Synlait

ANNUAL REPORT 2023

Doing Milk Differently
For A Healthier World

WELCOME TO SYNLAIT'S ANNUAL REPORT

Our Annual Report reviews Synlait Milk Limited's (Synlait) and subsidiaries' financial performance and business achievements for the year ended 31 July 2023.

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

We are always looking for ways to improve our reporting. Please email any feedback to: **investors@synlait.com**

CORPORATE GOVERNANCE

Our Corporate Governance Statement describes Synlait's current compliance with the NZX Corporate Governance Code (NZX Code) recommendations in the year to 31 July 2023.

The Corporate Governance section of the Annual Report can be found on Synlait's website: **synlait.com/investors/corporate-governance-2023/**

SUSTAINABILITY REPORTING

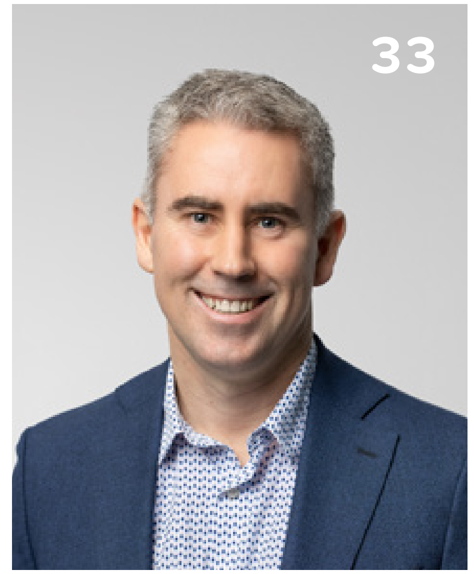
Synlait releases a standalone sustainability report each December. The report reviews Synlait's strategy and initiatives to achieve our sustainability objectives and targets.

Reddecliffe Farm, Beautiful Valley, Canterbury.

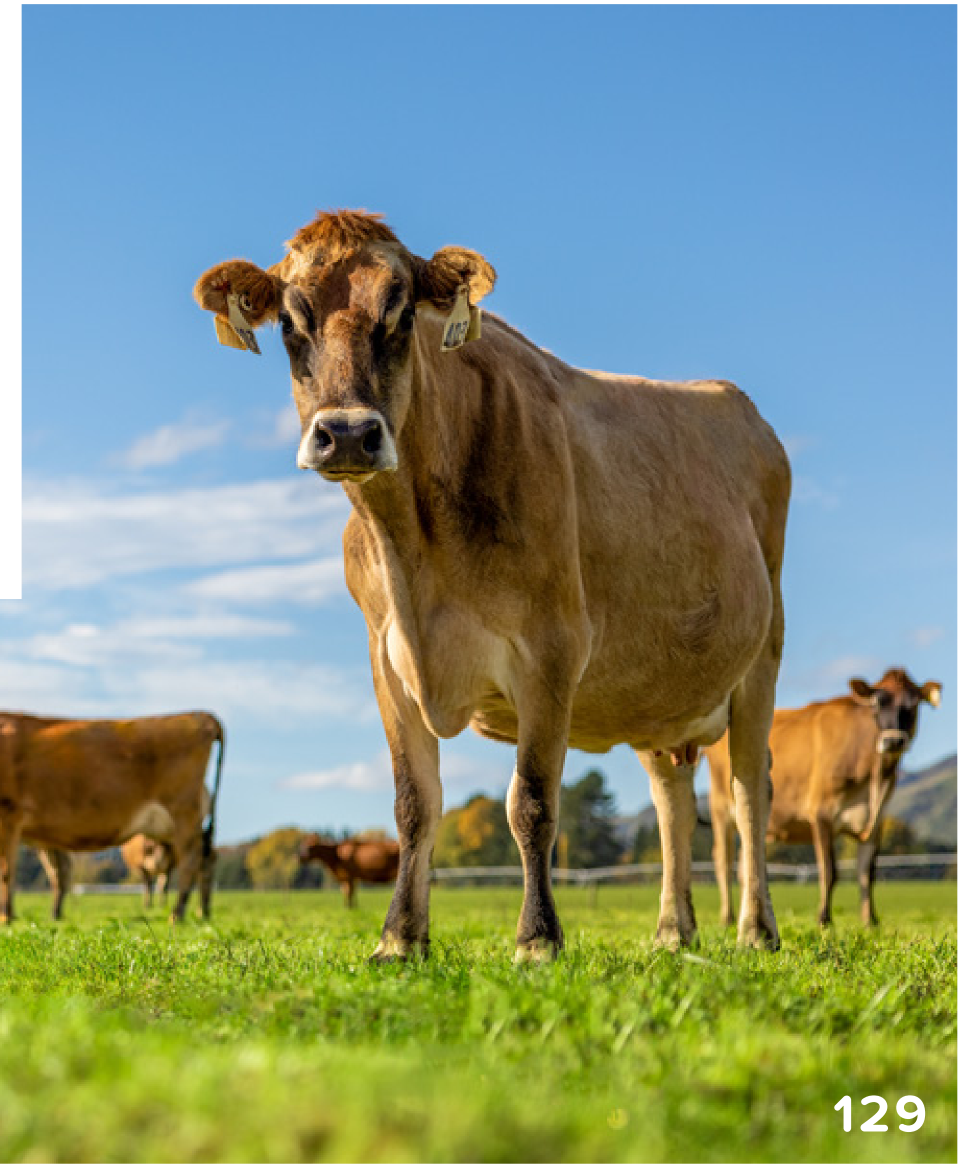
Dean and Nicky Reddecliffe and their farm team – finalist at Synlait's Annual Dairy Honours Awards in the *For A Healthier World* category.


01


09


33


15


129

Brendon Dolan from BP Dolan Farms, Canterbury – winner at Synlait's Annual Dairy Honours Awards in the *Doing Milk Differently* category.

CHAIR REVIEW

Simon Robertson

Welcome to our 2023 Annual Report

The report highlights our work to create a more focused Synlait. Our financial results are challenging, and not where we need them to be, but tactically, we are building the foundations for a stronger Synlait; playing to our strengths while continuing to diversify our products, markets, and customers.

Our refreshed strategy (summarised on page 17) leverages Synlait's strengths in our world-class capabilities and experience in partnering to produce high-value Advanced Nutrition and Foodservice products. Over the coming 12 months, the Board will support Management to continue building stronger foundations. We will address our balance sheet (through the intended divestment of Dairyworks and its Temuka assets); right sizing our cost base to current activities and near-term growth opportunities; delivering and building on current and prospective Advanced Nutrition and Foodservice customer opportunities; and lifting our overall operational performance.

Over the last 12 months, Synlait has navigated challenges and learned a lot. We have experienced customer forecast demand and production changes; operational stability and cost challenges such as CO_2 shortages; a tight labour market; extreme weather events; inflationary pressures; and the stabilisation of our Enterprise Resource Planning (ERP) system. Some of these challenges were market-driven, others our own, but importantly, the team has adapted and reflected, and is driven to create a more focused Synlait.

Setting the scene for a more focused Synlait: market dynamics changed post-COVID-19

Towards the middle of the 2022 calendar year, the world reached a turning point in the COVID-19 pandemic. While restrictions started falling away, the pandemic's economic impact became clear. This was particularly evident in China, which plays a critical role in global dairy markets as the world's largest importer, New Zealand's largest trading partner, and the largest export market for Synlait's customers.

The easing of COVID-19 restrictions has had a dramatic impact in China. A Government push for food security and safety means China has invested significantly in domestic dairy production driven by favourable policy change. This is evident in two places on-farm: since 2015 the percentage of Chinese dairy herds with more than 1,000 heads increased 20% to 44% as local consumers demanded high-quality premium milk. Secondly, milk production has also tripled over the last 20 years to approximately 39.3m metric tons in 2022. Substantial capital investment in local manufacturing assets has created a robust domestic dairy industry, and the insular nature of COVID-19 played to this.[1]

Chinese birth rates fell 10% in 2022[2], property prices weakened, and youth unemployment rose. Consumer habits have also evolved as support for made-in-China products has grown across many industries. For example, the Chinese infant formula industry was previously boosted by high-paying consumers favouring global, westernised brands. The made-in-China mentality and the re-registration of all infant formula products required under China's new GB (food safety) legislation has flipped this dynamic, resulting in more domestic and fewer global brands, increasing local market share as the industry consolidates.

What a more focused Synlait looks like, leveraging our core Advanced Nutrition and Foodservice capabilities

The current China market dynamics present a short-term challenge for all exporters, but Synlait is well placed to adapt. We have the capabilities, assets and market access which mean the building blocks are in place.

As the CEO Report on page 15 details, we have a clear competitive advantage, or right to win, in our chosen areas, Advanced Nutrition and Foodservice, supported by our disciplined and well-run Ingredients business. Our core food safety and quality and manufacturing capabilities, highly integrated value chain, Advanced Nutrition and Foodservice know-how, and industry-leading sustainability credentials set us apart.

Advanced Nutrition is defined as formulated powders in bulk or consumer-ready format, formulated beverages, and speciality nutritional ingredients that our customers sell to consumers. We don't just consider this infant formula, but also paediatric or adult nutrition products. The world's population is ageing and driving greater demand for Adult Nutrition solutions. Adult Nutrition is currently a USD $63 billion global market with an 8% compound annual growth rate (CAGR), and the Asia Pacific region is showing the same growth rates as consumer awareness increases. With the requirements to manufacture infant and adult nutrition solutions being similar, Synlait is well positioned to leverage its expertise and assets to enter this category. We are playing to our strengths, while continuing to diversify our products, markets, and customers within the Advanced Nutrition category. We are building out our portfolio of opportunities for the medium term within Southeast Asia and China, with related new product development work focused on Adult Nutrition.

Ensuring greater focus and execution in Advanced Nutrition and Foodservice was why, in June, we announced our intention to divest Dairyworks and its Temuka assets. A divestment will enable our team to focus solely on growing the highest margin segments of our value-add, B2B Advanced Nutrition and Foodservice businesses, where we already have world-class assets, capacity, know-how, and most importantly, partnerships with global customers such as Savencia, Nestle, Danone, and The a2 Milk Company, to deliver products for their consumers. China remains a key market for several of these customers and the access we have secured via our State Administration for Market Regulation (SAMR) re-registration this year is clear proof of our success and access in this market and category. Synlait has retained its China market access as the industry consolidates, a clear endorsement of the quality of the products we manufacture.

Creating a high performing team

On behalf of the Board, I want to acknowledge the leadership of Grant Watson, our CEO, who has been in the role for 18 months. Grant is placing greater importance on our team's delivery and its alignment with strategy. He is laser-focused on ensuring everyone from a Red Line Cleaner or a Process Technician to a Head of a department or Executive Leadership Team (ELT) member understands our strategy and the role they play in delivering it.

1 Huang, China Dairy Outlook Through 2023, 4.
2 Statista, "Number of births per year in China from 2012 to 2022."

The ELT has transformed over the last 12 months, with Grant building a high-quality team alongside Adam Maxwell, Rob Stowell, Suzan Horst, and Tim Carter, who have been part of Synlait for some time. The capability and culture of the ELT have significantly lifted with Abby Ye, Cathy Gamlen, Charles Fergusson, Glenn Laing, Naiche Nogueira and Paul Mallard joining us (see page 30 for more information).

I would also like to acknowledge the changes around our Board table. We farewelled independent Director Sam Knowles at the Annual Meeting, who retired by rotation. Sam joined Synlait just before our NZX listing in 2013. Thank you to Sam for his invaluable contribution to Synlait's strategic direction and growth during this time. Paul Washer replaced Sam and has been a great addition to our team, taking on the Audit & Risk Committee Chair role. We are seeing the benefits of Paul's significant listed company and industry experience.

Our largest shareholder, Bright Dairy, also changed their Board appointed Directors earlier this calendar year, with Liu Ruibing (Ryan), the CFO of Bright Dairy, and Zhu Yi (Julia), the Vice President of Bright Dairy, replacing Min Chen (Joyce) and Gui Min (Gracie). Julia and Ryan bring significant finance, corporate management, and strategic planning experience, strengthening our governance.

Thank you to the Board and ELT for your contribution and ongoing energy to Synlait during a challenging 12 months. Your endless passion for our business is energising.

What it means to be a B Corp™

As I mentioned in my last shareholder letter, I strongly believe in Synlait's purpose, *Doing Milk Differently For A Healthier World*. It has shaped who we are, what we stand for, and what we do. From day one, Synlait has been a catalyst for change in our industry and becoming a B Corp™ committed us to balancing people, planet, and profit.

In 2021, B Corp™ announced that a company's constitution must include a B Corp™ purpose statement and stakeholder clause. Adopting the requirement is committing to a higher standard of accountability in our decisions and signals to our stakeholders that our purpose is core to Synlait. We have also found our B Corp™ status a highly effective way of connecting our people to our purpose. At our Annual Meeting in December, the Board will request your support to endorse this constitutional change.

The B Corp™ value set has been part of Synlait for many years, with sustainability being a key focus around our board table, board committees and represented in our ELT. We are already leading in this space, and the values are consistent with our strategic ambitions to create high-value nutritional solutions in our Advanced Nutrition and Foodservice businesses. Today's consumers have high expectations of how we should care for our community, and we must deliver on this. I look forward to sharing more information with you in our Notice of Meeting and hope we can count on your support.

Thank You

Finally, thanks to our farmer suppliers and staff. The New Zealand dairy industry is facing tougher times. Without the support of each of these groups, we cannot produce high-quality and safe products for our global customers. Thank you for your commitment, passion, and loyalty to Synlait.

The Board acknowledges that our current financial and share price performance is unacceptable. A reality of the Synlait story in the short term is that we are a highly leveraged business. If we do not right-size our balance sheet to the size of our business, we will not have the freedom to accelerate on near and medium term opportunities at the pace our customers, and their consumers, demand.

I want to reassure you that the news we received from The a2 Milk Company last week about the purported cancellation of the exclusivity arrangements under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for the a2 Platinum® and other nutritional products is not expected to impact our FY 24 results. Synlait disputes that The a2 Milk Company has the right to cancel the exclusivity arrangements. Our complete response to The a2 Milk Company is in the Investor Presentation which was released with this Annual Report.

The Board's priority is to support Grant and his team. We have a clear plan in place and an extremely capable leadership team to ensure we deliver stronger execution. We are committed to creating a more focused Synlait, for you, our shareholders. Thank you for your support.

Regards

Simon Roberston
Chair

Sam Taylor, Reddecliffe Farm, Beautiful Valley, Canterbury.

CEO REVIEW

Grant Watson

Tēnā koutou shareholders

It was an extremely challenging year for Synlait. We delivered a poor financial result with an adjusted total net profit after tax (NPAT) of $2.5 million (adjusted total EBITDA of $95.6 million). Various factors contributed to our financial performance, including material reductions in customer demand, CO_2 shortages, extreme weather events, the COVID-19 pandemic, inflationary and significant costs associated with the launch and stabilisation of our enterprise resource planning (ERP) system. Some factors were outside our control, and others were within our control.

A complete summary of our financial performance is available in the Investor Presentation released with this Annual Report.

Despite the challenges, our team delivered a number of significant successes, putting us into a much stronger position for the year ahead. These successes, detailed further on page 21, include achieving the State Administration for Market Regulation re-registration, which secures our China market infant formula access for The a2 Milk Company through until September 2027, establishing the Synlait Farmer Leadership Team, the launching of functional foodservice cream (Joyhana) in China, and taking our Executive Leadership Team (ELT) through a phase of renewal. Our Ingredients and Dairyworks businesses also delivered strong financial results.

Laying the foundations for FY 24 and beyond

Our Chair, Simon Robertson spoke to further challenging times ahead in the short to medium term. We face difficult market dynamics in China, softening global economies more generally, and inflationary pressures across our cost base.

To ensure Synlait can navigate its way through this, we are highly focused on driving the quality of our execution. As we move forward, it is critical that our strategy is more focused and that our resource base is appropriately aligned to deliver against our plan.

Our ELT and Board were actively involved with our strategy refresh during the year. As a part of this, we made the decision to double down on our value-add B2B businesses, Advanced Nutrition and Foodservice, where we have a clear competitive advantage and right to win. We also announced our intention to divest our Dairyworks business and associated Temuka assets.

We are creating a more focused Synlait. Our five-year strategy is on the next page and includes seven sections. It is designed to be a simple story that sets out our ambitions and focus areas for Synlait during the coming years. The key components of each section are summarised.

FY 24 – focusing on the basics and rebuilding momentum

It was pleasing to announce the successful completion of our planned bank refinancing last week. Our banking group remains supportive, and we are pleased to welcome the Bank of China, China Construction Bank, HSBC, and Rabobank to the syndicate alongside ANZ.

We also responded to The a2 Milk Company's announcement last week and confirmed we had received notice from The a2 Milk Company purporting to cancel the exclusivity arrangements under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for the a2 Platinum® and other nutritional products.

