. SHARE CAPITAL (CONTINUED)

(c) Capital risk management

The Group's capital includes share capital, retained earnings and reserves.

The Group's policy is to maintain a sound capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is subject to various security ratios within the bank facilities agreement.

(d) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

Basic EPS for the 2022 financial period was 17.62 cents (2021: (13.77)). Diluted EPS for the 2022 financial period was 17.58 cents (2021: (13.77)).

Weighted average shares outstanding for the 2022 financial period was 218,581,661 (2021: 206,595,400). Weighted average shares outstanding, adjusted for potentially dilutive shares for the 2022 financial period was 219,082,925 (2021: 206,966,113).

16. SHARE BASED PAYMENTS

(a) LTI share scheme

Under the LTI share scheme, participants receive Performance Share Rights ("PSRs") which can be converted into Ordinary Shares in Synlait Milk Limited in three financial years' time provided performance hurdles have been met during the assessment period (the date of award of the PSRs plus three financial years). The number of PSRs granted to participants is set at one quarter of their base salary divided by Synlait Milk Limited's share price on the date of the award of the PSRs.

The PSRs consist of 50% Total Shareholder Return Rights ("TSR Rights") and 50% Earnings Per Share Rights ("EPS Rights"). The vesting for both TSR Rights and EPS Rights is determined in accordance with progressive vesting scales.

Synlait Milk Limited's TSR must be greater than or equal to the 50th percentile of the constituents of the TSR Peer Group over the assessment period for 50% of the TSR Rights to vest, scaled so that 100% of the TSR Rights vest if Synlait Milk Limited's TSR equals or exceeds the 75th percentile of the TSR Peer Group over the assessment period. The TSR Peer Group is determined as at the date of award of the PSRs.

If Synlait Milk Limited's EPS over the assessment period equals a Board approved EPS target, 50% of the EPS Rights vest, scaled so that 100% of the EPS Rights vest if Synlait Milk Limited's EPS over the assessment period equals the Board approved EPS target plus 10%.

For either performance hurdle to be met, Synlait Milk Limited's TSR must be positive over the assessment period. No exercise price is payable upon exercise of a PSR, Synlait Milk Limited's ordinary shares being delivered to a participant for nil consideration. The LTI share scheme is an annual scheme with PSRs granted to Board approved participants each year, noting however that the annual award is assessed over a three-year period.

16. SHARE BASED PAYMENTS (CONTINUED)

The table below sets out the movement in LTI share scheme PSR's during the year:

	2022	2021
Outstanding 1 August	380,102	334,880
Granted during the year	371,889	197,276
Forfeited during the year	(230,389)	(92,986)
Exercised during the year	-	(59,068)
Total	**521,602**	**380,102**

During the period, no new ordinary shares were granted to participants of the LTI scheme. See note 15 for further detail.

The fair value of the PSRs awarded at grant date has been determined by an independent third party valuer, using a Monte Carlo simulation to model the total share return for Synlait and the TSR peer group. The fair value of the PSRs awarded, along with key assumptions, are listed below:

	2022 PSRs	2021 PSRs
Risk free rate	2.34%	0.21%
Volatility	40.00%	40.27%
Share price at entitlement date ($)	3.70	6.97
Share price at grant date ($)	3.40	5.52
Total value of options granted at grant date ($000's)	712	468

The estimated value of the PSRs is amortised over the vesting period from grant date.

(b) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2022 $'000	2021 $'000
Expenses/(recoveries) for equity settled share based payment transactions	**115**	**(610)**

17. RESERVES AND RETAINED EARNINGS

(a) Retained earnings

Movements in retained earnings were as follows:

	2022 $'000	2021 $'000
Balance 1 August	293,555	322,006
Net profit/(loss) for the year	38,523	(28,451)
Balance 31 July	**332,078**	**293,555**

(b) Nature and purpose of reserves

(i) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments and the cost of cash flow hedging instruments. Cash flow hedging instruments relate to hedged transactions that have not yet occurred.

(ii) Employee benefits reserve

The current year movement in the employee benefits reserve of $0.1m (2021: ($0.6m)) is comprised of the cumulative share based payment expense for share options not yet vested of $0.3m (2021: $0.2m) and vesting/lapsing of rights during the period of ($0.2m) (2021: $0.8m).

(c) Dividends

No dividends were declared by the Group during the year.

FINANCIAL RISK MANAGEMENT

The financial risk management section presents information about the Group's financial risk exposures and the financial instruments used to mitigate this. This section includes the following notes:

18. FINANCIAL RISK MANAGEMENT

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk, and commodity price risk including forward exchange contracts, interest rate swaps and commodity derivative contracts.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Market risk

Foreign exchange risk

The Group is exposed to foreign currency risk on its sales, which are predominantly denominated in US dollars. The Group is also exposed to foreign currency risk on the purchase of raw materials for production and capital equipment purchases from overseas. The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency risk. These instruments include forward exchange contracts, option collars and vanilla options. These instruments enable the Group to mitigate the risk the variable exchange rates present to future cash flows for sales receipts or purchases by fixing or limiting the exchange rate at which these cash receipts or payments are exchanged into NZ dollars.

In relation to foreign exchange contracts that are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally, the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates.

As at 31 July 2022, the Group has hedged 53% of its exposure to forecast foreign exchange risk on USD sales and 66% of its exposure to forecast foreign exchange risk on AUD sales. As at 31 July 2022, the Group has hedged 23% of its exposure to forecast foreign exchange risk on USD purchases and 100% of its exposure to forecast foreign exchange risk on EUR. The Group hedges foreign exchange risk over the following 2 years from balance date.

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its bank overdrafts and borrowings.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group manages its interest rate risk by using interest rate swaps to convert a portion of its floating rate debt to fixed interest rates in relation to the benchmark interest rate element. As interest rate swaps are entered into based on forecast debt levels, variability in future cash flows and debt levels can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows.

The Group has a Board approved treasury policy that sets the parameters to the extent of the cover taken.
The policy requires the Group to hedge 30% to 80% of its exposure to interest rate risk that matures within 3 years, 20% to 60% of the risk that matures between 3 and 5 years, and 0% to 40% of the risk that matures between 5 and 10 years.

Commodity Price Risk
Dairy commodity price risk is the risk of volatility in profit and loss from the movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on the Groups earnings and milk price by eroding selling prices and increasing input costs.

The Group primarily manages its dairy commodity price risk by:

- Determining the most appropriate mix of products to manufacture based on the milk supply curve and global demand for dairy products;
- Governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where appropriate, linked to Global Dairy Trade (GDT) prices; and
- Using commodity derivative contracts to manage sales price volatility caused by fluctuations in GDT prices.

The Group has a Board approved treasury policy that sets the parameters under which commodity cover is to be taken, including permitted derivative types and volume limits.

Credit risk
The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. The Group has a credit policy in place under which each new customer is rigorously analysed for credit worthiness. Investments and derivatives are only entered into with reputable financial institutions.

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains all the late payment risk in the derecognition of financial assets, as described in note 5.

Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.

Liquidity risk
Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium-term facility requirements.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

Market risk

(i) Foreign exchange risk
The Group's exposure to foreign currency risk at the reporting date was as follows:

	2022					2021				
	USD	AUD	EUR	RMB	GBP	USD	AUD	EUR	RMB	GBP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	46,989	3,375	77	-	-	39,449	2,664	-	-	-
Trade payables	(554)	(880)	-	-	-	(2,618)	(179)	(227)	(95)	(87)
Working capital facility	(37,036)	-	-	-	-	(38,260)	-	-	-	-
Total	9,399	2,495	77	-	-	(1,429)	2,485	(227)	(95)	(87)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's exposure to foreign currency in the period ended 31 July 2022 is limited to its sales of dairy products, purchases of raw materials for production and capital equipment purchases. As at the reporting date, the Group had the following foreign exchange derivative instruments outstanding in respect of future foreign currency transactions:

	2022		2021	
	Weighted average exchange rate	Nominal balance $'000	Weighted average exchange rate	Nominal balance $'000
USD				
Exports				
Less than 1 year	0.6755	468,165	0.6694	362,390
1 to 2 years	0.6459	364,500	0.7084	174,200
Imports				
Less than 1 year	0.6540	(31,464)	0.7053	(37,671)
1 to 2 years	0.6416	(500)	-	-
AUD				
Exports				
Less than 1 year	0.9232	9,745	0.9252	7,467
EUR				
Imports				
Less than 1 year	0.6058	(1,088)	-	-

(ii) Interest rate risk

As at the reporting date, the Group had the following interest rate swap contracts outstanding:

	2022		2021	
	Weighted average interest rate %	Nominal balance $'000	Weighted average interest rate %	Nominal balance $'000
Less than 1 year	4.36%	40,000	4.36%	40,000
1 to 2 years	4.20%	30,000	4.36%	40,000
2 to 3 years	3.54%	15,000	4.20%	30,000
3 to 4 years	3.56%	10,000	3.54%	15,000
4 to 5 years	-	-	3.56%	10,000

The above balances include forward start swap contracts for various periods and do not necessarily reflect the current active contracts held at any one point in time.