Synlait disputes that The a2 Milk Company has the right to cancel the exclusivity arrangements. The dispute resolution process involves a 20-business day period of good faith negotiation between Synlait and The a2 Milk Company, followed by arbitration (if not resolved). This is not expected to impact our FY 24 results. Our complete response to The a2 Milk Company is in the Investor Presentation, which was released with this Annual Report. We will keep you updated on progress.

Thank you to our shareholders, staff, farmer suppliers, and customers for your support and loyalty during an extremely challenging year. As an ELT and Board, we are excited by the opportunities ahead and will continue to tackle a range of challenges as we focus on the basics and actively rebuild our momentum. Our team are highly focused on lifting our performance and returning to profitability as we look ahead to a new and exciting era in our company's history.

Nāku noa, nā

Grant Watson
CEO

SYNLAIT STRATEGY FY 24 – FY 28

AMBITION
TO FY 28

- Farmer Net Promoter Score Top Quartile
- Customer Net Promoter Score Top Quartile
- Staff Engagement Top Quartile
- IWS Level 2
- Return on Capital 15%
- B Corp™ Score of 105

Ambition is what Synlait's success looks like in five years. There are three metrics relating to farmer, staff, and customer engagement, along with precise operations, financial, and sustainability metrics.

RIGHT TO PLAY
STRONG FOUNDATIONS

- Food Safety and Quality
- Highly Utilised, Efficient Plants
- Advanced Nutrition and Foodservice Know-How
- Integrated Value Chain
- Regulatory Know-How
- Sustainability Credentials

Right to Play is Synlait's core capability; some might refer to this as our tickets to the game.

- **Food Safety and Quality –** meeting high-quality standards is non-negotiable. We must meet accreditation standards in New Zealand and each country we export to.
- **Highly Utilised and Efficient Plants –** our modern assets must run efficiently and effectively to achieve an acceptable (or better) return on capital (one of our ambitions).
- **Advanced Nutrition and Foodservice Know-How –** we are experts in these channels across all areas of Synlait, from manufacturing and product innovation to customer relationships.
- **Integrated Value Chain –** our supply chain must be strong from farm to customer.
- **Regulatory Know-How –** we understand and align to regulations in New Zealand and the countries we export to.
- **Sustainability Credentials –** our B Corp™ accreditation demonstrates our commitment to strong sustainability credentials in all that we do.

CHANNELS
BUSINESS TYPES

- Advanced Nutrition
- Foodservice
- Ingredients

Channels (or business units) are the areas Synlait is focusing its efforts.

- **Advanced Nutrition –** formulated powers in bulk or consumer-ready format, formulated beverages, and speciality nutritional ingredients that our customers sell to consumers.
- **Foodservice –** products such as functional UHT cream are sold to customers who turn them into finished products for out-of-home consumption at bakeries, cafes, beverage chains, etc.
- **Ingredients –** bulk milk powder and other bulk products sold to manufacturers, who use them in a range of applications.

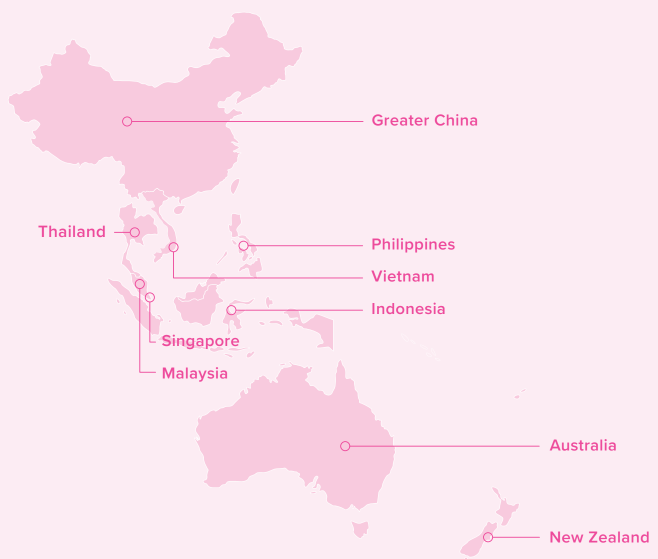
CATEGORIES
PRODUCTS

- Infant Nutrition
- Adult Nutrition
- Advanced Ingredients
- Foodservice Cream
- AMF and Butter (TBC)
- Cream Cheese (TBC)
- Commodity Powders

Categories are the products Synlait manufactures within its channels (business units).

- **Infant and Adult Nutrition –** infant formula, paediatric or adult nutrition products.
- **Advanced Ingredients –** lactoferrin products.
- **Foodservice Cream –** UHT cream.
- **Butter and Cream Cheese** are TBC. These opportunities are currently being considered.
- **Commodity Powders –** whole milk powder, skim milk powder, etc.

SYNLAIT STRATEGY FY 24 – FY 28 (CONTINUED)



GEOGRAPHIES
GROWTH MARKETS

Geographies are countries and regions where Synlait invests resources. These include New Zealand, Australia, China and selected Southeast Asian markets.

RIGHT TO WIN
COMPETITIVE ADVANTAGE MODELS

FARMER SUPPLIERS

CUSTOMERS

Right to Win is how Synlait differentiates itself from its competitors. We must have an operating model with our farmer suppliers and customers that sets us apart from our competitors.

KEY ENABLERS
OF EXECUTION

On-Farm Excellence | Best In Class Customer Engagement | Disciplined Product Innovation | High Performance Culture | Systems, Tools and Processes | World Class Manufacturing and Supply Chain

Key Enablers are focus areas across Synlait to ensure we execute with excellence. Our six focus areas are:

On-Farm Excellence

- Farmer Supplier Cashflow and Payment System
- Sustainability Enabled via Lead With Pride™
- Digital Tools and User Experience
- Industry and Community Engagement
- Farmer Communications and Engagement

Best In Class Customer Engagement

- Deep Market Expertise
- Deep Customer Expertise
- Tailored Value Propositions and Solution Offerings
- Joint Business Planning and Customer Satisfaction Measurement
- Sales, Pricing, and Customer Service Capability
- Digital Solutions

Disciplined Product Innovation

- New Product Development (NPD)/ New Technology Development (NTD) for Advanced Nutrition
- NPD/NTD for Advanced Ingredients
- NPD/NTD for Foodservice/Liquids
- NPD for Ingredients
- Development of Subject Matter Expertise
- Disciplined Innovation Processes

High Performance Culture

- Synlait Safe (Health, Safety and Wellbeing)
- Leadership
- Talent and Succession
- Capability and Development
- Reward and Recognition
- Employee Value Proposition

Systems, Tools and Processes

- SAP
- Integrated Business Planning
- Business Performance Information
- Strategic Planning, Accountability and Execution
- Information Services Strategy and Roadmap

World Class Manufacturing and Supply Chain

- Food Safety, Quality, Regulatory and Laboratory
- Integrated Work Systems
- Procurement and Logistics
- Asset Care Strategy
- 10 Year Asset Masterplan

10 SUCCESSES TO CELEBRATE

The last financial year was challenging for many, and Synlait also felt the impact. Here are the ten successes we are proud of and celebrated at Synlait Day, our staff conference held in June, which helped us make significant progress in key strategic areas.

1 WE ACHIEVED SAMR RE-REGISTRATION!

Our success

Synlait achieved re-registration of The a2 Milk Company's Chinese labelled 至初® Infant Formula (stages one, two and three). Re-registration was a key priority for us this year, and we were notified of the successful registration by the State Administration for Market Regulation in June 2023.

The impact

Re-registration allows Synlait to manufacture and export this product for the China market until September 2027. It is pivotal for the ongoing success of the manufacturing and supply agreement that Synlait and The a2 Milk Company have. Over the last three years, the project involved Synlait and The a2 Milk Company team members.

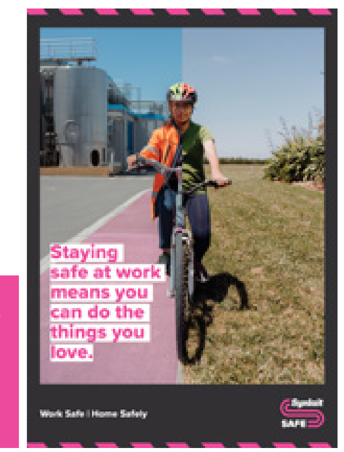
2 SYNLAIT SAFE IS BECOMING 'HOW WE DO THINGS AT SYNLAIT'

We're regularly talking and thinking about our

PB5s

Total Recordable Injury Frequency Rate (TRIFR) has reduced to

10.6



Our success

Synlait launched its internal health and safety initiative called 'Synlait Safe' in November. Designed to inspire staff to make a meaningful commitment to safety, it focused on the reason staff want to be safe at work, to get home safely. Activations, competitions, communications, training, motivational speakers and mailouts prompt conversations about the importance of safety.

The impact

Our goal is to Work Safe | Home Safely. By integrating critical elements of our cognitive behavioural safety programme (Synlait Safe mindsets), we have achieved a clear shift in mindset and culture across our workforce. Since launching Synlait Safe, we have seen our TRIFR reduce by >30%. It is sitting at 10.6 (FY 22: 14.9). We will continue working to reach our goal of having no injuries.

* PB5: Synlait Safe creates a clear and collective view of our health and safety performance, setting a standard to ensure we all go home to our Personal Big 5 (what and who we are staying safe for), which we call our PB5.

3 SYNLAIT FARMER LEADERSHIP TEAM ESTABLISHED

8

Committed Farmer Suppliers in team

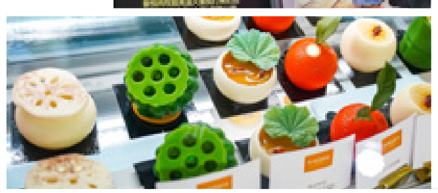
Our success

Synlait established a Farmer Leadership Team of eight farmer suppliers. These eight farmers are a conduit between Synlait and our farmer supplier base. The team provides feedback and direction on Synlait's strategic choices and prioritisation of tactics.

The impact

Synlait has regularly connected with the group, and we have hosted them at each site throughout the year. Constructive challenge and healthy tension will always be welcome around this table. By leveraging this team, Synlait and our farmer supplier base will collectively become stronger.

4 JOYHANA UHT WHIPPING CREAM LAUNCHED AND WON AN INNOVATION AWARD



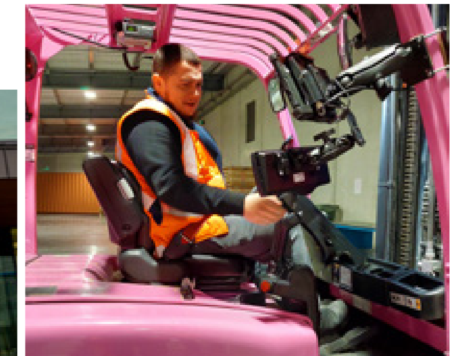
Our success

We were thrilled to see our Joyhana UHT Whipping Cream win the 'New Product Innovation Award' at May's prestigious China International Bakery Exhibition. The recognition comes just months after Joyhana was launched alongside our local partner, Sinodis, in China.

The impact

Joyhana has been extremely well received at local launch events held across China. We continue to see strong and increasing demand for the product due to its superior functional performance and unique properties.

5 OUR NEW ENTERPRISE RESOURCE PLANNING SYSTEM WENT LIVE!



Our success

We officially switched on our new Enterprise Resource Planning system on 1 August 2023. Implementing this software impacted every aspect of our systems and processes for the better.

The impact

We have over 250 people using the new ERP system daily, and we are beginning to see the benefits of what a modern, organisation-wide system like this can bring to Synlait. Introducing the new ERP system was challenging but well-supported by our entire team. We have learned plenty about our internal processes and how to use the platform through data-driven decision-making.

6 ENGAGEMENT LIFTED

Our engagement score is currently

4.05

Employee engagement ratio increased to

5.7:1

Our success

We measure the level of employee engagement regularly across all team members. This is part of our activity to ensure Synlait continues to be a great place to work. We have seen a strong lift in our overall employee engagement ratio, which has increased throughout the year to 5.7:1 (5.7 engaged people for each actively disengaged employee) (FY 22: 5.67:1).

The impact

Across the year, our engagement score has held consistently between 4.03 to 4.05 (FY 22: 4.05). The engagement and enthusiasm of Synlait's people are key to our future success.

7 PALMERSTON NORTH CELEBRATED FIVE YEARS

Our success

Synlait has a talented group of 20 research-focused team members, with 17 working at our Palmerston North office. The Palmerston North team work on a shared site at Massey University, selected so we could collaborate on cutting-edge liquids research. We celebrated five years at the site in March.

The impact

The celebration allowed us to acknowledge the growth we have seen, the excellent work produced by this innovative team, and the incredible contribution they make to Synlait. The team's innovations have included commissioning a UHT pilot plant, commercialising Joyhana and several consumer beverages, and filing an Advanced Nutrition patent.

8 OUR JOURNEY TO NET POSITIVE FOR THE PLANET IS PROGRESSING

Boiler 2 transitioned to biomass (wood pellets) as a fuel source, reducing Synlait Dunsandel site emissions by approximately

40%

60,000

Trees planted this calendar year

Our success

Since Synlait announced its sustainability strategy in 2018, we have continued to work towards our goal for our net business impact to be positive for the planet with our restorative and regenerative agriculture, manufacturing, and supply chain processes.

The impact

We transitioned Boiler Two at Synlait Dunsandel to use biomass (wood pellets) as a fuel, enabling a significant emissions reduction step over time. We have also progressed with our commitment to planting native trees through Whakapuāwai, with 60,000 trees to be planted in the 2023 calendar year.

9 MAY WAS AN AMAYZING RECORD MONTH!

19,143

Metric tonnes of ingredients invoiced

21,194

Metric tonnes of product shipped

188

Trucks loaded with 1,186 TEU

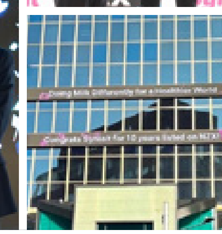
Our success

While the year began with some challenges, the production and release of product generated strong momentum in the second half of our financial year when we achieved a record month in May 2023. During the month, we had 188 loaded trucks leave our Synlait Dunsandel site and shipped over 21,000 MT of product.

The impact

The previous record was 16,000 MT. Our ability to hit this new record was due to the incredible effort of every team member involved in the process.

10 WE CELEBRATED 10 YEARS LISTED ON NZX



Our success

We were pleased to celebrate 10 years of being listed on the New Zealand Stock Exchange (NZX) in June. Having Synlait listed as a public company in 2013 was a key milestone for the company as we were becoming established as a disruptive industry leader, and it was important to acknowledge this milestone.

The impact

Being listed on the NZX has significantly lifted our profile and provided the opportunity for market credibility and access to raise capital funds to support the company as we have expanded over the last decade.

Sam Mallard, Align Farms, Farm Manager.

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 2023 award winners!

DOING MILK DIFFERENTLY AWARD

BP Dolan Farms Ltd

KOTAHITANGA AWARD

Jersey Oaks Ltd

FOR A HEALTHIER WORLD AWARD

Dewhirst Land Company

QUALITY BY DESIGN AWARD

Align Farms Ltd (Sam Mallard pictured)

SUPREME LEAD WITH PRIDE™ AWARD

North Island: Torrens Land Ltd
South Island: K & T Pastoral for Mt Hutt Dairies Ltd

GREENHOUSE GAS AWARD

North Island: S and J Brighouse Ltd
South Island: Mount Rivers Ltd for Mount Rivers Holdings

BEST MILK QUALITY AWARD

North Island: Green Grass (2003) Ltd
South Island: Lieuwes Abbott Ltd

LOWEST SOMATIC CELL COUNT AWARD

North Island: Maharee Farms Ltd
South Island: Lieuwes Abbott Ltd

BEST MILK QUALITY AWARD

WEIGHTED BY FARM SIZE

South Island: Ngāi Tahu Farming Ltd – Waimakariri

SYNLAIT SAFE AWARD

North Island: Landcorp Pamu
South Island: Partners in Cream Ltd for Ngāi Tahu Farming Ltd – Timutimu

DairyHonours AWARDS 2023

OUR BOARD

Simon Robertson
Independent Chair

Dr. John Penno
Board Appointed Director

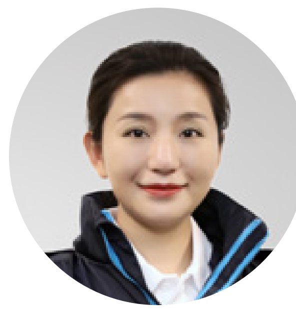
Liu Ruibing (Ryan)
Bright Dairy Appointed Director

Paul McGilvary
Independent Director

Paul Washer
Independent Director

Hon Ruth Richardson
Bright Dairy Appointed Director

Sihang Yang (Edward)
Bright Dairy Appointed Director



Zhu Yi (Julia)
Bright Dairy Appointed Director

OUR EXECUTIVE LEADERSHIP TEAM

Grant Watson
Chief Executive Officer

Rob Stowell
Chief Financial Officer

Paul Mallard
Chief Operating Officer

Naiche Nogueira
Director of Advanced Nutrition

Abby Ye
President China and Director of Foodservice

Adam Maxwell
Director of Ingredients

Tim Carter
CEO Dairyworks and Director of Consumer

Charles Fergusson
Director of On-Farm Excellence and Business Sustainability

Glenn Laing[1]
Director of Manufacturing

Dr. Suzan Horst
Director of Quality, Regulatory and Laboratory

Cathy Gamlen[2]
Director of People and Culture

[1] Glenn was appointed Acting Director of Manufacturing in March 2023 and permanently appointed to the role in August 2023.
[2] Cathy was appointed Director of People and Culture in April 2023 and joined the Synlait team in August 2023.

Sam Mallard, Align Farms Farm Manager, Heather Donaldson, DairyNZ and Ang Wafer, Synlait Area Manager.

CFO REVIEW

Rob Stowell

Kia ora shareholders

Below is a detailed summary of Synlait's financial result for the 12 months ended 31 July 2023. In this CFO review Synlait's performance is detailed under our four business units which are:

ADVANCED NUTRITION

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

INGREDIENTS

Whole milk powder, skim milk powder, anhydrous milk fat, and butter milk powder.

CONSUMER

Fresh milk, cream, ready to drink beverages, and Dairyworks (cheese and butter).

FOODSERVICE

UHT cream.

FINANCIAL PERFORMANCE

Sales and gross profit performance

Total revenues, including Dairyworks, of $1,603.6 million were down $57.0 million or 3% driven by lower ingredient commodity prices and reduced sales volumes. Total sales volumes of 198,583 MT were 12% lower than FY 22 due to higher Advanced Nutrition base powder manufacture which displaced Ingredients production, as well as FY 22 enjoying the benefit of high carryover inventory from FY 21 due to the COVID-19 pandemic. Unforeseen reductions and deferrals of consumer-packaged Advanced Nutrition demand resulted in sales volumes ending well below expectations. Production output was also impacted by operational stability issues and adverse weather conditions.

Gross profit by business unit[1]

		Ingredients	Advanced Nutrition	Consumer	Foodservice	Total
FY 23	Sales Volume (MT)	108,856	31,971	56,999	757	198,583
	Gross Profit ($ millions)	54.6	57.0	29.0	(0.2)	140.4
	Gross Profit/MT	501	1,782	508	(313)	707
FY 22	Sales Volume (MT)	132,481	33,506	59,786	-	225,773
	Gross Profit ($ millions)	57.5	73.8	21.3	-	152.6
	Gross Profit/MT	434	2,203	357	-	676
% Change	Sales Volume (MT)	(18%)	(5%)	(5%)	-	(12%)
	Gross Profit ($ millions)	(5%)	(23%)	36%	-	(8%)
	Gross Profit/MT	16%	(19%)	42%	-	5%

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

Advanced Nutrition

Advanced Nutrition volumes fell 5% to 31,971 MT driven by reductions and deferrals of demand. Advanced Nutrition gross profit per MT decreased significantly to $1,782/MT due to rapid increases in raw materials and manufacturing costs in the period. Significantly higher than normal inventory write-downs and provisions also impacted margin, triggering an increased focus on ensuring operational stability. Net production increased 26% to 39,159 MT, driven by higher base powder manufacture, as we managed volatility in demand in Q4 and positioned ourselves to maximise processing of raw milk heading into the FY 24 peak milk season.

Our lactoferrin business continues to perform well. Lactoferrin sales decreased 19% to 30 MT, driven by increased internal consumption to meet customer requirements. Production was in line with expectations.

FINANCIAL PERFORMANCE (CONTINUED)

Ingredients

Despite not having the same level of FX benefit as in FY 22, margin performance was excellent with the team executing well on aligning production and sales mix to the SMP/AMF lead bucket. This resulted in margin on a per MT basis improving 16% to $501/MT.

Ingredients sales were 18% lower at 108,856 MT as higher production of Advanced Nutritional base powders reduced our ability to process raw milk through our dryers. Sales were also impacted by FY 23 having significantly less carry-over inventory compared to FY 22 which saw the deferral of sales from FY 21 into FY 22 because of the COVID-19 pandemic. The impact of lower sales volumes largely offset the benefits of aligning to the lead bucket. This resulted in total gross margin decreasing by $2.9 million.

After record-high ingredient inventory levels at H1 23 due to ERP implementation challenges, closing inventory finished down 35% year-on-year, thanks to the excellent efforts of our warehouse and logistics teams.

Consumer Foods

Sales volumes decreased 2,787 MT to 56,999 MT as Dairyworks sold less butter due to a tight butter market. Gross profit on a per MT basis increased 42% to $508/MT because of the Temuka cheese plant being idled for the full year, efficiencies gained from the first full year of Dairyworks' cool store operations, and the impact of pricing lag and lower overhead costs.

In June we announced our intention to divest Dairyworks and its Temuka assets. While Dairyworks has performed well, we do not believe it aligns to our strategy and we would need to invest significant capital to take Dairyworks to the next level. We believe that focus should instead be placed on our Advanced Nutrition and Foodservice (UHT cream) business units where we have a clear right to win.

Foodservice (UHT cream)

During the year we successfully commercialised our JOYHANA branded UHT cream, which is the product of a partnership with the international dairy company, SAVENCIA Group. Margin attainment was approximately ($0.2 million) on sales of 757 MT. We expect this to improve significantly moving into FY 24 and beyond as we ramp up volumes. Market feedback has been positive, and we are excited about the potential that this new segment holds for us moving forward.

Milk price and milk supply

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

Our final base milk price for the 2022/23 season is $8.22 per kgMS, compared to the 2021/22 base milk price of $9.30 per kgMS. We paid an additional $0.27 per kgMS in incentive and premium payments through a2, Lead With Pride™ and winter milk payments, increasing the average total milk price to $8.49 per kgMS, compared with $9.59 per kgMS in 2021/22. Our contracted suppliers received a total of $22.9 million in additional value-added premiums in the 2022/23 season, compared to $23.8 million in 2021/22.

We received 83.9 million kgMS from our contracted suppliers, 0.9 million kgMS more than FY 22. Six additional contracted suppliers contributed to the year-on-year upside; however, this was partially offset by a second consecutive season of unfavourable weather conditions impacting yields. We sold (net) 7.9 million kgMS over the season, resulting in an overall 4%, or 2.9 million kgMS, decrease in milk processed in FY 23. Additional contractual milk sales in the North Island, unexpected plant outages and rephasing of infant base powder production related to the SAMR re-registration led to increased milk sales in FY 23.

Average reference commodity prices started the 2022/23 season well above historic levels, but they fell steadily across the season due to weakening Chinese demand and recovering global supplies. The reference basket price fell to USD$3,640, a 13% decrease vs the 2021/22 season. This decrease is the key contributor to the $1.08 per kgMS decrease in the average base milk price paid to our suppliers in 2022/23.

Operating expenditure

Selling, general, and administrative (SG&A) expenses including Dairyworks increased $37.0 million to $129.3 million. Outside of ERP related costs, the most significant drivers were employee costs ($9.8 million), consultancy and legal costs ($4.2 million), distribution costs ($1.9 million), and travel costs ($1.6 million).

Employee and contractor costs increased as we saw significant wage inflation and increased headcount in anticipation of higher Advanced Nutrition demand, which did not all materialise due to reductions and deferrals of demand. Employee and contractor costs were also impacted by reduced capitalisation of labour costs as we wrapped up significant projects, saw the renewal of our executive team, and invested significantly in health and safety. Consultancy and legal costs increased as we revisited our capital structure, amended our banking facilities, engaged in a significant contract dispute, and commenced the process of divesting of Dairyworks. Travel costs increased as borders reopened, our business development teams recommenced travel to key markets, and we approached commissioning of our recent Pokeno processing upgrade project.

During the year we incurred $17.4 million of costs in connection with our ERP implementation. $6.8 million of this was incurred during the stabilisation period of the implementation, with an additional $10.6 million of recurring annual costs (including $6.1 million of depreciation). Costs at Dairyworks were also up $1.7 million driven by the across-the-board impacts of inflation.

Cost reductions are one of our key priorities as we head into FY 24.

FINANCIAL PERFORMANCE (CONTINUED)

EBITDA

Earnings before interest, tax, depreciation, and amortisation (EBITDA) including Dairyworks decreased $40.9 million to $90.7 million.

$ million (including Dairyworks)	FY 23	FY 22[1]
Profit before tax	(7.3)	44.1
Add back: net financing costs	38.3	21.0
EBIT	**31.0**	**65.1**
Add back: depreciation and impairment	59.7	66.5
EBITDA	**90.7**	**131.6**

[1] FY 22 EBITDA has been restated for a reclassification of research and development tax incentive income from tax to other income

Net financing costs

Net financing costs including Dairyworks increased $17.3 million or 82.4% to $38.3 million. The increase is primarily due to a significant increase in wholesale interest rates and higher working capital requirements because of implementation issues with our new ERP system.

Capitalised interest is $1.0 million higher than the prior year with higher interest rates and completion of work on the Pokeno processing upgrade project. The loss on derecognition of financial assets, the financing cost associated with our receivables financing programme, also increased due to an increase in wholesale interest rates. Further, interest on lease liabilities including Dairyworks increased $0.9 million due to entering a new warehouse lease in Auckland to service increased out-turn Advanced Nutrition demand.

$ million	FY 23	FY 22	Change
Gross term debt interest*	(19.1)	(16.6)	(2.5)
Less capitalised interest	6.6	5.6	1.0
Net term funding interest	**(12.5)**	**(11.0)**	**(1.5)**
Working capital and revolving credit interest	(15.4)	(4.2)	(11.2)
Interest received	0.3	0.2	0.1
Loss on derecognition of financial assets	(5.8)	(2.3)	(3.5)
Net short-term funding interest	**(20.9)**	**(6.3)**	**(14.6)**
Interest on lease liabilities	(1.4)	(0.7)	(0.7)
Synlait finance expense	**(34.8)**	**(18.0)**	**(16.8)**
Dairyworks finance costs	(3.5)	(3.0)	(0.5)
Net finance costs	**(38.3)**	**(21.0)**	**(17.3)**

* Gross term debt interest includes revolving credit facilities, which are categorised as current debt in the financial statements.

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 FY 23 we achieved a net annual average NZD/USD export exchange rate of 0.6446 (FY 22: 0.6732).

Earnings per share and return on capital employed

Our reported basic and diluted earnings per share (EPS) including Dairyworks were both (1.96) cents, against basic EPS of 17.62 cents and diluted EPS of 17.58 cents in FY 22. The dilutive shares are basic EPS adjusted for contingently issuable shares in accordance with the Employee Share Scheme. Synlait also generated a pre-tax return on average capital employed of 2.7% in FY 23 compared with 5.6% in FY 22.

FINANCIAL POSITION

Overview

Net debt increased $71.6 million, largely driven by increased finance costs and an increase in Advanced Nutritional base powders to enable us to maximise raw milk processing through peak milk in FY 24.

Our reported net profit after tax loss of ($4.3 million) has decreased total retained earnings to $327.8 million from $332.1 million. Total shareholders' equity increased to $790.3 million because of the net movement in hedging reserves exceeding profit after tax by $42.1 million.

We also successfully refinanced our banking facilities in September and welcomed four new banks into the banking syndicate. This refinance will give us access to a broader range of services, more capacity, and significant savings. We appreciate the continued support of our banking syndicate.

Trade and other receivables

At $92.8 million, trade and other receivables including Dairyworks increased by $3.7 million. The balance of receivables assigned including Dairyworks as at 31 July 2023 was $160.4 million, a decrease of $15.2 million. During the year, two new Nestle subsidiaries were added to the receivable's assignment programme.

Inventories

Total inventory holdings including Dairyworks increased 30% to $302.5 million (FY 22: $232.9 million). This was driven by a $62.4 million (7,503 MT) increase in Advanced Nutrition base powders which will enable us to maximise processing of raw milk during the peak milk months in FY 24. Raw materials balances (including Dairyworks) decreased slightly in tonnage by 3% to 17,240 MT, however, total value increased $20.2 million to $116.0 million reflecting higher landed costs and a change in composition to accommodate production of Advanced Nutrition products. Dairyworks contributed $11.5 million (1,831 MT) to the overall increase in inventories because of a change in phasing for maturation cheese replenishment.

	FY 23		FY 22	
	$ million	MT	$ million	MT
Synlait Milk Limited	250.3	36,026*	192.3	32,762*
Dairyworks Limited	52.2	6,705*	40.7	4,576*
Total	302.5	42,731	233.0	37,338

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

We also incurred significant cost of $19.8 million in relation to inventory write-downs and provisions for manufacturing and quality issues – a disappointing $16.2 million increase over the prior year. We consider this level of write-downs to be unacceptable and are working diligently to ensure that this does not repeat in FY 24.

Property, plant and equipment

Property, plant, and equipment including Dairyworks at $1,018.6 million, is up $2.7 million. The increase is a consequence of total capital expenditure of $49.4 million, depreciation of $46.1 million, and net disposals of $0.6 million. The capital expenditure of $49.4 million primarily relates to routine operational capex and the Synlait Pokeno processing modifications project which was mostly commissioned in July 2023.

Trade and other payables

Trade and other payables including Dairyworks at $323.6 million are up $0.5 million.

Operating cash flows and total net debt

Operating cash flows including Dairyworks were at $39.0 million, down $193.9 million on prior year. The decrease in cash flow is attributed to the decrease in profitability year-on-year and an increase in inventory. FY 22 operating cash flows were also significantly higher due to the impact of carry-over inventory from COVID-19 related delays in FY 21. Total net debt (excluding lease liabilities) at year end, including current and term debt facilities less cash on hand, was $413.5 million, an increase of $71.6 million.

FINANCIAL POSITION (CONTINUED)

$ million	FY 23	FY 22
Current debt	243.7	58.9
Term debt (carrying amount)	179.0	295.6
Transaction costs	1.1	1.9
Cash on hand (including cash held by Dairyworks)	(10.3)	(14.5)
Total net debt (excluding lease liabilities)	**413.5**	**341.9**

Cash outflow from investing activities totalled $61.9 million, a decrease of $3.7 million. A significant proportion of the spend related to Synlait Pokeno and implementation of our new ERP system. Further, interest paid, and repayment of lease liabilities totalled $48.7 million, up $18.6 million on prior year.

With net debt of $413.5 million, our gearing (net debt/net debt + equity) is 34.3% (FY 22: 30.0%) and our leverage (net debt/EBITDA) is 4.6x (FY 22: 2.6x).

Derivatives

At 31 July 2023 Synlait Milk held USD $634.7 million (net), in foreign exchange contracts as detailed in note 19 of the Financial Statements. These have been placed across a 24-month future period, in accordance with our Treasury Policy. Additionally, Dairyworks held USD $3.3 million in import foreign exchange and AUD $5.1 million in export contracts.

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 $3.4 million after tax, a movement of $46.1 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 $30.0 million of interest rate swap agreements at year-end (FY 22: $40.0 million) at various weighted average interest rates. The agreements have unrealised mark to market gains of $0.5 million after tax, a positive movement of $0.7 million after tax on FY 22. The movement is a result of the increase in wholesale interest rates.

We continue to use dairy commodity derivatives to support the management of the risk of movement in dairy commodity prices. However, we had no dairy commodity derivatives on hand at balance date (FY 22: NZD $12.9 million).

Most unrealised gains and losses on derivatives detailed above are deferred to the cash flow hedge reserve. Year-on-year there was a $46.4 million movement in the reserve, with a closing balance of ($49.3 million) in FY 22 to ($2.9 million) in FY 23.

Funding facilities and covenants

After reporting date, the Group refinanced its syndicated banking facilities. The new funding arrangements are summarised as follows:

1. Revolving credit facilities of $230 million. These facilities also step down over time with maturity dates between 31 July 2024 and 1 October 2025.
2. Working capital facility of $240 million, maturing 1 October 2024, together with a $10 million on-demand bilateral facility. This facility is a seasonal facility where the facility limit changes at several times during the term of the facility.

Synlait is required to make a mandatory prepayment of at least $130 million by no later than 31 March 2024. This is reflected in the above facility limits.

The lenders of Synlait's new banking syndicate are ANZ Bank, Bank of China, China Construction Bank, HSBC, and Rabobank.

Synlait has five key bank covenants in place within our new syndicated bank facility agreement. For FY 24, these are:

1. Total shareholder funds of no less than NZD $600.0 million at all times.
2. Working capital ratio of no less than 1.5x at all times.
3. Interest coverage ratio of no less than 2.25x.
4. Leverage ratio of no greater than 3.5x.
5. Senior leverage ratio no greater than 2.25x.