In managing interest rate risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, changes in interest rates will have an impact on profit.

(iii) Sensitivity analysis

The sensitivity analysis below has been determined based on the mark to market impact on financial instruments of changing interest and foreign exchange rates at balance date. The analysis is prepared assuming the amount of the financial instrument outstanding at the balance sheet date was outstanding for the whole year, and by adjusting one input whilst keeping the others constant.

	Post-tax impact on the Income statement		Post-tax impact on cash flow hedge reserve (equity)	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Interest rates				
100 basis point increase in interest rate	(3,079)	(3,207)	515	838
100 basis point decrease in interest rate	3,079	3,207	(528)	(866)
Foreign exchange rates				
5% increase in exchange rate	(611)	(365)	41,772	24,502
5% decrease in exchange rate	676	342	(46,190)	(27,067)

(iv) Commodity derivatives

During the reporting period the Group entered into a small number of commodity derivative contracts to further support the Group's existing financial risk management strategy. The movement in the fair value of the commodity derivatives is included within the cash flow hedge reserve.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

The total repayments and associated maturity of financial liabilities as at balance date is reported below:

	Less than 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000
At 31 July 2022					
Working capital facility	58,885	-	-	-	**58,885**
Trade and other payables	323,123	-	-	-	**323,123**
Loans and borrowings	-	117,500	180,000	-	**297,500**
Derivative financial instruments	55,941	20,573	-	-	**76,514**
Lease liabilities	5,718	5,572	15,096	9,301	**35,687**
Total	**443,667**	**143,645**	**195,096**	**9,301**	**791,709**
At 31 July 2021					
Working capital facility	-	115,423	-	-	**115,423**
Trade and other payables	264,068	-	-	-	**264,068**
Loans and borrowings	33,333	33,333	313,333	-	**379,999**
Derivative financial instruments	10,770	7,167	1,663	-	**19,600**
Lease liabilities	3,760	3,452	7,873	1,455	**16,540**
Total	**311,931**	**159,375**	**322,869**	**1,455**	**795,630**

Cash flow hedges

The Group enters into cash flow hedges of highly probable forecast transactions and firm commitments, as described in accounting policy section of this note.

Hedging instruments used In cash flow hedges	Nominal amount $'000	Carrying amount Assets NZD$'000	Carrying amount Liabilities NZD$'000	Hedge accounted amounts in cash flow reserve Intrinsic value NZD$'000	Total cash flow hedge reserve NZD$'000
31 July 2022					
Foreign exchange risk					
Foreign exchange contracts (USD)	800,701	7,331	(75,723)	(68,392)	**(68,392)**
Foreign exchange contracts (AUD)	9,745	70	(372)	(302)	**(302)**
Foreign exchange contracts (EUR)	1,088	-	(24)	(24)	**(24)**
Interest rate risk					
Interest rate swaps	40,000	36	(395)	(359)	**(359)**
Commodity price risk					
Dairy commodity futures (NZD)	12,866	754	-	610	**610**
Total		**8,191**	**(76,514)**	**(68,467)**	**(68,467)**
At 31 July 2021					
Foreign exchange risk					
Foreign exchange contracts (USD)	499,955	30,559	(16,150)	14,409	**14,409**
Interest rate risk					
Interest rate swaps	40,000	-	(3,451)	(3,451)	**(3,451)**
Commodity price risk					
Dairy commodity futures (NZD)	13,866	198	-	276	**276**
Total		**30,757**	**(19,601)**	**11,234**	**11,234**

During the year, Dairyworks elected to cash flow hedge. The above table includes USD $5.5m (2021: $nil), AUD $9.7m (2021: $nil), EUR $1.1m (2021: $nil) in foreign exchange contracts held by Dairyworks.

Hedging instruments are located within the derivative financial instruments line items in the statement of financial position, classified as assets or liabilities, current or non-current.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2022		2021	
Effects of cash flow hedges on statement of comprehensive income	Hedging gains/(losses) recognised in other comprehensive income $'000	Hedge ineffectiveness recognised in profit or loss $'000	Hedging gains/(losses) recognised in other comprehensive income $'000	Hedge ineffectiveness recognised in profit or loss $'000
Foreign exchange risk				
Forward exchange contracts	(83,127)	-	(9,932)	-
Trade and other receivables	-	-	-	-
Interest rate risk				
Interest rate swaps	3,092	-	3,326	-
Commodity price risk				
Dairy commodity futures	212	122	276	-
Total	(79,823)	122	(6,330)	-

Hedge ineffectiveness is included within the finance expenses line of the income statement.

Impact to reserves in equity

The impact of the Group's hedge accounting policies on the reserves in equity is presented in the table below:

	2022 $'000	2021 $'000
Opening balance	8,089	12,647
Movements attributable to cashflow hedges:		
Change in value of effective derivative hedging instruments	(77,916)	25,944
Reclassifications to the income statement as hedged transactions occurred	(1,785)	(32,274)
Tax credit	22,316	1,772
Total movement	(57,385)	(4,558)
Closing balance	(49,296)	8,089

19. FINANCIAL INSTRUMENTS

Classification

The Group classifies its financial assets in three categories: at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The classification of financial assets depends on the business model within which the financial asset is held and its contractual cash flow characteristics.

The Group classifies its financial liabilities in two categories: at amortised cost and at fair value through profit or loss.

(i) Financial instruments at amortised cost

Financial assets are classified as measured at amortised cost if the Group's intention is to hold the financial assets for collecting cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The Group currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable and other receivables as financial assets measured at amortised cost, except for receivables from customers who participate in the Group's receivables purchase agreements which are classified as financial assets measured at fair value through profit and loss.

Financial liabilities are classified as measured at amortised cost using the effective interest method, with the exception of those classified at fair value.

The Group currently classifies its accounts payable, accrued liabilities (excluding derivatives) and term debt as financial liabilities measured at amortised cost.

(ii) Financial instruments at fair value through other comprehensive income ("FVOCI")

The Group has elected to designate certain investments in equity instruments that are not held for trading as FVOCI at initial recognition and to present gains and losses in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

(iii) Financial instruments at fair value through profit or loss ("FVPL")

Financial assets that do not meet the criteria for classification as measured at either amortised cost or FVOCI are classified as FVPL.

Derivative financial instruments that are not in an effective hedge relationship are classified as FVPL.

19. FINANCIAL INSTRUMENTS (CONTINUED)

Recognition and measurement

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not classified at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss.

Where financial assets are subsequently measured at amortised cost, interest revenue, credit losses and foreign exchange gains or losses are recognised in profit or loss. On derecognition, any gain or loss is recognised in profit or loss. Financial liabilities subsequently measured at amortised cost are measured using the effective interest method.

Where investments in equity instruments are designated as FVOCI, fair value gains and losses are recognised in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

Where financial assets are subsequently measured at FVPL, all gains and losses are recognised in profit or loss.

A key judgement is the assessment that substantially all the risks and rewards of ownership have been transferred in the derecognition of financial assets.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As the Group's financial instruments, with the exception of retail bonds, are not traded in active markets their fair value is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

All financial instruments held at fair value are included in level 2 of the valuation hierarchy as defined in NZ IFRS 13, with the exception of the retail bonds, which are included in level 1. The retail bonds are listed instruments on the NZDX and the Group is satisfied there is sufficient trading in these instruments to qualify as an active market.

The fair value of foreign currency forward contracts is determined using forward exchange rates at balance date. The fair value of foreign exchange option agreements is determined using forward exchange rates at balance date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date. The fair value of commodity derivatives is determined using NZX settlement prices.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are master netting agreements in place for derivative financial instruments held, however these instruments have not been offset in the statement of financial position as they do not currently meet the criteria for offset.

Impairment of financial assets

The Group has adopted the expected credit loss ("ECL") model. For further detail please refer to note 5. The Group assesses whether there is evidence that a financial asset or group of financial assets is impaired, with the exception of assets that are fair valued through profit or loss. A financial asset or a group of financial assets can be impaired and the impairment losses are recognised in accordance with IFRS 9. The Group continues to assess if historical and future objective evidence of impairment exists after the initial recognition of the asset.

Derivative financial instruments - hedge accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk, and commodity price risk including forward exchange contracts, interest rate swaps, and commodity derivative contracts.

Derivatives are initially recognised at fair value at the date the derivative contact is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.

The full fair value of a hedging derivative is classified as a current asset or liability when the remaining term of the hedged item is 12 months or less from balance date, or when cash flows arising from the hedged item will occur within 12 months or less from balance date. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and no cash flows will occur within 12 months of balance date.

19. FINANCIAL INSTRUMENTS (CONTINUED)

(i) Hedge accounting

The Group designates certain hedging instruments in respect of foreign currency risk and interest rate risk as cash flow hedges. Hedges of risk on firm commitments and highly probably transactions are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion and reclassification adjustments are recognised immediately in profit or loss, included in revenue for foreign exchange instruments and commodity price derivatives, and finance costs for interest rate swaps.

Amounts recognised in the hedging reserve are classified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is immediately recorded in profit or loss.

The Group separates the intrinsic value and time value of vanilla option and collar contracts, designating only the intrinsic value as the hedging instrument. The time value, including any gains or losses, is recognised in other comprehensive income until the hedged transaction occurs and is recognised in profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(a) Financial instruments by category

Financial assets	At amortised cost $'000	At fair value through other comprehensive income $'000	At fair value through profit or loss $'000	Total $'000
At 31 July 2022				
Cash and cash equivalents	14,493	-	-	**14,493**
Derivative financial instruments	-	-	8,191	**8,191**
Trade and other receivables	86,061	-	5,035	**91,096**
Investment in equity	-	110	-	**110**
Total	**100,554**	**110**	**13,226**	**113,890**
At 31 July 2021				
Cash and cash equivalents	16,020	-	-	**16,020**
Derivative financial instruments	-	-	30,996	**30,996**
Trade and other receivables	108,380	-	-	**108,380**
Investment in equity	-	110	-	**110**
Total	**124,400**	**110**	**30,996**	**155,506**

Financial liabilities	At amortised cost $'000	At fair value through profit or loss $'000	Total $'000
At 31 July 2022			
Derivative financial instruments	-	76,514	**76,514**
Working capital facility	58,885	-	**58,885**
Lease liabilities	29,051	-	**29,051**
Trade and other payables	323,123	-	**323,123**
Loans and borrowings	295,592	-	**295,592**
Total	**706,651**	**76,514**	**783,165**
At 31 July 2021			
Derivative financial instruments	-	19,600	**19,600**
Working capital facility	115,423	-	**115,423**
Lease liabilities	15,018	-	**15,018**
Trade and other payables	264,068	-	**264,068**
Loans and borrowings	377,494	-	**377,494**
Total	**772,003**	**19,600**	**791,603**

All derivative financial instruments are designated in effective hedge relationships.

For instruments held at amortised cost, carrying amount is considered a reasonable approximation for fair value, with exception to the Retail Bond (the fair value of the Retail Bond is shown at note 13).

OTHER

This section contains additional information regarding the performance of the group during the financial year. This section includes the following notes:

20. INCOME TAX

Tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss component of the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

New Zealand tax consolidated group

Synlait Milk Limited and its wholly-owned New Zealand controlled subsidiaries, Synlait Milk Finance Limited and Synlait Milk (Dunsandel Farms) Limited, form a tax consolidated group. The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Dairyworks Limited and Synlait Milk (Holdings) No.1 Limited are not members of the tax consolidated group.

20. INCOME TAX (CONTINUED)

	2022 $'000	2021 $'000
(a) Income tax (expense)/benefit		
Current tax expense		
Current tax on profit/(loss) for the year	(985)	17,628
Current tax on prior period adjustments	2,651	404
Total	**1,666**	**18,032**
Deferred tax expense		
Temporary differences	(4,191)	(7,204)
Prior year adjustments	(1,100)	(356)
Change in estimate	538	231
Total deferred tax	**(4,753)**	**(7,329)**
Income tax (expense)/benefit	**(3,087)**	**10,703**
(b) Reconciliation of effective tax rate		
Profit/(loss) before income tax	41,610	(39,154)
Income tax using the Group's domestic tax rate - 28%	(11,651)	10,963
Tax exempt income	5,314	-
Non-deductible costs	(393)	(1,245)
Total	**(6,730)**	**9,718**
Prior year adjustments	1,551	47
Deferred tax credit relating to change in estimate	538	232
Research and development tax credit	1,620	750
Other tax effects for reconciliation between accounting profit and tax expense	(66)	(44)
Total	**3,643**	**985**
Income tax (expense)/benefit	**(3,087)**	**10,703**

	2022 $'000	2021 $'000
(c) Imputation credits		
Imputation credits available directly and indirectly to the shareholders of the Group	83,000	84,590

(d) Income tax recognised in other comprehensive income

The tax benefit relating to components of other comprehensive income is as follows:

	Before tax $'000	Tax benefit $'000	After tax $'000
31 July 2022			
Cash flow hedges	(79,701)	22,316	(57,385)
Other comprehensive income	(79,701)	22,316	(57,385)
31 July 2021			
Cash flow hedges	(6,330)	1,772	(4,558)
Other comprehensive income	(6,330)	1,772	(4,558)

(e) Deferred taxation

The balance comprises temporary differences attributable to:

	2022 $'000	2021 $'000
Assets		
Tax losses carried forward	-	49
Other items	5,717	4,297
Derivatives	19,171	-
Total deferred tax assets	**24,888**	**4,346**
Liabilities		
Property, plant and equipment	(61,500)	(55,995)
Derivatives	-	(3,146)
Intangible assets	(5,254)	(4,638)
Total deferred tax liabilities	**(66,754)**	**(63,779)**
Total deferred tax	**(41,866)**	**(59,433)**

20. INCOME TAX (CONTINUED)

	Balance 1 Aug 2020 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Recognised directly in equity $'000	Prior year adjustment $'000	Balance 31 July 2021 $'000
Property, plant and equipment	(46,863)	(8,823)	-	-	(309)	(55,995)
Derivatives	(4,918)	-	1,772	-	-	(3,146)
Other items	2,793	1,529	-	-	(24)	4,298
Tax losses carried forward	23	49	-	-	(23)	49
Intangible assets	(4,913)	274	-	-	-	(4,639)
Total	(53,878)	(6,971)	1,772	-	(356)	(59,433)

	Balance 1 Aug 2021 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Recognised directly in equity $'000	Prior year adjustment $'000	Balance 31 July 2022 $'000
Property, plant and equipment	(55,995)	(5,433)	-	-	(73)	(61,501)
Derivatives	(3,146)	-	22,316	-	-	19,170
Other items	4,298	1,440	-	5	(24)	5,719
Tax losses carried forward	49	-	-	-	(49)	-
Intangible assets	(4,639)	340	-	-	(955)	(5,254)
Total	(59,433)	(3,653)	22,316	5	(1,101)	(41,866)

21. OTHER INVESTMENTS

Investments in associates

Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest, and has significant influence. Investments in associates are accounted for using the equity method and are measured in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets. Goodwill relating to associates is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

	2022 $'000	2021 $'000
Equity securities	110	110
Investment in associates	-	-
Total other investments	**110**	**110**

Synlait Milk Limited held, either directly or indirectly, interests in the following entities at the end of the reporting period:

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2022 %	2021 %
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
The New Zealand Dairy Company Limited (Subsidiary)	New Zealand	Ordinary	100	100
Eighty Nine Richard Pearse Drive Limited (Subsidiary)	New Zealand	Ordinary	100	100
Sichuan New Hope Nutritional Foods Co. Ltd (Associate)	China	Ordinary	25	25
Synlait Business Consulting (Shanghai) Limited (Subsidiary)	China	Ordinary	100	100
Synlait Milk (Holdings) No.1 Limited (Subsidiary)	New Zealand	Ordinary	100	100
Dairyworks Limited (Subsidiary)	New Zealand	Ordinary	100	100
Dairyworks (Australia) Pty Limited (Subsidiary)*	Australia	Ordinary	-	100
Synlait Milk (Dunsandel Farms) Limited (Subsidiary)	New Zealand	Ordinary	100	-
Primary Collaboration New Zealand Limited	New Zealand	Ordinary	17	17

* Dairyworks (Australia) Pty Limited was wound up in the year.

21. OTHER INVESTMENTS (CONTINUED)

Associates

In January 2015, the Group acquired 25% of the shares of Sichuan New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the "Akara" and "E-Akara" infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited.

The investment is not individually significant to the Group. The Group's share of this equity accounted investment is as follows:

	2022 $'000	2021 $'000
Loss from continuing operations	-	(33)
Total	**-**	**(33)**

The carrying value of the investment in New Hope Nutritionals at balance date:

	2022 $'000	2021 $'000
Opening balance	-	33
Share of losses	-	(33)
Total	**-**	**-**

22. RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by Synlait Milk Limited (2021: 39.01%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the People's Republic of China.