Kind regards

Robert Stowell
CFO

FINANCIAL AND PERFORMANCE METRICS

Key Financial Metrics (includes results of Dairyworks which has been classified as a discontinued operation)[1] Currency as stated (in millions)	FY 19	FY 20	FY 21	FY 22	FY 23
Income statement					
Revenue	1,024.3	1,302.0	1,367.3	1,660.6	1,603.6
Gross profit	186.3	203.7	67.3	146.8	144.0
EBITDA[2 6]	150.8	169.6	37.3	131.5	90.7
EBIT[2 6]	123.1	122.0	(17.7)	65.1	31.0
NPAT	**81.2**	**74.3**	**(28.5)**	**38.5**	**(4.3)**
Revenue (USD per MT)	4,384	4,435	4,162	4,951	5,205
Gross profit per MT (NZD)	1,174	1,043	308	650	725
EBIT per MT sold (NZD)[6]	776	625	(81)	288	156
Net cash from/(used in) operating activities	**136.7**	**103.8**	**15.9**	**232.9**	**39.0**
Balance sheet					
Capital employed	824.4	1,128.2	1,244.0	1,090.3	1,203.9
Net operating assets[3]	632.4	1,040.5	1,152.3	995.2	1,205.3
Return on net operating assets[6]	21.9%	14.6%	(1.6%)	6.1%	2.8%
Net return on capital employed (pre-tax)[6]	18.0%	12.5%	(1.5%)	5.6%	2.7%
Debt/debt + equity (excl. derivatives)	39.3%	47.2%	38.7%	30.0%	34.3%
Net debt/EBITDA[5 6]	2.2	3.1	12.9	2.6	4.6
Earnings per share	**45.33**	**41.45**	**(13.77)**	**17.62**	**(1.96)**
Average FX conversion rate (NZD:USD)	**0.6792**	**0.6651**	**0.6659**	**0.6732**	**0.6446**
Base milk price	6.40	7.05	7.55	9.30	8.22
Total milk price (kgMs)[4]	**6.58**	**7.30**	**7.82**	**9.59**	**8.49**
Key operational metrics					
Sales (MT)[6]					
Ingredients	98,499	97,561	125,914	132,481	108,856
Nutritionals	51,231	52,871	34,362	33,506	31,971
Consumer	8,947	44,818	58,483	59,786	56,999
Foodservice	-	-	-	-	757
Total sales (MT)	**158,677**	**195,250**	**218,759**	**225,773**	**198,583**
Production (net production) (MT)[6]					
Ingredients	96,158	94,188	138,971	122,330	108,010
Nutritionals	50,165	63,857	20,990	31,016	39,159
Consumer foods	9,466	44,744	55,088	52,894	53,753
Foodservice	-	-	-	-	1,514
Total production (MT)	**155,789**	**202,788**	**215,049**	**206,240**	**202,436**
Milk purchases ('000 kg MS)					
Milk purchased from contracted supply	64,189	76,551	86,814	82,978	83,929
Milk purchased from other suppliers	1,877	(6,079)	(4,077)	(4,044)	(7,922)
Total milk purchases ('000 kg MS)	**66,066**	**70,472**	**82,737**	**78,934**	**76,007**

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 37.
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 amounts 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 2022/23 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 2022/2023 milk season we paid out an average base milk price of $8.22 per kgMS with an average additional incentive payment of $0.27 per kgMS.

	2018/19	2019/20	2020/21	2021/22	2022/23
kgMS collected	63,438,694	76,550,913	86,812,624	82,865,662	83,996,987
Average fat %[1]	4.91	4.90	4.90	4.93	4.98
Average protein %	3.92	3.98	3.97	3.98	4.00
Average lactose %	4.99	4.99	4.98	4.97	4.95
Volume of components collected (kg)					
Fat	35,270,506	42,252,084	47,954,515	45,849,217	46,548,849
Protein	28,168,188	34,298,829	38,858,109	37,016,444	37,448,139
Lactose	35,894,766	42,977,611	48,760,985	46,179,993	46,348,501
Component value ($/kg)[1]					
Fat	$7.36	$8.44	$8.73	$9.43	$7.27
Protein	$4.18	$4.20	$5.02	$7.31	$8.30
Lactose	$1.53	$1.67	$1.68	$2.32	$1.87
Component value ratio					
Fat	1	1	1	1	1
Protein	0.567	0.497	0.575	0.775	1.142
Lactose	0.208	0.198	0.193	0.246	0.257
Total paid per component ($'000)					
Fat	$259,645	$356,689	$418,541	$432,333	$338,487
Protein	$117,658	$143,911	$194,875	$270,615	$310,926
Lactose	$54,988	$71,819	$82,137	$107,204	$86,698
Volume charge	($26,283)	($32,747)	($40,118)	($39,501)	($45,656)
Average base milk price ($/kgMS)[2]	**$6.40**	**$7.05**	**$7.55**	**$9.30**	**$8.22**
Total incentive payment ($'000)	$11,531	$19,250	$23,518	$23,802	$22,929
Average incentive payment ($/kgMS)[3]	$0.18	$0.25	$0.27	$0.29	$0.27
Total average Synlait payment ($/kgMS)[4]	**$6.58**	**$7.30**	**$7.82**	**$9.59**	**$8.49**

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) Co., Ltd, Dairyworks Limited, Synlait Milk (Holdings) No.1 Limited, and Synlait Milk (Dunsandel Farms) Limited (together "the Group") as set out on pages 48-123, for the year ended 31 July 2023.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2023 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.

Simon Robertson
Chair
25 September 2023

Paul Washer
Independent Director
25 September 2023

INCOME STATEMENT

For the year ended 31 July 2023

	Notes	2023 $'000	2022 $'000 (Restated)
Revenue	2	1,320,758	1,397,012
Cost of sales	4	(1,202,850)	(1,272,783)
Gross profit		**117,908**	**124,229**
Other income	2	13,294	22,220
Sales and distribution expenses	4	(41,548)	(33,867)
Administrative and operating expenses	4	(68,306)	(44,099)
ERP implementation costs	4	(6,794)	(3,295)
Earnings before net finance costs and income tax		**14,554**	**65,188**
Finance expenses	13	(29,331)	(15,853)
Finance income	13	281	159
Loss on derecognition of financial assets	13,6	(5,771)	(2,264)
Net finance costs		**(34,821)**	**(17,958)**
(Loss)/profit before income tax for the year from continuing operations		(20,267)	47,230
Income tax benefit/(expense)	21	6,123	(6,857)
(Loss)/profit after tax for the year from continuing operations		**(14,144)**	**40,373**
Profit/(loss) after tax from discontinued operations	1	9,852	(1,850)
Net (loss)/profit for the year		**(4,292)**	**38,523**
Earnings per share			
Basic earnings per share (cents)	16	(1.96)	17.62
Diluted earnings per share (cents)	16	(1.96)	17.58
Attributable to continuing operations:			
Basic earnings per share (cents)	16	(6.47)	18.47
Diluted earnings per share (cents)	16	(6.47)	18.43
Attributable to discontinuing operations:			
Basic earnings per share (cents)	16	4.51	(0.85)
Diluted earnings per share (cents)	16	4.51	(0.84)

Comparatives have been restated due to the reclassification of the Research and Development Tax Incentive. Refer to notes 2 and 21 for further information.

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 2023

	Notes	2023 $'000	2022 $'000
(Loss)/profit for the period		(4,292)	38,523
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of derivatives designated in cash flow hedges	19	64,405	(79,701)
Exchange differences on translation of foreign operations		(19)	24
Income tax (expense)/benefit on other comprehensive income	21	(18,033)	22,316
Total items that may be reclassified subsequently to profit and loss		46,353	(57,361)
Other comprehensive income for the year, net of tax		46,353	(57,361)
Total comprehensive income for the year		42,061	(18,838)
Total comprehensive income for the year is attributable to:			
Continuing operations		32,133	(16,937)
Discontinued operations		9,928	(1,901)
Total		42,061	(18,838)

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 2023

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 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	19	-	-	(79,701)	-	-	(79,701)
Exchange differences on translation of foreign operations		-	-	-	24	-	24
Income tax on other comprehensive income	19,21	-	-	22,316	-	-	22,316
Total other comprehensive income		-	-	(57,385)	24	-	(57,361)
Employee benefits reserve	16,17	-	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
Equity as at 1 August 2022		464,774	818	(49,296)	22	332,078	748,396
(Loss)/profit for the year		-	-	-	-	(4,292)	(4,292)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	19	-	-	64,405	-	-	64,405
Exchange differences on translation of foreign operations		-	-	-	(19)	-	(19)
Income tax on other comprehensive income	19,21	-	-	(18,033)	-	-	(18,033)
Total other comprehensive income		-	-	46,372	(19)	-	46,353
Employee benefits reserve	16,17	-	(83)	-	-	-	(83)
Total contributions by and distributions to owners		-	(83)	-	-	-	(83)
Equity as at 31 July 2023		464,774	735	(2,924)	3	327,786	790,374

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 2023

	Notes	2023 $'000	2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents		9,290	14,493
Trade and other receivables	6	82,941	91,096
Intangible assets	11	2,805	2,692
Goods and services tax refundable		2,711	5,649
Prepayments		9,879	16,638
Inventories	7	250,252	232,941
Derivative financial instruments	19,20	16,339	6,530
Current tax asset		3,271	554
Assets held for sale	1	177,881	-
Total current assets		**555,369**	**370,593**
Non-current assets			
Property, plant and equipment	9	992,996	1,015,860
Biological assets	10	3,906	3,892
Intangible assets	11	77,747	94,467
Goodwill	11	6,026	64,189
Other investments	22	935	110
Derivative financial instruments	19,20	6,427	1,661
Right-of-use assets	12	42,204	25,205
Total non-current assets		**1,130,241**	**1,205,384**
Total assets		**1,685,610**	**1,575,977**
LIABILITIES			
Current liabilities			
Trade and other payables	8	280,954	323,123
Loans and borrowings	14	243,727	58,885
Derivative financial instruments	19,20	26,862	55,941
Lease liabilities	12	5,200	4,301
Liabilities directly associated with assets classified as held for sale	1	60,611	-
Total current liabilities		**617,354**	**442,250**
Non-current liabilities			
Loans and borrowings	14	178,998	295,592
Deferred tax liabilities	21	54,685	41,866
Derivative financial instruments	19,20	-	20,573
Lease liabilities	12	41,693	24,750
Other non-current liabilities	15	2,506	2,550
Total non-current liabilities		**277,882**	**385,331**
Total liabilities		**895,236**	**827,581**
Equity			
Share capital	16	464,774	464,774
Reserves	18	(2,186)	(48,456)
Retained earnings	18	327,786	332,078
Total equity attributable to equity holders of the Group		**790,374**	**748,396**
Total liabilities and equity		**1,685,610**	**1,575,977**

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 2023

	Notes	2023 $'000	2022 $'000
Cash flows from operating activities			
Cash receipts from customers		1,608,110	1,711,573
Cash paid for milk purchased		(720,926)	(804,665)
Cash paid to other creditors and employees		(851,255)	(675,834)
Net movement in goods and services tax		4,486	(1,188)
Income tax payments/(refunds)		(1,378)	3,034
Net cash inflow from operating activities	5	**39,037**	**232,920**
Cash flows from investing activities			
Interest received		311	170
Acquisition of property, plant and equipment		(48,821)	(53,855)
Proceeds from sale of property, plant and equipment		584	30,467
Acquisition of intangible assets		(16,074)	(39,053)
Proceeds from sale of New Zealand Units		3,072	-
Livestock trading		(197)	(3,350)
Acquisition of interest in joint venture		(825)	-
Net cash outflow from investing activities		**(61,950)**	**(65,621)**
Cash flows from financing activities			
Repayment of borrowings		-	(82,500)
Receipt of borrowings		15,777	-
Net movement in working capital facility		51,589	(56,537)
Interest paid		(44,306)	(26,051)
Repayment of lease liabilities		(4,400)	(4,079)
Net cash inflow/(outflow) from financing activities		**18,660**	**(169,167)**
Net decrease in cash and cash equivalents		(4,253)	(1,868)
Cash and cash equivalents at the beginning of the financial year		14,493	16,020
Effects of exchange rate changes on cash and cash equivalents		31	341
Cash included in assets held for sale		(981)	-
Cash and cash equivalents at end of year		**9,290**	**14,493**

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) Co., Ltd, Dairyworks 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 on account of the Group's recent implementation of its ERP (Enterprise Resource Planning) system and trivial rounding differences. These classifications had no effect on the reported results of operations. In addition, comparative period information has been re-presented to exclude amounts relating to discontinued operations (refer to note 1 for further information) and restated to reclassify Research and Development Tax Incentive (RDTI) income from tax benefit/(expense) to other income (refer to notes 2 and 21 for further information).

The financial statements were authorised for issue by the Directors on 25 September 2023.

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 each of the group's entities are measured using the currency of the primary economic environment in which the entity operates. 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 presentation of assets and related liabilities which are held for sale (refer to note 1), derecognition of financial assets (note 6), the assessment of impairment of inventory (note 7), and the assessment of impairment for goodwill and any other intangible assets (note 11). The individual notes referred to in the financial statements provide additional information.

MATERIAL EVENTS AND OTHER SIGNIFICANT ITEMS

Profit downgrades

On 17 March 2023 the Group announced a revised NPAT guidance range of $15m to $25m as a result of decreased forecast Advanced Nutrition demand, as well as operational stability, cost, and ERP implementation challenges. On 26 April 2023 the Group announced a further downgrade to a NPAT guidance range of ($5m) to $5m primarily due to further reductions to forecast Advanced Nutrition demand. As a result, the Group engaged its banking syndicate to obtain amendments to certain banking covenants for the year ended 31 July 2023, all of which were complied with. Refer to note 14 for additional information.

Debt refinancing

The Group classified its working capital and revolving debt facilities as current liabilities at 31 July 2023 as it had not yet finalised the renewal of its banking facilities. The Group has introduced new banks into the banking syndicate as part of its successful refinance which was executed on 18 September 2023. Refer to note 14 for further information.

Dairyworks divestment

On 2 June 2023 the Group announced the planned sale of its subsidiary, Dairyworks Limited, which specialises in the packaging and distribution of cheese and butter products. The decision was made in connection with a strategy refresh which resulted in an increased focus on the Group's Advanced Nutrition and Foodservice (UHT cream) business units. The Group expects the sale to occur in the first half of the 2024 financial year. Refer to note 1 for further information.

MATERIAL EVENTS AND OTHER SIGNIFICANT ITEMS (CONTINUED)

China State Administration for Market Regulation (SAMR) licence

On 6 June 2023 SAMR notified the Group of the successful re-registration of its SAMR licence which allows the Group to manufacture infant formula at its Dunsandel facility on behalf of The a2 Milk Company for export into China. The registration expires in September 2027. $6.4m was capitalised to intangible assets in respect of this registration. Refer to note 11 for further information.

ERP implementation

On 1 August 2022 the Group commissioned its new ERP system. Post-implementation challenges were encountered which resulted in significantly reduced sales volumes of ingredient products in the first half of 2023. Export volumes have now normalised after remediation efforts. The Group has presented costs associated with the implementation separately in the statement of profit and loss. A total of $60.9m of cost relating to the project was capitalised to intangible assets in the period. Refer to note 11 for further information.

Pokeno processing upgrade project

The Group has undertaken a series of upgrades to its North Island operations over the previous three financial years in connection with a significant customer contract which will see the Group commence production of plant-based Advanced Nutrition products at its Pokeno site. The Group received approval for first lot to stock on 29 July 2023 resulting in the capitalisation of $71.2m of capital work in progress relating to dryer and wetmix upgrades and additions. $27.7m of spend relating to the packaging line portion of the project, which was commissioned in August 2023, remained in work in progress at 31 July 2023. Refer to note 9 for additional information.

A new warehouse lease was also entered into in conjunction with the commencement of commercial production. Refer to note 12 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 were noted during the period.

GOING CONCERN

In preparing these financial statements, the Directors have conducted a comprehensive assessment of various uncertainties facing the Group and its ability to continue as a going concern. The Directors have considered several events, circumstances, and recent developments in making this assessment:

During the 2023 financial year, the Group announced two material profit downgrades in short succession in March and April 2023. The reasons for these downgrades are noted in the "Material events and other significant items" section. The Directors view the events which led to the profit downgrades as events which are not expected to recur and expect financial performance to improve in the 2024 financial year. This is due, but not limited to: cost reduction initiatives, a significant increase in plant utilisation following the launch of new Advanced Nutrition products and through increased Foodservice UHT cream volumes, the recent renewal of the Group's SAMR license, and a significantly increased focus on operational stability.

The reduction in profitability and operating cash flows during the 2023 financial year led to higher debt levels and related interest costs which required the Group to engage its banking syndicate to amend certain debt facility covenants for the 2023 financial year with which the Group complied. At 31 July 2023, the Group's banking facilities totalling $243.7m were presented as current due to their maturity date of 1 October 2023 which resulted in total current liabilities exceeding total current assets by $62.0m.

The Group completed a comprehensive review of its capital structure. On 18 September 2023, the Group executed new banking facilities with its banking syndicate (refer to note 14 for additional information) which was the first step of execution of its capital strategy. The new facilities include reducing debt facility limits during their term which are timed with forecasted cash flows in the 2024 financial year, including the planned sale of Dairyworks which the Directors consider highly probable to occur within the next 12 months. The upcoming bond maturity on 17 December 2024 has also been considered in the Group's recent capital strategy review and in recent discussions with the Group's banking syndicate. While a final decision is pending, the Group is likely to refinance the subordinated bond with senior bank debt facilities, a senior bond, and operating cashflows. To ensure a successful refinance, Synlait is working towards deleveraging by divesting Dairyworks, managing working capital efficiently, and increasing operational performance. The Group also expects to comply with all externally imposed covenants and capital requirements.