Other related entities

In June 2013, a subsidiary of Synlait Milk Limited, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

In January 2015, the Group acquired 25% of the shares of Sichuan New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the "Akara" and "E-Akara" infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited. New Hope Innovation (Hong Kong) Trading Company Limited is a related entity of Sichuan New Hope Nutritionals and is engaged in the import and export of dairy foods. Main products include whole milk powder, skim milk powder and whey powder. The company is the Hong Kong arm of the Chinese New Hope Dairy group, New Hope Dairy.

In May 2017 Synlait Milk Limited acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and canning plant in Auckland, which was subsequently sold to Synlait Milk Limited. The New Zealand Dairy Company Limited is now a non-trading entity. Eighty Nine Richard Pearse Drive Limited owned the land and buildings at which the Auckland blending and canning plant was constructed. In the year, the land and buildings were sold to an arms-length party and leased back. Refer to note 11 for additional information.

In May 2019, Synlait Business Consulting (Shanghai) Limited was incorporated. The wholly owned foreign entity started operations from 1 August 2019 and the principal activity of the entity is to provide services to assist Synlait to market products in China.

On 1 August 2019, the Group acquired selected assets and liabilities of Talbot Forest Cheese Limited. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. The acquisition included a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products. On 31 December 2020, Synlait Foods (Talbot Forest) Limited was amalgamated into Dairyworks Limited.

On 1 April 2020, the Group acquired 100% of the share capital in Dairyworks Limited. Dairyworks Limited specialises in the processing, packaging, and marketing of dairy products, including cheese, butter, and milk powder. Dairyworks Limited owns an Australian subsidiary, Dairyworks (Australia) Pty Limited.

On 3 August 2020 Synlait Milk (Holdings) No.1 Limited was incorporated for the purposes of holding newly acquired land located adjacent to the Group's Dunsandel Operations. Synlait Milk (Holdings) No.1 Limited was previously known as Synlait Milk (Dunsandel Farms) Limited.

22. RELATED PARTY TRANSACTIONS (CONTINUED)

On 25 May 2022 Synlait Milk (Dunsandel Farms) Limited was incorporated for the purposes of dairy farming operations on land located adjacent to the Group's Dunsandel Operations.

Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other benefits paid or due to directors and executive officers as at 31 July 2022. The total short-term benefits paid to the key management and personnel is set out below.

	2022 $'000	2021 $'000
Short term benefits	6,727	7,121
Share based payments expenses (note 16)	115	(610)

(a) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

(i) Loans to directors

There were no loans to directors issued during the period ended 31 July 2022 (2021: $nil).

(ii) Other transactions and balances

Directors of Synlait Milk Limited own and control 2.4% of the voting shares of the company at balance date (2021: 2.4%)

(b) Transactions with other related parties

	2022 $'000	2021 $'000
Purchase of goods and services		
Bright Dairy and Food Co Ltd - Directors fees	311	267
New Hope Innovation (Hong Kong) Trading Company Limited - reimbursement of costs	582	-
Sale of goods and services		
Bright Dairy and Food Co Ltd - sale of milk powder products	32,671	10,175
Sichuan New Hope Nutritional Food Co. Ltd - sale of milk powder products	408	-
New Hope Innovation (Hong Kong) Trading Company Limited - sale of milk powder products	163	1,268

(c) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

	2022 $'000	2021 $'000
Current receivables (payables) - sales of goods and services		
Bright Dairy and Food Co Ltd - sale of milk powder products	(27)	3,040
Bright Dairy and Food Co Ltd - reimbursement of costs	(1,072)	(583)
Sichuan New Hope Nutritionals Ltd - sale of milk powder products	(65)	-
Sichuan New Hope Nutritionals Ltd - other costs	740	559
New Hope Innovation (Hong Kong) - sale of milk powder products	-	272

23. CONTINGENCIES

No significant contingent liabilities are outstanding at balance date (2021: $nil).

24. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2022 $'000	2021 $'000
Pokeno modifications	5,304	16,094
Pokeno processing plant	-	2,450
Dunsandel reverse osmosis capacity expansion	2,712	-
Biomass upgrade	1,404	-
ERP Implementation	-	6,657
Dry Store 4	-	758
Coolstore racking	1,750	-
Critical gasses project	504	-
Total	**11,674**	**25,959**

The above balances have been committed in relation to future expenditure on capital projects. Amounts already spent have been included as work in progress.

25. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 27 September 2022, the Group made the decision to impair its Temuka cheese plant manufacturing assets. Refer to note 8 and the "Material events and other significant items" section of these notes for additional information.

On 12 September 2022, the Group extended its working capital facility. Refer to note 13 and the "Material events and other significant items" section of these notes for additional information.

On 12 September 2022, the Group extended its current China State Administration for Market Regulation licence, which allows it to produce China label infant formula for sale by The a2 Milk Company, until 21 February 2023. Refer to the "Material events and other significant items" section of these notes for additional information.

There were no other events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

26. OTHER ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and cash held on trust by Tax Management New Zealand Ltd.

Goods and Services Tax (GST)

The profit and loss components of the statement of comprehensive income have been prepared so that all components are stated exclusive of GST. All items in the financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

Our opinion

In our opinion, the accompanying financial statements of Synlait Milk Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 31 July 2022;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carried out other services for the Group in the areas of unusual transaction analysis, historic performance analysis and training services. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

DESCRIPTION OF THE KEY AUDIT MATTER

Temuka cheese manufacturing plant asset impairment

As disclosed within the Material events and other significant items section (page 52) and note 8 to the financial statements (page 73) the Group has recognised an impairment charge of $12.2 million against its Temuka cheese manufacturing plant assets (“Temuka assets”) which had a carrying value of $14.7 million as at 31 July 2022.

The Temuka plant was initially idled in July 2021 with the intention of modifying the plant to allow for whey optimisation, in line with the then Board approved business plan. In July 2022 the Board decided to continue idling the Temuka assets while it further evaluates various options for resuming operations.

Resumption of the operation of the plant is dependent on various factors which remain uncertain including the future global cheese market and further exploration of alternative operating models and capital investments. The idling of the plant and significant uncertainty over its future is an impairment indicator requiring an impairment test in accordance with NZ IAS 36, at an individual asset level.

Accordingly, the Group has performed an impairment test by assessing the plant’s recoverable amount being the higher of value in use and fair value less cost of disposal.

At the date the financial statements were approved there is insufficient evidence to suggest that the plant asset’s value in use, in its current state, will materially exceed its fair value less cost of disposal. The Group has therefore obtained an independent valuation of the plant on the basis of dismantling the plant and selling individual assets less cost of removal and disposal and identified an impairment charge of $12.2 million.

Due to the judgement required and significance of the impairment we have considered this a key audit matter.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We obtained an understanding of the Group’s relevant processes and controls over the impairment assessment.

We evaluated the appropriateness of the recognition of the impairment of the Temuka assets by:

- Obtaining an understanding of the decisions made associated with the Temuka plant operations and associated accounting implications, by reviewing;
  - Copies of board minutes and papers presented in relation to the future operation of the Temuka assets;
  - Management’s accounting expert’s advice in relation to the accounting considerations associated with the Temuka plant idling; and
  - The Group’s impairment assessment and analysis in relation to the Temuka assets.
- Considering management’s assessment on whether an impairment test is required at an individual asset or cash-generating unit level in accordance with NZ IAS 36 requirements;
- Challenging management’s assumptions around the Temuka asset’s value in use being materially in line with its fair value less cost of disposal by:
  - Assessing the level of uncertainty associated with the resumption of future operations of the plant;
  - Assessing whether the evidence to support the viability of future resumption of operations is reasonable and supportable as required by NZ IAS 36;
- Assessing the reasonableness of the valuation and resulting impairment charge, by:
  - Obtaining management’s expert valuation report in relation to the fair value less cost of disposal;
  - Assessing the expertise of management’s expert, the data used, and the assumptions applied in determining the fair value less cost of disposal, including the valuation method, age & condition of the plant, and cost of disposal;
  - Considering the completeness of carrying value of the Temuka assets included within the impairment assessment by analysing and agreeing to the fixed asset register;
  - Recalculating the impairment charge;
- Reviewing the disclosure included for compliance with NZ IAS 36 requirements.

DESCRIPTION OF THE KEY AUDIT MATTER

Sale and leaseback transaction

On 4 October 2021, the Group completed the sale and leaseback of its Auckland land and building located at 89 Richard Pearse Drive. The total consideration received amounted to $30.1 million and a gain on sale of $11.9 million has been recognised in other income. The Group has applied the sale and leaseback requirements under IFRS 16, as detailed in notes 1 and 11.

Due to the complexity in applying IFRS 15 and 16 to the sale and leaseback transaction and the financial significance of the one-off gain on sale we considered the transaction to be a key audit matter.