On 15 September 2023, the Group received notice from The a2 Milk Company purporting to cancel the exclusivity arrangements under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for the a2 Platinum® and other nutritional products that the company produces. The Group disputes that The a2 Milk Company has the right to cancel the exclusivity arrangements. The potential impact on forecast sales volumes has been considered and reflected in the Group's forecast financial results as well as in the five-year forecast on which goodwill and asset impairment testing is based (refer to note 11). No significant impacts have been noted.

The Directors have carefully considered the aforementioned facts and circumstances, placing particular emphasis on the forecast improvement in financial performance, the recently executed banking facilities, anticipated sale of Dairyworks, expected compliance with covenants and capital requirements attached to those facilities, as well as alternative debt reduction strategies. Alternative viable debt reduction strategies available to the Group could include additional equity and/or other forms of debt. The Directors believe there is time to work through these options if required.

While the Directors acknowledge that key future events and requirements noted above inherently have a degree of uncertainty, the Directors consider that these do not result in material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

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 IAS 37 – Cost of Fulfilling a Contract

On May 14, 2020, the IASB issued amendments to NZ 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 were effective for the Group from 1 August 2022 and have not had a significant impact on the Group's financial statements (onerous contracts provision) as the Group does not incur significant incremental or other direct cost to fulfil a contract past the point of converting raw materials and work-in-process inventory into finished goods.

Standards, amendments and interpretations to existing standards that are not yet effective
NZ CS 1, CS 2, CRDC – Climate related disclosures

In December 2022, The External Reporting Board ('XRB') of New Zealand issued Aotearoa New Zealand Climate Standards, a new climate related disclosure framework. Three new standards have been issued: NZ CS 1 Climate related Disclosures, NZ CS 2 Adoption of Climate related Disclosures, and NZ CS 3 General Requirements for Climate related Disclosures. The guidance is 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 beginning in 2025.

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. DISCONTINUED OPERATION

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Key judgement is applied in determining whether a sale is highly probable.

Non-current assets (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell. A key estimate is applied in determining fair value less costs of disposal.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Non-current assets and liabilities classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the statement of profit or loss.

On 2 June 2023 the Group announced its intention to divest its subsidiary, Dairyworks Limited, which specialises in the production and sale of consumer-packaged cheese and butter products. The divestment decision was made in connection with the Group's recently completed strategy review which resulted in an increased focus on the Group's Advanced Nutrition and Foodservice (UHT cream) business units.

The associated assets and liabilities of Dairyworks Limited comprise a disposal group and have been consequently presented as held for sale. The associated financial performance has been presented as profit/(loss) from discontinued operations. All profit and loss disclosures have been re-presented to exclude the impact of discontinued operations.

A board approved programme is underway to divest of Dairyworks which is considered highly probable to be completed before March 2024. Whilst certain routine approvals will be required in order to enable the sale, the Group considers that these approvals are likely to be granted.

The Dairyworks Limited subsidiary comprises the Dairyworks segment as detailed in note 3. Dairyworks is being marketed at a selling price based on a valuation multiplier as determined by an independent third party.

(a) Financial performance and cash flow information are presented below

	2023 $'000	2022 $'000
Revenue	282,822	263,589
Cost of sales	(256,738)	(240,902)
Other income	3,039	415
Sales and distribution expenses	(6,768)	(5,587)
Administrative and operating expenses	(5,889)	(5,403)
Impairment of Temuka cheese plant assets	-	(12,231)
Net finance costs	(3,455)	(3,030)
Income tax	(3,159)	1,299
Profit/(loss) from discontinued operation	**9,852**	**(1,850)**
Net cash inflow/(outflow)		
Net cash inflow from operating activities	32,488	46,869
Net cash outflow from investing activities	(1,787)	(2,406)
Net cash outflow from financing activities	(30,090)	(45,992)
Net increase/(decrease) in cash generated by the discontinued operation	**611**	**(1,529)**

Net cash outflows from financing activities are comprised of principal and interest payments on debt facilities which are held by the Group and have not been included in the disposal group as the sale transaction is expected to occur on a debt free basis.

(b) Disaggregation of assets and liabilities held for sale:

The following assets and liabilities were reclassified as held for sale as at 31 July 2023:

	2023 $'000	2022 $'000
Assets of disposal group classified as held for sale		
Cash and cash equivalents	981	-
Trade, other receivables, and other current assets	9,865	-
Inventories	52,253	-
Property, plant, and equipment	25,594	-
Intangible assets	17,093	-
Goodwill	58,163	-
Right of use assets	13,932	-
Total	**177,881**	**-**

01. DISCONTINUED OPERATION (CONTINUED)

Property, plant, and equipment includes $7.2m of assets, comprised primarily of land and buildings, which are currently being considered for sale separately to the disposal group.

	2023 $'000	2022 $'000
Liabilities of disposal group classified as held for sale		
Trade and other payables and other current liabilities	(42,680)	-
Current tax liabilities	(2,990)	-
Lease liabilities	(14,337)	-
Deferred tax liabilities	(604)	-
Total	(60,611)	-

The proceeds of disposal net of transaction costs are expected to substantially exceed the carrying amount of the disposal group and accordingly no impairment loss has been recognised.

02. REVENUE RECOGNITION

Sales of goods

The Group manufactures and sells a range of milk powder, milk powder related products, fresh milk, UHT milk and cream, cheese, and butter to customers. Revenue from contracts with customers is recognised when the control of 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.

	2023 $'000	2022 $'000 (Restated)
Dairy products	1,320,758	1,397,012
Other income	13,294	22,220
Total income	**1,334,052**	**1,419,232**

The decrease in other income is due to an $11.9m gain on sale and leaseback included in the prior period which arose on the sale and leaseback of the Group's Auckland land and building located at 89 Richard Pearse Drive. $2.5m of benefit in the comparative period relating to the Research and Development Tax Credit has been reclassified from income tax (expense)/benefit to other income to better reflect to the underlying nature of the income.

03. 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:

- Synlait: manufacture and sale of liquid milk and milk powder based products (nutritionals, ingredients, fresh milk, and ultra heat treatment ('UHT') milk and cream products).
- Dairyworks: manufacture and sale of cheese and other products (cheese, butter). The Dairyworks segment is comprised of the Dairyworks Limited subsidiary which has been treated as a discontinued operation in the period. Refer to note 1 for additional information.

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.

03. SEGMENT REPORTING (CONTINUED)

(b) Segment revenues and results

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

	31 July 2023 $000's Synlait	31 July 2023 $000's Dairyworks	31 July 2023 $000's Eliminations	31 July 2023 $000's Total
External revenue	1,320,758	282,822	-	1,603,580
Inter-segment revenue from sale of goods	2,363	-	(2,363)	-
Revenue from sale of goods	1,323,121	282,822	(2,363)	1,603,580
Net (loss)/profit after tax for the period	(14,144)	9,852	-	(4,292)
Finance income	281	29	-	310
Finance expenses	(29,331)	(2,513)	-	(31,844)
Depreciation and amortisation	(55,403)	(4,286)	-	(59,689)
Income tax benefit/(expense)	6,123	(3,159)	-	2,964
Total assets	1,507,729	177,881	-	1,685,610
Total liabilities	(834,625)	(60,611)	-	(895,236)
Net assets	673,104	117,270	-	790,374

	31 July 2022 $000's Synlait	31 July 2022 $000's Dairyworks	31 July 2022 $000's Eliminations	31 July 2022 $000's 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	(6,857)	1,299	-	(5,558)
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

(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 for continuing operations by geographical area is summarised below:

	Year ended 31 July 2023 $'000	Year ended 31 July 2022 $'000
China	13%	14%
Rest of Asia	25%	31%
Middle East and Africa	5%	4%
New Zealand	49%	40%
Australia	5%	7%
Rest of World	3%	4%
Total	100%	100%

All Group non-current assets are in New Zealand, other than $0.1m (2022: $0.3m) located in China.

(d) Major customers

Revenues of 55% (2022: 48%) are derived from the top three external customers.

04. EXPENSES

	2023 $'000	2022 $'000
The following items of expenditure are included in cost of sales:		
Depreciation and amortisation	41,061	40,954
Employee and contractor costs	80,585	63,915
Energy costs	25,376	21,780
Freight	17,769	14,327
Milk transport	26,980	24,673
Repairs and maintenance	18,701	14,672
Inventory provisions and write-downs	19,796	3,590
Provision movements included in inventory variances, provisions, and write-downs:		
Increase/(decrease) in inventory provision	6,057	(1,900)
Increase/(decrease) in onerous contract provision	2,001	(2,101)
The following items of expenditure are included in sales and distribution expense:		
Depreciation and amortisation	5,998	4,319
Employee and contractor costs	17,637	14,371
Insurance	1,609	1,482
Freight	5,449	4,762
Consultancy, legal, and transaction costs	2,030	1,577
Rent and storage	898	1,253
The following items of are included in administrative and operating expenses:		
Depreciation and amortisation	8,512	2,733
Employee and contractor costs	32,229	25,611
Director fees	827	837
Share based payments expense	1	115
Consultancy, legal, and transaction costs	6,836	3,114
Information services and subscriptions	11,166	7,679
The following items are included in ERP implementation expense:		
Consultancy	5,415	1,108
Employee and contractor costs	1,127	829
Information services and subscriptions	252	1,327
PwC services included in administrative and operating expenses:*		
Statutory audit fee	410	299
Half year accounts review	74	68
Other assurance services	220	-
Consultancy	52	31
	756	398

* 2023 payments to PwC reflect $220k paid to PwC New Zealand for audit services performed on behalf of the Group's largest shareholder, Bright Dairy Holding Limited, and $52k for consulting fees incurred in connection with a logistics review. 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 also performed in 2022 amounting to $19k.

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

	2023 $'000	2022 $'000
Profit/(loss) for the year	(4,292)	38,523
Non-cash and non-operating items:		
Depreciation and amortisation of non-current assets	54,205	50,030
Depreciation of right-of-use assets	5,484	4,211
Gain on sale of property, plant and equipment	(154)	(11,699)
Impairment of property, plant and equipment and intangible assets	165	12,231
New Zealand Units surrendered	1,177	2,407
Gain on sale of New Zealand Units	(1,769)	-
Non-cash share based payments (recovery)/expense	(83)	120
Interest costs classified as financing cash flow	31,846	18,730
Interest received classified as investing cash flow	(311)	(170)
Loss on derecognition of financial assets	6,743	2,427
Deferred tax movement	(4,610)	4,749
Loss on derivative financial instruments	143	18
Unrealised foreign exchange gain	(31)	(341)
Loss/(gain) on revaluation of biological assets	183	(558)
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(1,227)	17,284
Decrease/(increase) in prepayments	4,900	(2,341)
(Increase)/decrease in inventories	(69,565)	38,003
Decrease in goods and services tax refundable and other current assets	4,486	1,312
Increase in trade and other payables	11,474	56,795
Decrease in current tax assets	273	1,189
Net cash inflow from operating activities	**39,037**	**232,920**

WORKING CAPITAL

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

06. TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise 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 manner.

06. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 2023. Three customers represent 63% 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 2022.

	2023 $'000	2022 $'000
Trade receivables	78,021	85,573
Provision for doubtful and impaired receivables	(2,588)	(3,658)
Net trade receivables	**75,433**	**81,915**
Other receivables	7,508	9,181
Total receivables	**82,941**	**91,096**

(a) Impaired receivables

As at 31 July 2023, trade receivables of $7.9m were overdue (2022: $12.1m). These relate to several independent customers for whom there is no recent history of default. The majority has been collected except for $2.5m which has been allowed for and $0.6m which remains unpaid and is expected to be collected in the 2024 financial year.

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

	2023 $'000	2022 $'000
Overdue by		
0 to 30 days	3,638	5,674
30 to 60 days	10	978
Over 60 days	4,228	5,428
Total overdue trade receivables	**7,876**	**12,080**

(b) Allowance for bad and doubtful receivables

The Group has recognised a $0.7m loss in relation to provisions raised for potentially unrecoverable trade receivables during the year (2022: $1.0m). This loss relates to receivables which are in dispute and is unrelated to customer default or credit risk. The Group has also recognised a loss of $0.4m for estimated receivables impairment under NZ IFRS 9 Financial Instruments (2022: $0.2m).

(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 NZD $58.7m (2022: NZD $50.7m) of USD and AUD denominated trade receivables.

06. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Derecognised financial assets

The Group has derecognised trade receivables that have been sold to two banks under the terms of underlying receivables purchase agreements. 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 results in immaterial 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 $144.2m of receivables assigned as at 31 July 2023 (2022: $175.6m).

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.

The loss on derecognition for the period of $5.8m (2022: $2.4m) arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

07. 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, 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 both raw materials 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.

07. INVENTORIES (CONTINUED)

	2023 $'000	2022 $'000
Raw materials		
Raw materials at cost	79,497	94,777
Raw materials at net realisable value	-	997
	79,497	95,774
Work in progress		
Work in progress at cost	111,528	56,541
Work in progress at net realisable value	1,062	195
	112,590	56,736
Finished goods		
Finished goods at cost	52,725	75,965
Finished goods at net realisable value	5,440	4,466
	58,165	80,431
Total inventories	250,252	232,941

Raw material inventories at $79.5m (12,245 MT) have decreased from prior year (2022: $95.8m, 17,738 MT) primarily due to the reclassification of Dairyworks raw materials inventory to assets held for sale, offset by higher holdings of raw materials for use in the production of Advanced Nutrition products.

Work in progress inventories at $112.6m (14,664 MT) have increased (2022: $56.7m, 7,934 MT) due to higher holdings of Advanced Nutrition base powders to enable production in peak milk months in the 2024 financial year.

Finished goods have decreased to $58.2m (9,117 MT), (2022: $80.4m, 11,666 MT). The decrease is primarily due to the reclassification of Dairyworks finished goods inventory to assets held for sale.

The cost of inventories recognised as an expense during the year was $1,158.2m (2022: $1,206.0m). The cost of inventories recognised as an expense includes $19.8m (2022: $3.6m) in respect of write downs of inventory to net realisable value. The increase is due to various operational stability challenges which were experienced in the year.

The total inventory provision as at reporting date was $9.6m, of which $5.9m related to finished goods, $1.3m related to work in progress and $2.4m related to raw materials (2022: $6.2m, $2.2m related to finished goods, $0.7m related to work in progress and $3.3m related to raw materials).

Onerous contracts provision as at reporting date was $2.0m (2022: $nil) relating to future shipments of downgrade product.

08. 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.

	2023 $'000	2022 $'000
Trade payables	143,308	140,455
Accrued expenses	123,939	168,512
Employee entitlements	13,707	14,156
Total trade and other payables	280,954	323,123

Payables denominated in currencies other than the functional currency comprise NZD $39.4m (2022: NZD $38.5m) 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:

09. 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.

09. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 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**
Balance as at 1 August 2022	**56,765**	**315,516**	**776,801**	**28,940**	**102,292**	**1,280,314**
Additions	-	-	-	-	48,144	48,144
Reclassification/transfer	-	14,994	77,680	3,175	(95,849)	-
Impairment	-	-	(164)	-	-	(164)
Disposals	-	(4)	(5,464)	(3,488)	-	(8,956)
Transfer to assets held for sale	(1,350)	(4,614)	(21,186)	(3,965)	(2,170)	(33,285)
Balance as at 31 July 2023	**55,415**	**325,892**	**827,667**	**24,662**	**52,417**	**1,286,053**
Accumulated depreciation						
Balance as at 1 August 2021	-	36,661	170,741	11,435	-	**218,837**
Depreciation (note 4)	-	7,120	35,966	4,113	-	47,199
Disposals	-	(331)	(1,019)	(232)	-	(1,582)
Balance as at 31 July 2022	-	**43,450**	**205,688**	**15,316**	-	**264,454**
Balance as at 1 August 2022	-	**43,450**	**205,688**	**15,316**	-	**264,454**
Depreciation (note 4)	-	7,094	35,217	3,767	-	46,078
Disposals	-	(4)	(5,104)	(3,413)	-	(8,521)
Transfer to assets held for sale	-	(1,079)	(6,851)	(1,024)	-	(8,954)
Balance as at 31 July 2023	-	**49,461**	**228,950**	**14,646**	-	**293,057**
Carrying amounts						
As at 31 July 2022	**56,765**	**272,066**	**571,113**	**13,624**	**102,292**	**1,015,860**
As at 31 July 2023	**55,415**	**276,431**	**598,717**	**10,016**	**52,417**	**992,996**

(a) Impairment

During the period, property, plant, and equipment was examined for impairment. A $0.2m (2022: $12.2m) 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. In addition, depreciation expense includes $0.9m relating to accelerated depreciation of assets which have been determined to no longer be of use to the Group. The prior period charge of $12.2m is the result of the Group's decision to continue idling its Temuka cheese plant while it evaluated plans for the resumption of operations. There has been no further impairment charge or reversal of impairment in the current period. The plant's assets, which are comprised primarily of land and buildings, are now for sale and included within assets held for sale. Refer to note 1 for further information.