Key considerations in accounting for the transaction included:

a) Whether the transfer of the asset qualified as a sale in accordance with IFRS 15;

b) Whether any off-market terms of the sales price or lease payments existed which require an adjustment to the valuation of the right of use asset; and

c) The appropriate measurement of the right of use asset and gain/(loss) on sale.

In accordance with IFRS 16, the Group measured the right of use asset arising from the leaseback transaction as the proportion of the previous carrying amount of the asset that relates to the right of use retained. Therefore, the gain recognised is limited to the proportion of the total gain that relates to the rights transferred to the buyer-lessor.

Accordingly, after considering the proportion of the previous carrying amount of the land and building that relates to the right of use retained of $6.2 million, a gain on sale of $11.9 million was recognised by the Group within other income.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We obtained an understanding of the Group’s relevant processes and controls over the recognition of the sale and leaseback transaction.

With the assistance of our technical accounting team, we evaluated the appropriateness of the recognition of the sale and accuracy of the gain on sale and leaseback by:

- Obtaining and reviewing the sale and leaseback agreement;
- Considering whether the transaction met the definition of a “sale” in accordance with IFRS 15 including whether control transferred to the buyer-lessor;
- Assessing whether the sale proceeds and lease payments were at fair market value through the examination of supporting documentation including the marketing materials and the quantum, price and terms of offers received;
- Assessing and challenging management on key assumptions used in calculating the right-of-use asset and lease liability including the lease term, incremental borrowing rate and make-good provision.
- Recalculating the lease liability and right-of-use asset in accordance with IFRS 16 requirements;
- Considering the recognition of the gain resulting from the sale and leaseback transaction against IFRS 16 requirements. Specifically, ensuring that the gain recognised was limited to the proportion of the total gain relating to rights transferred to the buyer-lessor;
- Reviewing the disclosures included for compliance with the IFRS 16 disclosure requirements.

Our audit approach

Overview

Overall group materiality: $8,000,000, which represents approximately 0.5% of total revenues.

We chose total revenues as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Following our assessment of the risk of material misstatement, we selected Synlait Milk Limited and Dairyworks Limited entities for full scope audits, comprising the principal business units. Specified procedures over certain material balances and transactions and analytical review procedures were performed over the remaining entities.

As reported above, we have two key audit matters, being:

- Temuka cheese manufacturing plant asset impairment; and
- Sale and leaseback transaction

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Full scope audits were performed for two entities in the Group based on their financial significance being Synlait Milk Limited and Dairyworks Limited.

Specified audit procedures and analytical review procedures were performed on the remaining entities.

All audit procedures were performed by PricewaterhouseCoopers New Zealand.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Elizabeth Adriana (Adri) Smit.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
27 September 2022

The entrance to Synlait Pokeno where 86 members of our team work.

STATUTORY INFORMATION

01. BUSINESS OPERATIONS

Synlait is a milk nutrition company. We combine expert farming with state-of-the-art processing to produce a range of nutritional milk products. In the year to 31 July 2022, we made the following changes to our company structures.

On 25 May 2022, Synlait Milk (Dunsandel Farms) Limited was incorporated to hold the farmland adjacent to our Dunsandel facility known as the Dunsandel One and Dunsandel Two dairy farms. Since acquiring the properties in 2020, Synlait has spent time preparing these farms for re-commencing a dairy operation and has acquired the people, plant and cows required to effectively operate these farming units. On 1 June 2022 these farms successfully started their dairy milking operating under the control of Synlait. The long-term intention is to use the land to operate a profitable best practice dairy farm focusing on sustainability improvements. This supports Synlait's 10-year sustainability targets, which include a commitment to evolve best practice farming in New Zealand through the company's Lead With Pride™ programme. The land also provides Synlait with greater control over its water supply and processing water management. As part of that transaction, the prior company incorporated for this purpose was renamed to Synlait Milk (Holdings) No.1 Limited.

During 2022 Dairyworks (Australia) Pty Limited was deregistered, all functions are performed under the New Zealand entity Dairyworks Limited.

There were no other changes to the Company or its subsidiaries during the year.

02. DIRECTORS

Synlait's Directors are profiled on our website synlait.com/people/. This table sets out the people that held office (or ceased to hold office) as a Director of Synlait and its subsidiaries during the year ending 31 July 2022:

Company	Directors		Appointed
Synlait Milk Limited Synlait Milk Finance Limited	Dr. John Penno (Chair)	Board appointed	21 July 2013[1]
	Graeme Milne ONZM	Independent	23 March 2006[2]
	Dr. Gui Min	Bright Dairy Appointed	1 February 2022
	Min Ben	Bright Dairy Appointed	29 November 2016[3]
	Min Chen	Bright Dairy Appointed	1 December 2022
	Paul McGilvary	Independent	24 January 2022
	Hon. Ruth Richardson	Bright Dairy Appointed	16 November 2009[4]
	Sam Knowles	Independent	4 July 2013
	Sihang Yang	Bright Dairy Appointed	11 November 2010
	Simon Robertson	Independent	25 November 2020
	Qikai Lu	Bright Dairy Appointed	8 December 2015[5]
Company	**Directors**	**Changes during the period**	
The New Zealand Dairy Company Limited	Graeme Milne ONZM	Until 17 June 2022	
	Deborah Marris	Until 17 June 2022	
	Grant Watson	From 10 May 2022	
	Robert Stowell	From 10 May 2022	
Eighty Nine Richard Pearse Drive Limited	Graeme Milne ONZM	Until 17 June 2022	
	Deborah Marris	Until 17 June 2022	
	Grant Watson	From 10 May 2022	
	Robert Stowell	From 10 May 2022	
Synlait Business Consulting (Shanghai) Co., Limited	Martijn Jager		
	Deborah Marris		
	Boyd Williams		
Dairyworks Limited	Dr. John Penno	Until 17 June 2022	
	Timothy Carter		
	Grant Watson	From 10 May 2022	
Dairyworks (Australia) Pty Limited[6]	Deborah Marris	Until 14 June 2022	
	Craig Stevens	Until 14 June 2022	
Synlait Milk (Dunsandel Farms) Limited	Grant Watson	From 25 May 2022	
	Robert Stowell	From 25 May 2022	
Synlait Milk (Holdings) No.1 Limited	Deborah Marris	Until 17 June 2022	
	Grant Watson	From 10 May 2022	
	Robert Stowell	From 10 May 2022	

[1] Dr. John Penno had previously been a Director of Synlait Limited, which has since been removed from the Register of Companies. When first appointed to the Board of Synlait Milk Limited, John was CEO and Managing Director. In November 2018, following stepping down as CEO, he became the Board Appointed Director. In May 2021 John became Interim CEO following the resignation of Leon Clement. The Board determined that Dr. John Penno was the best person to act as Chair once Grant Watson took up the CEO role in January 2022. As a result of John's long history with the company, the Board considered that Dr. John Penno was not an Independent Director under the NZX Listing Rules. To manage the fact that Dr. John Penno was not an Independent Director, the Board sought to change the Constitution to enable the Chair to be either an Independent Director or the Board Appointed Director at the Annual Meeting on 1 December 2021. The resolution was passed by shareholders and John remains the Board Appointed Director.

[2] Graeme Milne retired from the Board on 24 January 2022.

[3] Min Ben retired from the Board on 1 December 2021.

[4] When first appointed to Synlait Milk Limited, Hon. Ruth Richardson was an Independent Director. In 2013, she became a Bright Dairy Appointed Director.

[5] Qikai Lu retired from the Board on 1 February 2022.

[6] Deregistered 14 June 2022

Synlait has considered the independence of its three Independent Directors against the definition in the NZX Listing Rules, the commentary to recommendation 2.4 in the NZX Code, and its Board Charter and is satisfied that its Independent Directors meet the requirements for independence.

As permitted by waivers from the NZX Listing Rules, Bright Dairy Holding Limited, a shareholder in Synlait, is entitled to appoint four directors to Synlait's Board. One of those Directors must ordinarily reside in New Zealand and have local commercial and governance experience appropriate for an NZX listed company. Currently that Director is the Hon. Ruth Richardson.

03. DIRECTOR INTERESTS

The following declarations of interest were made by Directors of Synlait and its subsidiaries under section 140 of the Companies Act 1993. Entries which are italicised indicate new disclosures during the year ended 31 July 2022.