(b) Capital work in progress

Capital work in progress includes capital expenditure projects until they are commissioned and transferred to property, plant and equipment. Capital work in progress of $52.4m is lower than 2022 ($102.3m) due primarily to the capitalisation of $71.2m of work in progress spend relating to the Group's Pokeno processing upgrade project. The dryer and wetmix kitchen modification portion project was commissioned in July 2023. $27.7m of spend relating to the packaging line portion of the project, which was commissioned in August 2023, remained in work in progress at 31 July 2023. The balance of work in progress comprises of routine capital expenditure.

(c) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $6.6m (2022: $5.6m) 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 primarily for the Pokeno processing upgrade project.

10. 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.

	2023 $'000	2022 $'000
Balance as at 1 August	3,892	-
Purchases	929	3,334
Births, deaths, and other movements	85	-
Sales	(816)	-
Gain/(loss) arising from changes in fair value less selling costs	(184)	558
Balance as at 31 July	3,906	3,892

As at 31 July 2023 there were 2,372 dairy cows on hand (2022: 1,851). The dairy cows are used for the purposes of producing milk to be consumed in the Group's milk processing operations.

11. 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 years 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. Units are surrendered during the year to meet our obligations under the New Zealand Emissions Trading Scheme.

11. 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
Cost							
Balance as at 1 August 2021	64,189	16,569	2,015	15,230	31,658	10,057	**139,718**
Additions	-	-	-	-	31,601	7,532	**39,133**
Reclassification/transfer	-	-	263	1,077	(1,340)	-	**-**
Disposals	-	-	-	(891)	-	-	**(891)**
Surrenders	-	-	-	-	-	(2,407)	**(2,407)**
Balance as at 31 July 2022	**64,189**	**16,569**	**2,278**	**15,416**	**61,919**	**15,182**	**175,553**
Balance as at 1 August 2022	**64,189**	**16,569**	**2,278**	**15,416**	**61,919**	**15,182**	**175,553**
Additions	-	-	-	-	12,877	-	**12,877**
Reclassification/transfer	-	-	6,427	67,791	(74,164)	-	**54**
Disposals	-	-	-	(4,787)	(39)	(1,302)	**(6,128)**
Surrenders	-	-	-	-	-	(2,979)	**(2,979)**
Transfer to assets held for sale	(58,163)	(16,569)	(91)	(1,359)	-	-	**(76,182)**
Balance 31 July 2023	**6,026**	**-**	**8,614**	**77,061**	**593**	**10,901**	**103,195**
Accumulated amortisation							
Balance as at 1 August 2021	-	-	1,066	11,120	-	-	**12,186**
Amortisation (note 4)	-	-	372	2,460	-	-	**2,832**
Disposals	-	-	-	(813)	-	-	**(813)**
Balance 31 July 2022	**-**	**-**	**1,438**	**12,767**	**-**	**-**	**14,205**
Balance 1 August 2022	**-**	**-**	**1,438**	**12,767**	**-**	**-**	**14,205**
Amortisation (note 4)	-	-	416	7,711	-	-	**8,127**
Disposals	-	-	-	(4,785)	-	-	**(4,785)**
Transfer to assets held for sale	-	-	(47)	(883)	-	-	**(930)**
Balance as at 31 July 2023	**-**	**-**	**1,807**	**14,810**	**-**	**-**	**16,617**
Carrying amounts							
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**
Year ended 31 July 2023							
Current	-	-	-	-	-	2,805	**2,805**
Non-current	6,026	-	6,807	62,251	593	8,096	**83,773**
Closing net book value	**6,026**	**-**	**6,807**	**62,251**	**593**	**10,901**	**86,578**

The decrease in intangibles in progress is due to the capitalisation of the group's ERP system on 1 August 2022 and SAMR license on 6 June 2023. The ERP system is being depreciated over a useful life of 10 years and the SAMR license over a useful life of 4 years.

During the year, excess NZUs with a cost of $1.3m were sold for proceeds of $3.1m, resulting in a gain of $1.8m which is included in other income.

11. INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for indefinite life intangibles

As at 31 July 2023 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, UHT milk products) and Dairyworks CGU (cheese, butter).

At 31 July 2023, $58.2m (2022: $58.2m) of goodwill and $16.6m (2022: $16.6m) of brand assets were allocated to the Dairyworks CGU and included within assets held for sale. $6.0m (2022: $6.0m) of goodwill and $nil (2022: $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 and is discounted based on a CGU specific weighted average cost of capital (WACC) as determined by an independent third party. 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:

	2023	2022
Synlait CGU		
Annual revenue growth rates within forecast operating cashflow	3.9% - 11.8%	1.3% - 11.8%
Allowance for increase in expenses within forecast operating cash flow	1.5% - 8.8%	0.8% - 8.2%
Post-tax discount rate	9.2%	8.1%
Pre-tax discount rate	11.8%	10.4%
Terminal growth rate	2.0%	2.0%
Dairyworks CGU		
Annual revenue growth rates within forecast operating cashflow	3.7% - 7.9%	4.2% - 21.9%
Allowance for increase in expenses within forecast operating cashflow	0.7% - 8.1%	3.7% - 22.0%
Post-tax discount rate	8.6%	7.5%
Pre-tax discount rate	11.5%	9.5%
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 and reflect past experience and management's future expectations for the business. The terminal growth rate reflects the long term expected growth rate for New Zealand.

At 31 July 2023 the recoverable amount of the Synlait CGU exceeded its carrying amount by $373.4m. The Group has carried out a sensitivity analysis and determined the following changes in key assumptions in isolation across the entire forecast period to be reasonably possible:

Change in key assumption	Decrease in headroom
0.5% increase in discount rate	($109.1m)
1% decrease in terminal growth rate	($155.7m)
15% reduction within forecast operating cash flow	($356.6m)

For the Dairyworks CGU any reasonably possible change in the key assumptions would not cause the carrying amount of the Dairyworks CGU to exceed or be near to its recoverable amount.

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 2023 are based on a percentage of revenue. The impairment testing was modelled using the following key assumptions:

	2023	2022
Annual revenue growth rates	5.1% - 12.6%	4.9% - 22.1%
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	13.5%	11.5%
Terminal growth rate	2.0%	2.0%

The Group has carried out a sensitivity analysis and believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the brands to exceed or be near to their recoverable amount.

12. LEASES

Measurement of right-of-use assets and lease obligations

Right-of-use 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.

Right-of-use assets	Buildings $'000	Plant and equipment $'000	Total $'000
Cost			
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**
Balance as at 1 August 2022	**32,503**	**1,232**	**33,735**
Additions and acquisitions	34,422	2,258	36,680
Sale and leaseback adjustment	(167)	-	(167)
Disposals	-	(276)	(276)
Foreign exchange differences	(38)	-	(38)
Transfer to assets held for sale	(16,952)	(1,440)	(18,392)
Balance as at 31 July 2023	**49,768**	**1,774**	**51,542**
Accumulated Depreciation			
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**
Balance as at 1 August 2022	**7,956**	**574**	**8,530**
Sale and leaseback adjustment	(519)	-	(519)
Disposals	-	(183)	(183)
Depreciation	5,358	645	6,003
Foreign exchange differences	(33)	-	(33)
Transfer to assets held for sale	(3,961)	(499)	(4,460)
Balance as at 31 July 2023	**8,801**	**537**	**9,338**
Carrying amounts			
Balance as at 31 July 2022	**24,547**	**658**	**25,205**
Balance as at 31 July 2023	**40,967**	**1,237**	**42,204**

In May 2023, the Group entered into a lease for a warehouse premises located at 9 Jerry Green Street in Auckland. The warehouse will be used to meet storage requirements for new Advanced Nutrition products launching in the 2024 financial year and to consolidate Auckland warehouse operations, allowing for the surrender of an existing lease located at 81 Westney Road. The lease term is for 9 years with annual payments of $4.7m increasing at a rate of 3.5% annually. The lease has resulted in the recognition of a $34.4m right of use asset and corresponding lease liability determined by applying an incremental borrowing rate of 7.6%.

12. LEASES (CONTINUED)

	2023	2022
	$'000	$'000
Lease obligations		
Contractual, undiscounted cash flows associated with the Group's lease obligations are as follows:		
Within one year	8,254	5,718
Between one and five years	27,817	20,668
Beyond five years	26,315	9,301
Total undiscounted lease obligations	62,386	35,687
Discounted lease obligations recognised on the Group's consolidated balance sheet are as follows:		
Current	5,200	4,301
Non-current	41,693	24,750
Total discounted lease obligations	46,893	29,051

Interest expense on lease obligations for the year ended 31 July 2023 was $2.2m (2022: $0.7m) 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 2023 is $1.3m (2022: $1.4m). The Group's weighted average cost of borrowing at 31 July 2023 was 7.00% (2022: 5.13%).

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:

13. 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.

	2023	2022
	$'000	$'000
Interest income on loans and deposits	281	159
Total finance income	**281**	**159**
Interest and facility fees	(34,533)	(20,783)
Capitalised borrowing costs	6,649	5,592
Interest on leases	(1,447)	(662)
Total finance expenses	**(29,331)**	**(15,853)**
Loss on derecognition of financial assets	(5,771)	(2,264)
Net finance costs	**(34,821)**	**(17,958)**

14. 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.

	2023			2022		
	Drawn facility amount $'000	Transaction costs $'000	Carrying amount $'000	Drawn facility amount $'000	Transaction costs $'000	Carrying amount $'000
Working capital facility NZD	46,071	-	46,071	-	-	-
Working capital facility USD	64,403	-	64,403	58,885	-	58,885
Revolving credit facility	133,333	(80)	133,253	-	-	-
Current liabilities	**243,807**	**(80)**	**243,727**	**58,885**	**-**	**58,885**
Retail bonds	180,000	(1,002)	178,998	180,000	(1,692)	178,308
Revolving credit facility	-	-	-	117,500	(216)	117,284
Non-current liabilities	**180,000**	**(1,002)**	**178,998**	**297,500**	**(1,908)**	**295,592**
Total loans and borrowings	**423,807**	**(1,082)**	**422,725**	**356,385**	**(1,908)**	**354,477**

(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 $33.3m maturing 1 October 2023.
- 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 2023.

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.

14. LOANS AND BORROWINGS (CONTINUED)

Subsequent to year end, the Group refinanced its syndicated banking facilities. Changes to funding arrangements include:

- Bank of China, China Construction Bank, HSBC, and Rabobank have been introduced to the syndicate. ANZ Bank remains in the syndicate with BNZ Bank removed.
- Working capital facility of NZD $240m, maturing 1 October 2024, together with an NZD $10m on-demand bilateral facility. This facility is a seasonal facility where the facility limit changes at several times during the term of the facility.
- Revolving credit facilities of NZD $230m. These facilities also step down over time with maturity dates between 31 July 2024 and 1 October 2025.

In addition, the Group is required to make a prepayment of the higher of any Dairyworks sales proceeds or $130m by no later than 31 March 2024.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. Due to a decrease in forecast demand for Advanced Nutrition products, the Group obtained amendments to certain covenants in April 2023. These amendments are detailed in the following section. The Group met the amended and all other externally imposed capital requirements for the twelve months ended 31 July 2023.

The following summarises banking covenants which were in place for the year ended 31 July 2023:

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 2.25x (3.0x prior to amendment) on 31 July 2023.
4. Leverage ratio of no greater than 5.5x (4.0x prior to amendment) on 31 July 2023.
5. Senior leverage ratio of no greater than 3.5x (3.5x prior to amendment) on 31 July 2023.

The financial covenants for the 2024 financial year under the recently executed facilities agreement are:

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 2.25x for the 31 July 2024 reporting date, increasing to 3.0x for the 31 July 2025 reporting date.
4. Leverage ratio of no greater than 3.5x for the 31 July 2024 reporting date, decreasing to no greater than 3.25x on and from 31 July 2025 reporting date.
5. Senior leverage ratio of no greater than 2.25x for 31 July 2024 reporting date.

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 subordinated and mature on 17 December 2024. At 31 July 2023, the retail bond had a fair value of $158.8m (2022: $164.2m), based on NZX Debt Market valuation (NZDX).

Nominal interest rates	Nominal interest rate %	Financial year of maturity	Carrying amount 2023	Carrying amount 2022
Secured revolving credit facility (Facility A, B & C) – ANZ/BNZ	7.38%	2024	133,333	117,500
Secured working capital facility – ANZ/BNZ – USD	6.70%	2024	64,403	58,885
Secured working capital facility – ANZ/BNZ – NZD	7.37%	2023	46,071	-
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 SOFR 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.

15. 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.

	2023 $'000	2022 $'000
Make-good liability		
Balance as at 1 August	**2,550**	-
Liabilities recognised	-	2,473
Accretion	122	77
Change in estimates	(166)	-
Balance as at 31 July	**2,506**	**2,550**

The make-good liability relates to future costs to be incurred with respect to the lease of the Group's Auckland blending and canning premises. The total undiscounted amount of the estimated cash flows required to satisfy this obligation is $3.9m (31 July 2022: $3.6m). The obligation has been discounted using an interest rate of 5.74% (31 July 2022: 3.75%).

16. 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 rights that were granted under the scheme vesting and being converted to ordinary shares (2022: $nil). Shares issued in the prior year to participants were at no cost. Refer to note 17 for further information.

No other shares were issued in the period.

(a) Share capital

	2023 Shares	2022 Shares	2023 $'000	2022 $'000
Ordinary shares				
On issue at beginning of period	218,581,661	218,581,661	464,774	464,774
Issue of share capital under employee share plans	-	-	-	-
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.

16. 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.

Total basic EPS for the 2023 financial period was (1.96) cents (2022: 17.62 cents) of which 4.51 cents related to discontinuing operations (2022: (0.85) cents). Diluted EPS for the 2023 financial period was (1.96) cents (2022: 17.58) of which 4.51 cents related to discontinuing operations (2022: (0.84) cents). Weighted average shares outstanding for the 2023 financial period was 218,581,661 (2022: 218,581,661). Weighted average shares outstanding, adjusted for potentially dilutive shares for the 2023 financial period was 219,251,184 (2022: 219,082,925).

17. 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.

17. SHARE BASED PAYMENTS (CONTINUED)

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

	2023	2022
Outstanding 1 August	521,602	380,102
Granted during the year	462,634	371,889
Forfeited during the year	(346,989)	(230,389)
Exercised during the year	-	-
Total	**637,247**	**521,602**

During the period, no new ordinary shares were granted to participants of the LTI scheme. See note 16 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:

	2023 PSRs	2022 PSRs
Risk free rate	3.48%	2.34%
Volatility	35.00%	40.00%
Share price at entitlement date ($)	3.27	3.70
Share price at grant date ($)	3.26	3.40
Total value of options granted at grant date ($000's)	962	712

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:

	2023 $'000	2022 $'000
Expenses/(recoveries) for equity settled share based payment transactions	**1**	**115**

18. RESERVES AND RETAINED EARNINGS

(a) Retained earnings

Movements in retained earnings were as follows:

	2023 $'000	2022 $'000
Balance 1 August	332,078	293,555
Net profit/(loss) for the year	(4,292)	38,523
Balance 31 July	**327,786**	**332,078**

(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) (2022: $0.1m) is comprised of the cumulative share based payment expense for share options not yet vested of $0.2m (2022: $0.3m), vesting / lapsing of rights during the period of ($0.2m) (2022: ($0.2m)) and related movements in deferred tax balances of ($0.1m) (2022: $nil).

(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:

19. 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 2023, the Group has hedged 49% of its exposure to forecast foreign exchange risk on USD sales. As at 31 July 2023, the Group has hedged 20% of its exposure to forecast foreign exchange risk on USD purchases. The Group hedges foreign exchange risk over the following 2 years from balance date.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 banks.

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:

	2023				2022			
	USD	AUD	EUR	RMB	USD	AUD	EUR	RMB
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	42,385	-	19	-	46,989	3,375	77	-
Trade payables	(4,432)	(269)	(860)	(471)	(554)	(880)	-	-
Working capital facility	(40,023)	-	-	-	(37,036)	-	-	-
Total	(2,070)	(269)	(841)	(471)	9,399	2,495	77	-

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's exposure to foreign currency in the period ended 31 July 2023 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:

	2023		2022	
	Weighted average exchange rate	Nominal balance $'000	Weighted average exchange rate	Nominal balance $'000
USD				
Exports				
Less than 1 year	0.6301	538,000	0.6755	468,165
1 to 2 years	0.6007	132,000	0.6459	364,500
Imports				
Less than 1 year	0.6349	(35,260)	0.6540	(31,464)
1 to 2 years	-	-	0.6416	(500)
AUD				
Exports				
Less than 1 year	-	-	0.9232	9,745
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:

	2023		2022	
	Weighted average interest rate %	Nominal balance $'000	Weighted average interest rate %	Nominal balance $'000
Less than 1 year	4.20%	30,000	4.36%	40,000
1 to 2 years	3.54%	15,000	4.20%	30,000
2 to 3 years	3.56%	10,000	3.54%	15,000
3 to 4 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)	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Interest rates				
100 basis point increase in interest rate	(3,431)	(3,079)	285	515
100 basis point decrease in interest rate	3,431	3,079	(290)	(528)
Foreign exchange rates				
5% increase in exchange rate	175	(611)	33,751	41,772
5% decrease in exchange rate	(194)	676	(37,288)	(46,190)

(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.

19. 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 2023					
Working capital facility	110,474	-	-	-	110,474
Trade and other payables	280,954	-	-	-	280,954
Loans and borrowings	133,333	180,000	-	-	313,333
Derivative financial instruments	26,862	-	-	-	26,862
Lease liabilities	5,200	4,848	13,793	23,052	46,893
Total	556,823	184,848	13,793	23,052	778,516
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

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	Carrying amount		Hedge accounted amounts in cash flow reserve	Total cash flow hedge reserve
		Assets	Liabilities	Intrinsic value	
	$'000	NZD$'000	NZD$'000	NZD$'000	NZD$'000
At 31 July 2023					
Foreign exchange risk					
Foreign exchange contracts (USD)	634,710	22,110	(26,862)	(4,752)	(4,752)
Interest rate risk					
Interest rate swaps (NZD)	30,000	656	-	656	656
Commodity price risk					
Dairy commodity futures	-	-	-	-	-
Total		22,766	(26,862)	(4,096)	(4,096)
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	12,866	754	-	610	610
Total		8,191	(76,514)	(68,467)	(68,467)

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.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2023		2022	
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				
Cash and cash equivalents	64,001	-	(83,127)	-
Interest rate risk				
Interest rate swaps	1,014	-	3,092	-
Commodity price risk				
Dairy commodity futures	(603)	(7)	212	122
Total	64,412	(7)	(79,823)	122

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:

Hedge reserves	2023 $'000	2022 $'000
Opening balance	(49,296)	8,089
Movements attributable to cashflow hedges:		
Change in value of effective derivative hedging instruments	20,646	(77,916)
Reclassifications to the income statement as hedged transactions occurred	43,759	(1,785)
Tax (expense)/credit	(18,033)	22,316
Total movement	46,372	(57,385)
Closing balance	(2,924)	(49,296)

20. 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 (FVPL).

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.

20. 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 6. 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.

20. 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 2023				
Cash and cash equivalents	9,290	-	-	9,290
Derivative financial instruments	-	-	22,766	22,766
Trade and other receivables	63,175	-	19,766	82,941
Investment in equity	-	935	-	935
Total	**72,465**	**935**	**42,532**	**115,932**
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**

Financial liabilities	At amortised cost $'000	At fair value through profit or loss $'000	Total $'000
At 31 July 2023			
Derivative financial instruments	-	26,862	26,862
Working capital facility	110,474	-	110,474
Lease liabilities	46,893	-	46,893
Trade and other payables	280,954	-	280,954
Loans and borrowings	312,251	-	312,251
Total	**750,572**	**26,862**	**777,434**
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**

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 14).

OTHER

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

21. 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 entity, 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.

21. INCOME TAX (CONTINUED)

	2023 $'000	2022 $'000 (Restated)
(a) Income tax (expense)/benefit		
Current tax expense:		
Current tax on profit/(loss) for the year	629	150
Current tax on prior period adjustments	519	1,362
Total	**1,148**	**1,512**
Deferred tax expense:		
Temporary differences	5,212	(7,833)
Prior year adjustments	(237)	(1,074)
Change in estimate	-	538
Total deferred tax	**4,975**	**(8,369)**
Income tax benefit/(expense)	**6,123**	**(6,857)**
(b) Reconciliation of effective tax rate		
Profit/(loss) before income tax	(20,267)	47,230
Income tax using the Group's domestic tax rate – 28%	5,675	(13,270)
Tax exempt income	881	6,006
Non-deductible costs	(733)	(385)
Total	**5,823**	**(7,649)**
Prior year adjustments	283	287
Deferred tax credit relating to change in estimate	-	538
Other tax effects for reconciliation between accounting profit and tax expense	17	(33)
Total	**300**	**792**
Income tax benefit/(expense)	**6,123**	**(6,857)**

During the period the Group amended its accounting policy with respect to the recognition of the Research and Development Tax Credit ("the credit"). The is credit now recognised in other income, rather than as an increase in income tax benefit/(expense). As a result, the comparative period benefit of $2.5m has been reclassified to other income, increasing income tax expense by a corresponding amount.

	2023 $'000	2022 $'000
(c) Imputation credits		
Imputation credits available directly and indirectly to the shareholders of the Group	80,338	83,000

(d) Income tax recognised in other comprehensive income

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	Before tax $'000	Tax benefit/(expense) $'000	After tax $'000
31 July 2023			
Cash flow hedges	64,405	(18,033)	46,372
Other comprehensive income	**64,405**	**(18,033)**	**46,372**
31 July 2022			
Cash flow hedges	(79,701)	22,316	(57,385)
Other comprehensive income	**(79,701)**	**22,316**	**(57,385)**

(e) Deferred taxation

The balance comprises temporary differences attributable to:

	2023 $'000	2022 $'000
Assets		
Tax losses carried forward	18,860	-
Other items	6,144	5,717
Derivatives	1,147	19,171
Total deferred tax assets	**26,151**	**24,888**
Liabilities		
Property, plant and equipment	(74,702)	(61,500)
Intangible assets	(6,134)	(5,254)
Total deferred tax liabilities	**(80,836)**	**(66,754)**
Total deferred tax	**(54,685)**	**(41,866)**

21. INCOME TAX (CONTINUED)

	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	Movement relating to discontinued operation $'000	Balance 31 July 2022 $'000
Property, plant and equipment	(55,995)	(8,912)	-	-	(196)	3,602	(61,501)
Derivatives	(3,146)	-	22,316	-	-	-	19,170
Other items	4,298	1,299	-	5	125	(8)	5,719
Tax losses carried forward	49	-	-	-	(49)	-	-
Intangible assets	(4,639)	340	-	-	(955)	-	(5,254)
Total	**(59,433)**	**(7,273)**	**22,316**	**5**	**(1,075)**	**3,594**	**(41,866)**

	Balance 1 Aug 2022 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Recognised directly in equity $'000	Prior year adjustment $'000	Movement relating to discontinued operation $'000	Balance 31 July 2023 $'000
Property, plant and equipment	(61,501)	(9,028)	-	-	(499)	(3,673)	(74,701)
Derivatives	19,170	-	(18,033)	-	-	11	1,148
Other items	5,719	878	-	(5)	285	(732)	6,145
Tax losses carried forward	-	18,860	-	-	-	-	18,860
Intangible assets	(5,254)	(5,498)	-	-	(22)	4,637	(6,137)
Total	**(41,866)**	**5,212**	**(18,033)**	**(5)**	**(236)**	**243**	**(54,685)**

22. 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.

Investments in joint ventures

The Group measures its interests in joint ventures where it does not hold significant influence over the ventures at either fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI). The determination of the measurement basis is made on an investment-by-investment basis. Investments where the Group holds significant influence 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 joint ventures is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

	2023 $'000	2022 $'000
Equity securities	110	110
Interest in joint venture	825	-
Total other investments	**935**	**110**

During the period the Group invested $0.8m in a public-private joint venture. The joint venture is intended to undertake a portfolio of investments that will help accelerate delivery of biological emissions tools to all New Zealand farmers. The Group has committed to investing a further $2.8m in the joint venture. The Group has made a one-time irrevocable election to measure the interest in the joint venture at FVOCI.

22. OTHER INVESTMENTS (CONTINUED)

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2023 %	Equity holding 2022 %
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) Co., Ltd (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
Synlait Milk (Dunsandel Farms) Limited (Subsidiary)	New Zealand	Ordinary	100	100
Primary Collaboration New Zealand Limited	New Zealand	Ordinary	17	17
Primary Collaboration New Zealand (Shanghai) Co., Ltd (Subsidiary)	China	Ordinary	100	100
Centre for Climate Action Joint Venture	New Zealand	Ordinary	2	-

23. RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by Synlait Milk Limited (2022: 39.01%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the Peoples' 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. Eighty Nine Richard Pearse Drive Limited owned the land and buildings at which the Auckland blending and canning which were sold in a sale and leaseback transaction in the previous period. Both The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited are now non-trading entities.

In May 2019, Synlait Business Consulting (Shanghai) Co., Ltd 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.

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.

23. 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 executive leadership team members as at 31 July 2023. The total short-term benefits paid to the key management and personnel is set out below.

	2023 $'000	2022 $'000
Short term benefits	7,095	6,727
Share based payments expenses (note 17)	1	115

(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 2023 (2022: $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 (2022: 2.4%)

(b) Transactions with other related parties

	2023 $'000	2022 $'000
Purchase of goods and services		
Bright Dairy and Food Co Ltd – Directors fees	267	311
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 dairy products	1,807	32,671
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

(c) Outstanding balances

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

	2023 $'000	2022 $'000
Current receivables (payables)		
Bright Dairy and Food Co Ltd – sale of milk powder products	609	(27)
Bright Dairy and Food Co Ltd – reimbursement of costs	(1,118)	(1,072)
Sichuan New Hope Nutritionals Ltd – sale of milk powder products	-	(65)
Sichuan New Hope Nutritionals Ltd – other costs	-	740

24. CONTINGENCIES

No significant contingent liabilities are outstanding at balance date (2022: $nil).

25. COMMITMENTS

Capital commitments

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

	2023 $'000	2022 $'000
Pokeno modifications	745	5,304
Dunsandel reverse osmosis capacity expansion	-	2,712
Other operational capital expenditure	-	3,658
Total	**745**	**11,674**

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

26. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 18 September 2023, the Group completed the refinancing of its debt facilities. Refer to note 14 for additional information.

On 15 September 2023, the Group received notice from The a2 Milk Company purporting to cancel the exclusivity arrangements under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for the a2 Platinum® and other nutritional products that the company produces. The Group disputes that The a2 Milk Company has the right to cancel the exclusivity arrangements. The potential impact on forecast sales volumes has been considered and reflected in the Group's forecast financial results as well as in the five-year forecast on which goodwill and asset impairment testing is based (refer to note 11). No significant impacts have been noted.

27. 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 2023, 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 2023;
- 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 carries out other services for the Group that are related to our role as the Group's auditor and in the area of a logistics review. The provision of these other services have 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

Capital structure and funding

The Group's loans and borrowings (bank borrowings and subordinated retail bonds) as at 31 July 2023 were $422.7m (31 July 2022: $354.5m). The higher debt levels resulted from reduced profitability and operating cash flows due to events and conditions detailed in the going concern note, which in turn required the Group to engage with its banking syndicate during the year to amend certain banking covenants. The Group has complied with its amended banking covenants as at 31 July 2023.

All of the Group's bank borrowings were classified as current liabilities at 31 July 2023 due to these facilities expiring on 1 October 2023. In addition, the subordinated bonds of $180m mature on 17 December 2024.

On 18 September 2023 the Group executed new banking facilities with an expanded banking syndicate. The facilities have a mix of one and two year terms and limits that reduce during the facility term as outlined in note 14. In addition, the Group now has a requirement to repay the higher of the proceeds from the proposed sale of Dairyworks or $130m by no later than 31 March 2024. The sale of Dairyworks is considered highly probable by the Directors and as such has been presented as a discontinued operation in the financial statements.

The majority of new banking covenants are in line with the covenants as at 31 July 2023. However, the leverage ratio and senior leverage ratio reduce significantly to 3.5x and 2.25x (from 5.5x and 3.5x) respectively on 31 July 2024. As a result, the new banking facilities therefore require reduction over the next 12 months.

Consideration also needs to be given to the maturity of the subordinated bonds and how this is repaid or refinanced.

On 15 September 2023, The A2 Milk Company, a key customer, notified the Group that it was seeking to end exclusivity rights for production of its infant milk formula products. Management did not identify any significant impacts on the FY 24 forecasts as the risk was anticipated and considered as part of the forecasting process.

Uncertainties exist in relation to future events and operating conditions of the Group and its ability to repay debt in line with maturity dates and comply with bank facility covenants. To address these uncertainties management has prepared forecasts that consider a range of scenarios and considered the viability of other alternative strategies to reduce debt. The Directors concluded that, after having carefully considered the forecast financial performance, the recently executed banking facilities, expected compliance with covenants and capital requirements attached to those facilities, the current stage of negotiations to sell Dairyworks and the alternative debt reduction strategies available to them, that there are no material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Because of the significance of the judgements involved in these assumptions, we have considered this to be an area of focus for the audit.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We considered the Group's assessment of their ability to reduce debt in line with the debt maturity profile, their forecast compliance with the new banking covenants, the reasonableness of the alternative debt reductions strategies as well as the consequential impact of these matters on the Directors' assessment of the Group's ability to continue as a going concern, including whether or not material uncertainties exist. Our procedures included the following:

- read the Group's going concern paper to obtain an understanding of the key assumptions and judgements made;
- read the new executed facility agreements between the Group and its banking syndicate to obtain an understanding of the key terms including facility limits, repayment terms and banking covenants;
- tested the mathematical accuracy of management's forecasted covenant calculations for the year ending 31 July 2024;
- challenged management's forecasted cash flow assumptions and sensitivity analysis including the assumptions around any potential cash flow implications from the notice of cancellation of exclusivity from The A2 Milk Company on 15 September 2023;
- obtained an update from management and their advisors on the status of the Dairyworks sales process and considered whether it was reasonable that this met the test of highly probable as outlined in NZ IFRS 5;
- considered the Group's plans and intentions with respect to the maturity of the subordinated bonds;
- with the assistance of our treasury experts, considered the reasonableness of the Group's determination of alternative strategies available to reduce debt levels, including the external advice obtained by management on the viability and timelines for these alternative strategies;
- engaged our internal treasury experts to assist with our considerations of various elements of the future funding plans of the Group; and
- considered the appropriateness of the Group's disclosure.

DESCRIPTION OF THE KEY AUDIT MATTER

Impairment assessment

As per note 11 to the financial statements the Group has two cash generating units (CGUs) being Synlait Milk and Dairyworks.

On 2 June 2023 the Group announced its intention to divest its subsidiary Dairyworks Limited. Dairyworks met the criteria of an asset held for sale and therefore the goodwill ($58.2m) and brands ($16.6m) related to the Dairyworks CGU was included within the disposal group and considered by the Group for impairment in line with the requirements under NZ IFRS 5. Assets held for sale are carried at the lower of the carrying value or the fair value less cost to sell. The carrying value of the assets and liabilities held for sale as at 31 July 2023 amounted to $117m as per note 1. The Group determined the fair value less cost to sell exceeded the carrying value of the disposal group and no associated impairment was recognised.

$6m of goodwill was allocated to the Synlait Milk CGU. The Group based its impairment assessment of the Synlait Milk CGU on a value in use basis, using a discounted cash flow model based on forecast future performance to determine the recoverable amount. Management performed sensitivity analysis for the effect of reasonable possible changes in key assumptions on the impairment assessment and included the relevant disclosures.

The key assumptions in the impairment assessment are the cash flow forecasts (through annual growth rates for revenue and expenses), terminal growth rate and the discount rate.

On 15 September 2023, The a2 Milk Company Limited, a key customer, notified the Group that it was seeking to end exclusivity rights for production of its infant milk formula products. Management did not identify any significant impacts on the FY 24 forecasts as the risk was anticipated and considered as part of the forecasting process.

As part of the impairment assessment process, management performed a comparison of the net assets to the market capitalisation of the Company and prepared an analysis and explanation of the difference.

Management considered the reasons for this difference in finalising their assessment of the recoverable amounts of the Group's CGUs.

The impairment testing of the Synlait Milk goodwill and the Dairyworks assets and liabilities held for sale is considered a key audit matter due to the materiality of the balances, the gap between the Group's net assets and its market capitalisation, and the significant level of management estimation and judgement applied in determining key assumptions used in the impairment assessments.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We considered the appropriateness of the Group's conclusion on classifying the Dairyworks disposal group assets and liabilities held for sale.

For the goodwill and assets and liabilities held for sale impairment assessments, our audit focused on assessing and challenging the key assumptions used by management.

Our procedures included the following:

- evaluated the appropriateness of the identification of the Group's CGUs;
- compared the cash flows included in management's impairment model to the board approved plans;
- assessed the Group's forecasting accuracy by comparing historical forecasts to actual results, taking into consideration the impact of the Covid-19 pandemic and the impacts of the SAP implementation;
- discussed with management the basis for the cash flow forecasts and the key drivers of change in the forecasts, including internal and external factors;
- obtained an update from management and their advisors on the status of the Dairyworks sales process and indicative pricing;
- engaged our valuation expert to assist us with:
    - considering whether the valuation methodology applied was appropriate;
    - assessing whether the discount rates and long term growth rates used by management are reasonable in the context of the forecasts; and
    - considering management's paper comparing the net assets and the market capitalisation of the Company, in the context of our stand back assessment of the impairment test;
- tested the accuracy of the calculations in management's impairment model, and checking that the carrying amount for the CGU's net assets was correctly included in the impairment assessment;
- evaluated the reasonableness of management's forecast cash flows;
- performed sensitivity analyses for the effect of reasonably possible changes in key assumptions on the impairment assessment;
- evaluated the effect of the trading results and market announcements up to the date of our report including the impact of The a2 Milk Company Limited exclusivity notice of cancellation; and
- considered the appropriateness of disclosures in the financial statements.