Hon. Ruth Richardson
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director and Shareholder Ruth Richardson (NZ) Limited
Director New Zealand Taxpayers' Union
Trustee Christchurch Early Intervention Trust (from October 2021)
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Simon Robertson
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Alliance Group Limited
Director Ballance Agri-Nutrients Limited
Director Independent Timber Merchants Co-operative Limited (until 31 July 2022)
Trustee Robertson Family Trust
Trustee Norman Family Trust
Trustee G R Foot Trust
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

03. DIRECTOR INTERESTS (CONTINUED)

Min Chen[1]
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Sihang Yang
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Dr. John Penno
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Dairyworks Limited (until 17 June 2022)
Director Okuora Farms Limited
Chair and Shareholder Wangapeka River Hops Limited
Chair and Shareholder The Pure Food Co Limited
Director and Shareholder Leaft Foods Limited
Director and Shareholder Thorndale Dairies Limited
Director and Shareholder The New Zealand Merino Company Limited
Trustee John Penno Trust
Director and Shareholder Okuora Holdings Limited (and through Okuora Holdings Limited, shareholder in Pastoral Robotics Limited and The Pure Food Co Limited, shareholder and holder of convertible notes in Signum Holdings Limited and secured creditor of it and its subsidiaries)
Through Signum Holdings Limited, shareholder in Trust Codes Limited and Cloud Computing Continuation Services Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

[1] Min Chen was appointed to the Board on 1 February 2022.

Ian (Sam) Knowles
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Rangatira Limited
Director Fire Security Services 2016 Limited
Director Umajin Inc (USA)
Chair On-Brand Partners (NZ) Limited
Chair Tohorā Holding Limited
Chair Adminis Limited
Chair CFB Group Inc (USA)
Director Com Investments Limited
Director of Com Nominees Limited
Director Growthcom Limited
Director Montoux Limited
Director Westpac New Zealand Limited
Trustee Ruby Family Trust
Trustee WWF NZ
Trustee Com Trust
Trustee Ian Samuel Knowles Children's Trust
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Paul McGilvary[1]
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Deputy Chair AsureQuality Limited
Chair BVAQ Pty Ltd (Australia)
Director of the General Partner, WMS GP Limited in Waikato Milking Systems LP
Director Waikato Milking Systems Lease Limited
Director New Zealand Hops Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Dr. Gui Min[2]
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

[1] Paul McGilvary was appointed to the Board on 24 January 2022.
[2] Dr. Gui Min was appointed to the Board on 1 February 2022.

03. DIRECTOR INTERESTS (CONTINUED)

Grant Watson
Director Dairyworks Limited (from 10 May 2022)
Director Synlait Milk (Dunsandel Farms) Limited (from 25 May 2022)
Director Eighty Nine Richard Pearse Drive Limited (from 10 May 2022)
Director The New Zealand Dairy Company Limited (from 10 May 2022)
Director Synlait Milk (Holdings) No.1 Limited (from 10 May 2022)
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Robert Stowell
Director Synlait Milk (Dunsandel Farms) Limited (from 25 May 2022)
Director Eighty Nine Richard Pearse Drive Limited (from 10 May 2022)
Director The New Zealand Dairy Company Limited (from 10 May 2022)
Director Synlait Milk (Holdings) No.1 Limited (from 10 May 2022)
Director and Shareholder Orange Homes (2022) Limited (from 25 April 2022)
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Tim Carter
Director Dairyworks Limited
Director and shareholder Niko Holdings 2003 Limited
Shareholder Tatahi Holdings Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Martijn Jager
Director Synlait Business Consulting (Shanghai) Co. Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Boyd Williams
Director Synlait Business Consulting (Shanghai) Co. Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Deborah Marris
Director Synlait Business Consulting (Shanghai) Co. Limited
Director Synlait Milk (Holdings) No.1 Limited (until 17 June 2022)
Director Primary Collaboration New Zealand Limited
Director Eighty Nine Richard Pearse Drive Limited (until 17 June 2022)
Director Canterbury Grasslands Limited
Director and Shareholder BFGM Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

No new disclosures were made during the period by Graeme Milne ONZM who retired from the Board on 24 January 2022.

No new disclosures were made during the period by Min Ben who retired from the Board on 1 December 2021.

No new disclosures were made during the period by Qikai Lu who retired from the Board on 1 February 2022.

No Director requested to disclose or use information in their possession as a Director of Synlait or its subsidiaries that would not otherwise have been available to him or her. As permitted by section 162 of the Companies Act 1993 and our Constitution Synlait indemnifies and insures Directors and Officers against liability to other parties that may arise in the course of their activities as a Director or Officer. Details of the indemnities and insurance are kept in Synlait's Interests Register. This cover does not apply to any liabilities arising from criminal or reckless acts by our Directors or Officers.

For the purposes of section 148(2) of the Companies Act 1993, no further disclosures were made by the Directors in respect of the increases or decreases in their shareholdings.

04. DIRECTOR REMUNERATION

There was no change to annual fees paid to Directors of Synlait in this financial year. The below fees were approved by shareholders on 27 November 2019 and effective 1 April 2020, are:

Role	Fee
Directors, excluding the Chair and Committee Chairs	$88,900
Board Chair	$178,000
Audit and Risk Committee Chair	$104,150
People Environment and Governance Committee Chair	$100,900

This table sets out total remuneration and the value of other benefits received by Synlait Directors during the year ended 31 July 2022:

Directors	Role	Remuneration
Graeme Milne ONZM	Director Board Chair	$85,292[1]
Dr. John Penno	Director Board Chair	$135,307[2]
Simon Robertson	Director Audit and Risk Committee Chair	$104,150
Sam Knowles	Director People, Environment and Governance Committee Chair	$100,900
Albert Lu	Director	$46,303[3]
Edward Yang	Director	$88,900
Dr. Gui Min	Director	$42,598[4]
Min Ben	Director	$29,634[5]
Min Chen	Director	$59,267[6]
Paul McGilvary	Director	$46,303[7]
Hon. Ruth Richardson	Director	$88,900

Fees are not paid to Directors or employees of Synlait for acting as a Director of any Synlait subsidiaries.

[1] Graeme Milne retired from the Board on 24 January 2022.
[2] Dr. John Penno was appointed as Chair in January 2022, previously Board Appointed Director.
[3] Albert Lu retired from the Board on 1 February 2022.
[4] Dr. Gui Min was appointed to the Board on 1 February 2022.
[5] Min Ben retired from the Board in December 2021.
[6] Min Chen was appointed to the Board on 1 February 2022.
[7] Paul McGilvary was appointed to the Board on 24 January 2022.

05. DIRECTOR HOLDINGS

This table sets out the relevant interests held by Directors during the period in securities issued by Synlait:

Directors	Securities held (legally or beneficially) as at 31 July 2022	Securities held (legally or beneficially) as at 31 July 2021
Dr. John Penno	5,109,803 ordinary shares	5,109,803 ordinary shares
Graeme Milne ONZM	82,556 ordinary shares	82,556 ordinary shares
Dr. Gui Min	0	0[1]
Min Ben	0	0
Min Chen	0	0[2]
Paul McGilvary	0	0[3]
Hon. Ruth Richardson	66,025 ordinary shares	66,025 ordinary shares
Sam Knowles	64,803 ordinary shares	64,803 ordinary shares
Sihang Yang	0	0
Simon Robertson	13,324 ordinary shares	13,324 ordinary shares
Qikai Lu	0	0

06. EMPLOYEE REMUNERATION

During the year ended 31 July 2022, 363 employees (including former employees) of Synlait and its subsidiaries (not being Directors) received remuneration and other benefits, in their capacity as employees, of $100,000 or more, as set out below:

Salary bracket ($)	Number of employees
100,000 – 110,000	78
110,000 – 120,000	77
120,000 – 130,000	47
130,000 – 140,000	26
140,000 – 150,000	30
150,000 – 160,000	19
160,000 – 170,000	21
170,000 – 180,000	14
180,000 – 190,000	5
190,000 – 200,000	4
200,000 – 210,000	2
210,000 – 220,000	9
220,000 – 230,000	4
230,000 – 240,000	2
240,000 – 250,000	2
250,000 – 260,000	3
260,000 – 270,000	2
270,000 – 280,000	2
280,000 – 290,000	1
290,000 – 300,000	2
320,000 – 330,000	1
350,000 – 360,000	2
370,000 – 380,000	1
380,000 – 390,000	1
420,000 – 430,000	1
430,000 – 440,000	2
450,000 – 460,000	1
480,000 – 490,000	1
500,000 – 510,000	1
560,000 – 570,000	1
850,000 – 860,000	1
Total	**363**

Synlait's Strategic Remuneration Policy is approved by Synlait's People, Environment and Governance Committee. That Committee also reviews and recommends to the Board the remuneration of the Chief Executive Officer and the Executive Leadership Team.

Chief Executive Officer Remuneration

The table below sets out remuneration paid to Synlait's Chief Executive Officer in the year to 31 July 2022:

Remuneration	Dr. John Penno[1]	Grant Watson[2]
Salary	N/A	$408,653
Total fees paid	$479,167 plus GST	N/A
KiwiSaver employer contribution	N/A	$12,322
Medical insurance employer contribution	N/A	$592
Short term incentive scheme	N/A	N/A
Long term incentive scheme	N/A	N/A
Total remuneration	**$479,167 plus GST**	**$421,567**

07. DONATIONS

Dairyworks Limited, a subsidiary of Synlait, made cheese donations to a value of $12,276 in the year to 31 July 2022. These were the only donations made by the Synlait group in the financial year.

08. AUDITORS

In the year to 31 July 2022, Synlait's total payments to its auditors PricewaterhouseCoopers were as follows:

Statutory audit	$299,250
Half audit review	$68,250
Consulting	$31,000
Total	**$398,500**

[1] Dr. John Penno was Interim CEO until 24 January 2022.
[2] Grant Watson assumed the role of permanent CEO on 24 January 2022.

09. STOCK EXCHANGE LISTINGS

Synlait's ordinary shares have been listed on the NZX Main Board since 23 July 2013 (ticker code: SML). On 24 November 2016 Synlait completed a compliance listing on the ASX as a foreign exempt issuer (ticker code: SM1). As an ASX foreign exempt issuer, Synlait complies with the NZX Listing Rules (other than as waived by NZX Regulation) and is exempt from complying with most of the ASX Listing Rules, as set out in ASX Listing Rule 1.15. In November 2020, Synlait successfully completed a $200 million equity raising to complete the investment phase of its strategy and strengthen its balance sheet. The equity raise comprised a $180 million underwritten placement at a fixed price of NZ$5.10 per share and a $20 million underwritten share purchase plan at the same share price. In December 2019, Synlait issued $180 million of unsecured, subordinated, fixed rate bonds with an interest rate of 3.83% per annum. These securities are quoted and trade on the NZX Debt Market (ticker code: SML010).

10. TOP 20 SECURITY HOLDERS AND SUBSTANTIAL SECURITY HOLDERS

Synlait had the following securities on issue as at 31 July 2022:

- 218,581,661 ordinary shares
- 180,000,000 subordinated bonds.

Set out below are Synlait's 20 largest shareholders as at 31 July 2022:

	Number of shares held	Percentage of ordinary shares on issue
01. Bright Dairy Holding Limited	85,266,605	39.0%
02. The a2 Milk Company (New Zealand) Limited	43,352,509	19.8%
03. FIL Limited	17,839,860	8.2%
04. John Penno	5,109,803	2.3%
05. Vanguard Group Holdings	3,188,061	1.5%
06. BlackRock, Inc.	2,350,481	1.1%
07. State Street Corporation	2,222,505	1.0%
08. Oneroa Fish & Chip Family Trust	1,916,769	0.9%
09. First NZ Capital Custodians Limited (Various Private Investors)	1,875,107	0.9%
10. Pendal Group	1,731,544	0.8%
11. Smartshares Limited	1,605,694	0.7%
12. Chester Asset Management Pty Ltd	1,420,000	0.6%
13. Guardians of New Zealand Superannuation	1,183,510	0.5%
14. Dimensional Fund Advisors LP	1,134,600	0.5%
15. Norges Bank Investment Management	1,111,327	0.5%
16. New Zealand Funds Management Limited	1,084,364	0.5%
17. Paul & Bronwyn Lancaster	1,055,623	0.5%
18. Accident Compensation Corporation	972,606	0.4%
19. Abu Dhabi Investment Authority	925,414	0.4%
20. Landesbank Hessen-Thüringen Girozentrale	918,746	0.4%
Total	**176,265,128**	**80.6%**

According to notices given under section 280(1)(b) of the Financial Markets Conduct 2013, the following are Synlait's substantial product holders as at 31 July 2022. The number of shares owned is as advised by the shareholder in their last Substantial Security Holder Notice.

Substantial product holder	Number of ordinary shares in which relevant interest is held	Percentage of total ordinary shares on issue
Bright Dairy Holding Limited	85,266,605	39.0%
The a2 Milk Company Limited	43,352,509	19.8%
FIL Group Limited	17,839,860	8.2%
Total	**146,458,974**	**67.0%**

Set out below are Synlait's 20 largest bondholders as at 31 July 2022:

	Number of bonds held	Percentage of total bonds on issue
01. Custodial Services Limited	38,062,000	21.14%
02. Hobson Wealth Custodian Limited	26,306,000	14.61%
03. FNZ Custodians Limited	25,080,000	13.93%
04. Tea Custodians Limited Client Property Trust Account	22,615,000	12.56%
05. Forsyth Barr Custodians Limited	9,710,000	5.39%
06. Citibank Nominees (New Zealand) Limited	5,400,000	3.0%
07. RGTKMT Investments Limited	3,275,000	1.81%
08. Sierra Investments Limited	2,895,000	1.6%
09. JB Were (NZ) Nominees Limited	2,100,000	1.16%
10. National Nominees Limited	2,012,000	1.11%
11. FNZ Custodians Limited	1,289,000	0.71%
12. Hugh McCracken Ensor	994,000	0.55%
13. Masfen Securities Limited	981,000	0.54%
14. JP Morgan Chase Bank	905,000	0.5%
15. FNZ Custodians Limited	895,000	0.49%
16. Francis Horton Tuck	800,000	0.44%
17. Falstaff Investments Limited	768,000	0.42%
18. Hobson Wealth Custodian Limited	588,000	0.32%
19. Sterling Holdings Limited	550,000	0.3%
20. Zhuang Yin	550,000	0.3%
Total	**145,775,000**	**80.88%**

11. SPREAD OF PRODUCT HOLDERS

The spread of Synlait's ordinary shareholders as at 31 July 2022 is as follows:

Size of holding	Number of investors	Percentage of investors	Total number of shares	Percentage issued
1 – 1,000	3,013	43.72%	1,355,981	0.62%
1,001 – 5,000	2,569	37.28%	6,670,804	3.05%
5,001 – 10,000	702	10.19%	5,219,078	2.39%
10,001 – 50,000	511	7.42%	10,230,529	4.68%
50,001 – 1,000,000	79	1.15%	14,693,873	6.72%
1,000,001 and over	17	0.25%	180,411,396	82.54%
Total	**6,891**	**100%**	**218,581,661**	**100%**

The spread of Synlait's bondholders as at 31 July 2022 is as follows:

Size of holding	Number of holders	Percentage of holders	Total number of bonds	Percentage issued
1,001 – 5,000	58	6.26%	290,000	0.16%
5,001 – 10,000	158	17.06%	1,541,000	0.86%
10,001 – 50,000	568	61.34%	15,765,000	`8.76%
50,001 – 1,000,000	131	14.15%	23,660,000	13.14%
1,000,001 and over	11	1.19%	138,744,000	77.08%
Total	**926**	100%	**180,000,000**	**100%**

12. CREDIT RATING

Synlait does not have a credit rating.

13. NZX WAIVERS

On 10 November 2020 Synlait was granted waivers by NZX Regulation in relation to the share offer completed in 2020 ("Share Offer") comprising a NZ$180 million placement of shares ("Placement") and a $20 million share purchase plan ("Share Purchase Plan") ("Synlait Waiver"). A condition of the Synlait Waiver was that it was disclosed in the Share Offer document and in our Annual Report.

The Synlait Waiver provides waivers from Listing Rules 4.5.1, 4.5.1(e)(iii), 4.19.1 and 5.2.1 as set out below (with the conditions):

- **Waiver from Rule 4.5.1** to the extent required to allow any shares offered in the Share Purchase Plan and not taken up by existing shareholders to be issued to other persons without requiring approval by ordinary resolution.
  - **Conditions:** The waiver only applied to shares offered to existing shareholders under the Share Purchase Plan and as a result of the Share Purchase Plan being undersubscribed were offered to other persons and when aggregated with the number of shares under the Placement would exceed the 25% threshold in Rule 4.5.1. The Share Purchase Plan was required to be fully underwritten.
- **Waiver from Rule 4.5.1(e)(iii)** to the extent that the level of participation of Bright Dairy would be determined according to criteria applying to all persons participating in the Placement.
  - **Conditions:** Two directors of Synlait (not associated with Bright Dairy) were required to certify to NZX that:
    - Synlait was not unduly influenced by Bright in its decision to permit Bright to participate in the Placement at a higher level of participation than other persons;
    - Bright will not be involved in or influence any allocation decision in relation to the Placement;
    - Bright will not derive any benefit as a result of its higher level of participation other than to avoid its holding in Synlait being diluted as a consequence of the Share Offer.
- **Waiver from Rule 4.19.1** to the extent that the allotment of shares to Bright in respect of the subscriptions received under the Placement to occur within 10 business days of the closing date for the Placement.
  - **Conditions:** The allotment of shares to Bright occurs in part on the Placement allotment date and in part on the Share Purchase Plan allotment date.
- **Waiver from Rule 5.2.1** to the extent that Synlait would otherwise require Synlait to obtain approval of shareholders to enter into a material transaction with any related party in connection with the Placement (referred to as a relevant party).
  - **Conditions:** Two directors of Synlait (not associated with any relevant party) certifying to NZX that:
    - Synlait was not unduly influenced in its decision to undertake the Placement by the relevant parties;
    - The relevant parties who participate in the Placement will not be influence any allocation decision in the Placement;

13. NZX WAIVERS (CONTINUED)

  - The relevant party will not derive any benefit as a result of the related party relationship other than solely through participation in the Share Offer on the same terms as all other participants; and
  - Entry into the Placement is in the best interests of Synlait's shareholders.
- The effect of the NZX Waivers in the context of the Share Offer is to permit:
  - An increased number of shares (from what is otherwise provided for under the Listing Rules) to be issued under the Share Offer without shareholder approval;
  - The Share Offer to be fully underwritten, to allow any shares not taken up by eligible shareholders under the Share Offer to be issued to other persons without requiring shareholder approval (which when aggregated with the number of Shares issued under the Placement, may exceed the Placement threshold provided under the Listing Rules as modified by the Class Waiver);
  - Bright, The a2 Milk Company Limited and other related parties to be issued Shares in the Placement having an aggregate value above 10% of Synlait's average market capitalisation without shareholder approval; and
  - Bright to be issued such number of shares under the Placement that will ensure it is not diluted as a result of the Share Offer, which would otherwise cause Bright to lose its director appointment rights under the Constitution. Further details of these director appointment rights are included in the Annual Report.

Synlait also made the Share Offer relying on the Class Waiver and ruling issued by NZX Regulation dated 30 September 2020 (Class Waiver). The Class Waiver provides a waiver from Listing Rule 4.5 and a ruling in relation to the definition of "share purchase plan".

A copy of the Synlait Waiver and Class Waiver is are available at nzx.com and asx.com.au under the ticker code "SML" and "SM1", respectively). All of the conditions in the Synlait Waiver have been met.

Synlait continues to rely on waivers granted on 27 November 2019 from various NZX Listing Rules, allowing our Constitution and Board composition to reflect our non-standard governance arrangements, as described below.

Synlait listed on the NZX on the basis that Bright Dairy and Food Co Limited would be able to continue to consolidate Synlait into its group financial statements (that are prepared under China GAAP). At the time, Bright Dairy agreed with Synlait that for so long as Bright Dairy continued to hold between the Initial Percentage (being 39.119%) and 50% (inclusive) of the shares in Synlait in each case calculated in accordance with clause 22.5 of the Constitution (so as to exclude shares issued under employee share schemes or director remuneration), the following governance arrangements will apply to Synlait:

The Board comprises eight directors, made up of the following:

- Four directors appointed by Bright Dairy (the Bright Dairy Directors):
  - None of whom (i) are required to retire from rotation under the NZX Listing Rules, or (ii) are subject to removal by ordinary resolution of shareholders;
  - One of whom must be ordinarily resident in New Zealand and be a director of such standing and with such commercial and governance experience in New Zealand as is appropriate for a director of a NZX listed company – the Hon. Ruth Richardson is the current Bright Dairy Director meeting this requirement; and
  - All of whom are required to have appropriate skills and experience to ensure that Synlait has a suitable mix of skills and experience on the Board;
- Three directors who are not appointed by Bright Dairy and who must be Independent Directors; and
- One Managing Director, or, if a Managing Director is not appointed, a Board Appointed Director, who will be appointed by the Board. The current Managing Director or Board Appointed Director, and any Director proposed to fill that role, cannot vote on the appointment or replacement of the Managing Director or Board Appointed Director (as applicable). Consequently, Bright Dairy controls the composition of the majority of the Board as it has four out of seven votes on this appointment. Synlait does not currently have a Managing Director, but does have a Board Appointed Director, being Dr. John Penno, (together, these are the Governance Arrangements).

A summary of the waivers permitting these Governance Arrangements is set out below:

- The NZX Listing Rules allow Bright Dairy to appoint representatives to the Board so long as the proportion of the Board made up by their representatives is not greater than the proportion of the total shares in Synlait that they own. A waiver was required to permit Bright Dairy to appoint four Directors, or 50% of the Board, as Bright Dairy owns less than 50% of the shares in Synlait.
- The NZX Listing Rules prevent Directors from appointing alternates to act for in their place if they cannot attend Board meetings unless a majority of their co-Directors agree. A waiver has been granted to permit Synlait's Constitution to:
  - Allow a Bright Dairy Director to appoint another Bright Dairy Director to exercise their voting rights at a Board meeting they are unable to attend; and
  - Prohibit the non-Bright Dairy Directors from appointing alternate Directors. Synlait considers that it is important that Directors are encouraged to attend all meetings.
- The NZX Listing Rules require that Synlait's constitution permit a Director to vote on a decision in which they are interested, where that matter is one in respect of which Directors are required by the Companies Act 1993 to sign a certificate or relates to an indemnity contemplated by section 162 of the Companies Act. A waiver has been granted to allow Synlait's Constitution to prohibit the Managing Director (if it has one, which it doesn't currently) from voting or being part of the quorum on matters relating to his/her remuneration under any circumstances.

13. NZX WAIVERS (CONTINUED)

- The NZX Listing Rules prevent the imposing of conditions on who may be appointed as a Director, except as specifically contemplated by the Rules. A waiver has been granted so that Synlait is permitted to required that persons who may be appointed to the three non-Bright Dairy Director positions must be independent.

These waivers are subject to the conditions that:

- Bright Dairy continues to hold no less than 39.119% of Synlait's shares, calculated in accordance with Synlait's Constitution.
- The Governance Arrangements are contained in Synlait's Constitution and will cease to apply when Bright Dairy ceases to own between 39.119% and 50% (inclusive) of the shares in Synlait, calculated in accordance with Synlait's Constitution.
- Full and accurate disclosure of all material aspects of the Governance Arrangements and Synlait's reliance on these waivers is made in any offer document, and in every annual report while these waivers are being relied on.
- Synlait continues to bear a non-standard designation to notify the market of its unique governance arrangements.
- The quorum for a Board meeting must include two Independent Directors, and Synlait must have three Independent Directors (compared to the two Independent Directors required by the NZX Listing Rules).
- Immediately on Bright Dairy ceasing to hold 39.119% of the shares in Synlait, Synlait comply with the provisions in its Constitution requiring that some of the Bright Dairy Directors must resign to keep the proportion of Bright Dairy Directors on the Board consistent with the proportion of the total shares in Synlait owned by Bright Dairy.
- Bright Dairy Directors must retire by rotation at the next annual meeting following the drop in shareholding below that threshold, irrespective of whether they have been the longest in office.

A copy of these waivers, and other waivers Synlait has obtained, or relied on can be found in the investor centre of Synlait's website.

14. NZX CORPORATE GOVERNANCE CODE

Synlait's statement on the extent to which Synlait has followed the recommendations in the NZX Code during the year to 31 July 2022 can be found at: synlait.com/investors/corporate-governance

Synlait's operating subsidiaries operate largely independently from Synlait. Synlait does not require them to comply with the recommendations in the NZX Code.

15. GENDER COMPOSITION

This table sets out the gender composition of Synlait's Directors and Officers (CEO and direct reports to CEO) as at 31 July 2022. The prior year's comparison is in brackets.

Group	Female	Male	Total
Board	3 (2)	5 (6)	8 (8)
Officer	2 (2)	7 (7)	9 (9)
Total	**5 (4)**	**12 (13)**	**17 (17)**

16. PERFORMANCE AGAINST DIVERSITY POLICY

Synlait's Diversity and Inclusion Policy promotes a culture of diversity and inclusiveness, putting in place appropriate strategies and measurable objectives. We aim to achieve three main goals:

- Workforce diversity – employ, develop and retain more women and Māori.
- Diversity through leadership – empower and equip our people leaders to recruit, develop and retain a diverse and competent workforce.
- Workforce inclusion – foster a culture that encourages flexibility and fairness, to enable all employees to realise their potential, and thereby increase employee retention.

To help us meet these goals we have our Mātua (Parental Leave) Policy and our Tāwariwari (Flexible Working) Policy, and report to the Board on candidate diversity. Our success will be measured against the following as at the end of 2023. The prior year's comparison is in brackets:

Measure	Progress at 31 July 2022 – compared to FY21
Reduction of the gender pay gap to ≤ 5%	14% (10%)
40-50% of leadership positions (people leaders, supervisors, specialist roles and senior leadership) held by women	37% (36%)
No regretted losses of high potential female employees	8 (1)

DIRECTORY

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