Our audit approach

Overview

Overall group materiality: $8,000,000, which represents 0.5% of total revenue from continuing and discontinued operations.

We chose total revenue from continuing and discontinued operations 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.

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.

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

- Capital structure and funding
- Impairment assessment

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.

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
25 September 2023

Jersey Oaks in Culverden. Owner Tim Delaney – winner of Synlait's Annual Dairy Honours Award, *Kotahitanga.*

STATUTORY INFORMATION

01. BUSINESS OPERATIONS

Synlait is a nutrition company. We combine expert farming with state-of-the-art processing to produce a range of Advanced Nutrition, Foodservice and Ingredient products. In the year to 31 July 2023, we made no changes to our company structures.

In June 2023, Synlait announced its intention to divest its Dairyworks and its Temuka assets. Synlait's Board and Management are undertaking a strategy and capital structure refresh, including an asset review. To ensure greater focus and execution of Synlait's overall business strategy, the company intends to divest of Dairyworks and its Temuka assets. The divestment process remained underway as at the end of this financial 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 2023:

Company	Directors		Appointed
Synlait Milk Limited Synlait Milk Finance Limited	Simon Robertson (Chair)	Independent	25 November 2020
	Dr. Gui Min (Gracie)[1]	Bright Dairy Appointed	1 February 2022
	Ian (Sam) Knowles[2]	Independent	4 July 2013
	Dr. John Penno[3]	Board Appointed	21 July 2013
	Min Chen (Joyce)[4]	Bright Dairy Appointed	1 December 2021
	Paul McGilvary[5]	Independent	24 January 2022
	Paul Washer[6]	Independent	2 December 2022
	Ruibing Liu (Ryan)[7]	Bright Dairy Appointed	19 June 2023
	Hon. Ruth Richardson[8]	Bright Dairy Appointed	16 November 2016
	Sihang Yang (Edward)	Bright Dairy Appointed	11 November 2010
	Yi Zhu (Julia)[7]	Bright Dairy Appointed	19 June 2023

Company	Directors
The New Zealand Dairy Company Limited	Grant Watson
	Robert Stowell
Eighty Nine Richard Pearse Drive Limited	Grant Watson
	Robert Stowell
Synlait Business Consulting (Shanghai) Co., Ltd	Martijn Jager
	Deborah Marris
	Boyd Williams
	Grant Watson[9]
	Robert Stowell[9]
	Paul Mallard[9]
Dairyworks Limited	Timothy Carter
	Grant Watson
Synlait Milk (Dunsandel Farms) Limited	Grant Watson
	Robert Stowell
Synlait Milk (Holdings) No.1 Limited	Grant Watson
	Robert Stowell

[1] Dr Gui Min (Gracie) retired from the Board on 19 June 2023.
[2] Sam Knowles retired from the Board on 2 December 2022.
[3] 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 then CEO 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. John stood down as Chair at the 2022 Annual Meeting and resumed his role as a Board Appointed Director.
[4] Min Chen (Joyce) retired from the Board on 19 June 2023.
[5] Paul McGilvary was appointed by the Board in January 2022 to fill a casual vacancy and was re-elected to the Board as an Independent Director by shareholders at the 2022 Annual Meeting.
[6] Paul Washer was elected to the Board at the 2022 Annual Meeting on 2 December, replacing Sam Knowles who retired by rotation.
[7] Ruibing Liu (Ryan) and Yi Zhu (Julia) replaced Dr. Gui Min (Gracie) and Min Chen (Joyce) as Bright Dairy Appointed Directors on 19 June 2023.
[8] When first appointed to the Board of Synlait Milk Limited, Hon. Ruth Richardson was an Independent Director. In 2013, she became a Bright Dairy Appointed Director.
[9] Grant Watson and Robert Stowell were appointed Directors by Resolution dated September 2022 and Paul Mallard in March 2023. The paperwork is currently being processed in China to formally enact the change.

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 Corporate Governance Code and its Board Charter and is satisfied its Independent Directors meet the requirements for independence.

As permitted by waivers from the NZX Listing Rules, Bright Dairy Holdings Limited, a shareholder of 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 for an NZX listed company. Currently that Director is 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 2023.

Simon Robertson
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Alliance Group Limited
Director Ballance Agri-Nutrients Limited
Trustee Robertson Family Trust
Trustee G R Foot Trust
Trustee Norman Family 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)

Dr. John Penno
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Okuora Farms Limited
Director and Shareholder Okuora Holdings Limited (and through Okuora Holdings Limited, shareholder in Pastoral Robotics Limited and The Pure Food Co Limited, shareholder in Signum Holdings Limited and creditor of it and its subsidiaries)
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
Through Signum Holdings Limited, shareholder in TCL Holdings Limited (previously Trust Codes Limited) and Cloud Computing Continuation Services Limited[1]
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[2]
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director AsureQuality Limited[3]
Director BVAQ Pty Ltd (Australia)[4]
Waikato Milking Systems Limited Partnership[5]
WMS GP Limited[5]
Waikato Milking Systems Lease Limited[5]
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

[1] TCL Holdings Limited (previously Trust Codes Limited) was a supplier to Synlait on normal terms of trade until October 2022, but has not provided services to the Group after that date. Since Okuora Holdings Limited invested in Signum Holdings Limited, there has, and continues to be, a protocol in place whereby John Penno abstains from all Board discussions and decisions involving the supply arrangements between Synlait and TCL Holdings Limited.

[2] Paul McGilvary was appointed by the Board in January 2022 to fill a casual vacancy and was re-elected to the Board as an Independent Director by shareholders at the 2022 Annual Meeting.

[3] Paul McGilvary was Acting Chair of AssureQuality from 17 October 2022 until 1 July 2023 and is a Director from 1 July 2023 onwards.

[4] Paul McGilvary was Chair of BVAQ Pty Ltd (Australia) until 1 January 2023 and is a Director from 1 January 2023 onwards.

[5] Paul McGilvary ceased as a Director 31 May 2023.

Paul Washer[1]
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Chief Financial Officer and Shareholder Pact Group Holdings (Australia) Pty Ltd and Director of Pact Group subsidiaries[2]
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

Ruibing Liu (Ryan)[3]
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

Hon. Ruth Richardson
Director and Shareholder Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Ruth Richardson (NZ) Limited
Director New Zealand Taxpayers' Union
Trustee Christchurch Early Intervention 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

Sihang Yang (Edward)
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 Washer was appointed to the Board on 2 December 2022.

[2] Pact Group Holdings (Australia) Pty Ltd is the ultimate holding company of a number of subsidiaries, some of which, Paul Washer is also a Director. Pact Group, via its subsidiaries Alto Packaging Limited, Astron Plastics Limited and VIP Plastic Packaging (NZ) Limited, is a supplier to Synlait on normal terms of trade. Pact Group was a supplier to Synlait prior to Paul Washer becoming a Director of Synlait. There is a protocol in place whereby Paul Washer abstains from all Board discussions and decisions involving the supply arrangements between Synlait and Pact Group.

[3] Ruibing Liu (Ryan) as appointed to the Board on 19 June 2023.

03. DIRECTOR INTERESTS (CONTINUED)

Yi Zhu (Julia)[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

Grant Watson
Director Dairyworks Limited
Director Synlait Milk (Dunsandel Farms) Limited
Director Eighty Nine Richard Pearse Drive Limited
Director The New Zealand Dairy Company Limited
Director Synlait Milk (Holdings) No.1 Limited
Director Synlait Business Consulting (Shanghai) Co., Ltd[2]
Shareholder 365 Ventures Limited[3]
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Robert Stowell
Director Synlait Milk (Dunsandel Farms) Limited
Director Eighty Nine Richard Pearse Drive Limited
Director The New Zealand Dairy Company Limited
Director Synlait Milk (Holdings) No.1 Limited
Director Synlait Business Consulting (Shanghai) Co., Ltd[2]
Director and Shareholder Orange Homes (2022) Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Timothy 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

Paul Mallard
Director Synlait Business Consulting (Shanghai) Co., Ltd[2]

1 Yi Zhu (Julia) was appointed to the Board on 19 June 2023.

2 Grant Watson and Robert Stowell were appointed Directors by Resolution dated September 2022 and Paul Mallard in March 2023. The paperwork is currently being processed in China to formally enact the change.

3 Grant Watson has advised (prior to becoming a shareholder) that 365 Ventures Limited (trading as Safe365) is a supplier to Dairyworks Limited, a Synlait subsidiary, on normal terms of trade. Safe365 was a supplier to the Group prior to Grant Watson becoming a Director of Dairyworks. There is a protocol in place whereby Grant Watson abstains from all Board discussions and decisions involving the supply arrangements between Dairyworks and 365 Ventures Limited.

No new disclosures were made during the period by Dr. Gui Min (Gracie) who retired from the Board on 19 June 2023.

No new disclosures were made during the period by Min Chen (Joyce) who retired from the Board on 19 June 2023.

No new disclosures were made during the period by Sam Knowles who retired from the Board on 2 December 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 them. As permitted by section 162 of the Companies Act 1993 and Synlait's 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 of Synlait. 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 increase or decrease in their shareholdings.

04. DIRECTOR REMUNERATION

There was no change to the fees paid to Directors of Synlait this financial year. The below fees, as 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 the total remuneration and the value of other benefits received by Synlait Directors during the year ended 31 July 2023:

Directors	Role	Remuneration
Simon Robertson	Director Board Chair	$118,667[1]
Dr. Gui Min (Gracie)	Director	$77,788[2]
Dr. John Penno	Director	$118,600[3]
Min Chen (Joyce)	Director	$77,788[4]
Paul McGilvary	Director Chair of People, Environment and Governance Committee	$96,400[5]
Paul Washer	Director Chair of Audit and Risk Committee	$68,799[6]
Ruibing Liu (Ryan)	Director	$11,113[7]
Hon. Ruth Richardson	Director	$88,900
Sam Knowles	Director	$33,633[8]
Sihang Yang (Edward)	Director	$88,900
Yi Zhu (Julia)	Director	$11,113[9]

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

1 Simon Robertson was appointed Chair of the Board on 2 December 2022.
2 Dr. Gui Min (Gracie) retired from the Board on 19 June 2023.
3 Dr. John Penno was the Chair of the Board until 2 December 2022..
4 Min Chen (Joyce) retired from the Board on 19 June 2023.
5 Paul McGilvary was appointed Chair of People, Environment and Governance Committee on 16 December 2022.
6 Paul Washer was appointed to the Board on 2 December 2022 and was appointed Chair of the Audit and Risk Committee on 16 December 2022.
7 Ruibing Liu (Ryan) was appointed to the Board on 19 June 2023.
8 Sam Knowles retired from the Board on 2 December 2022.
9 Yi Zhu (Julia) was appointed to the Board on 19 June 2023.

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 2023	Securities held (legally or beneficially) as at 31 July 2022
Simon Robertson	13,324 ordinary shares	13,324 ordinary shares
Dr. Gui Min (Gracie)[1]	0	0
Dr. John Penno	5,109,803 ordinary shares	5,109,803 ordinary shares
Min Chen (Joyce)[2]	0	0
Paul McGilvary[3]	0	0
Paul Washer[4]	0	0
Ruibing Liu (Ryan)[5]	0	0
Hon. Ruth Richardson	66,025 ordinary shares	66,025 ordinary shares
Ian (Sam) Knowles[6]	64,803 ordinary shares	64,803 ordinary shares
Sihang Yang (Edward)	0	0
Yi Zhu (Julia)[7]	0	0

1 Dr. Gui Min (Gracie) retired from the Board on 19 June 2023.
2 Min Chen (Joyce) retired from the Board on 19 June 2023.
3 Paul McGilvary was appointed by the Board in January 2022 to fill a casual vacancy and was re-elected to the Board as an Independent Director by shareholders at the 2022 Annual Meeting.
4 Paul Washer was appointed to the Board on 2 December 2022.
5 Ruibing Liu (Ryan) was appointed to the Board on 19 June 2023.
6 Sam Knowles retired from the Board on 2 December 2022.
7 Yi Zhu (Julia) was appointed to the Board on 19 June 2023.

06. EMPLOYEE REMUNERATION

During the year ended 31 July 2023, 440 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, information includes overtime and company contribution to KiwiSaver, as set out below:

Salary bracket ($)	Number of employees
100,000 – 109,999	88
110,000 – 119,999	79
120,000 – 129,999	64
130,000 – 139,999	48
140,000 – 149,999	35
150,000 – 159,999	20
160,000 – 169,999	23
170,000 – 179,999	15
180,000 – 189,999	13
190,000 – 199,999	9
200,000 – 209,999	4
210,000 – 219,999	5
220,000 – 229,999	3
230,000 – 239,999	6
240,000 – 249,999	1
250,000 – 259,999	4
260,000 – 269,999	3
270,000 – 279,999	3
280,000 – 289,999	2
290,000 – 299,999	1
330,000 – 339,999	2
360,000 – 369,999	2
370,000 – 379,999	2
390,000 – 399,999	1
400,000 – 409,999	1
420,000 – 429,999	1
450,000 – 459,999	1
470,000 – 479,999	1
530,000 – 539,999	1
650,000 – 659,999	1
780,000 – 789,999	1
920,000 – 929,999	1
Total	**440**

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 2023:

Remuneration	Grant Watson
Salary	$900,000
Total fees paid	N/A
KiwiSaver employer contribution	$27,000
Medical insurance employer contribution	$1,012.89
Short term incentive scheme	N/A
Long term incentive scheme	N/A
Total remuneration	**$928,012,89**

07. DONATIONS

Dairyworks Limited, a subsidiary of Synlait, made cheese donations to a value of $20,686 in the year to 31 July 2023. These were the only donations made by the Synlait Group in the financial year.

08. AUDITORS

In the year to 31 July 2023, Synlait's total payments to its auditors PricewaterhouseCoopers were as follows:

Statutory audit	$410,000
Half audit review	$74,000
Other assurance services	$220,000
Consulting	$52,000
Total	**$756,000**

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 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). 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.

10. TOP 20 SECURITY HOLDERS AND SUBSTANTIAL SECURITY HOLDERS

Synlait had the following securities on issue as at 31 July 2023:

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

Set out below are Synlait's 20 largest shareholders as at 31 July 2023:

	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 (NZ) Limited	43,352,509	19.8%
03. Accident Compensation Corporation	7,881,712	3.6%
04. New Zealand Funds Management Ltd.	6,381,425	2.9%
05. Chester Asset Management Pty Ltd.	5,380,000	2.5%
06. John Penno	5,109,803	2.3%
07. The Vanguard Group, Inc.	3,347,122	1.5%
08. L S Keeper	1,975,000	0.9%
09. MMC Limited	1,852,459	0.8%
10. Smartshares Limited	1,621,026	0.7%
11. State Street Global Advisors Australia Ltd.	1,589,389	0.7%
12. Norges Bank Investment Management (NBIM)	1,491,175	0.7%
13. Devon Funds Management Limited	1,386,719	0.6%
14. First NZ Capital Custodians Limited (Various Private Investors)	1,364,270	0.6%
15. Guardians of New Zealand Superannuation	1,183,682	0.5%
16. Paul & Bronwyn Lancaster	1,055,623	0.5%
17. BNP Paribas Nominees (NZ) Limited – A/C NZCSD	931,317	0.4%
18. Dimensional Fund Advisors, L.P.	921,571	0.4%
19. Castle Point Funds Management Limited	901,414	0.4%
20. Therese Roche	900,000	0.4%
Total	173,892,821	79.6%

According to notices given under section 280(1)(b) of the Financial Markets Conduct Act 2013, the following are Synlait's substantial product holders as at 31 July 2023. 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	39.01%
The a2 Milk Company Limited	43,352,509	19.83%
Total	128,619,114	58.84%

Set out below are Synlait's largest bondholders as at 31 July 2023:

	Number of bonds held	Percentage of total bonds on issue
01. Custodial Services Limited	35,325,000	19.63%
02. Hobson Wealth Custodian Limited	26,043,000	14.47%
03. FNZ Custodians Limited	25,395,000	14.11%
04. Tea Custodians Limited Client Property Trust Account – NZCSD	22,615,000	12.56%
05. Forsyth Barr Custodians Limited	9,037,000	5.02%
06. Citibank Nominees (New Zealand) Limited – NZCSD	5,400,000	3.00%
07. RGTKMT Investments Limited	3,275,000	1.82%
08. Sierra Investments Limited	2,945,000	1.64%
09. National Nominees Limited – NZCSD	2,012,000	1.12%
10. BNP Paribas Nominees (NZ) Limited – NZCSD	1,994,000	1.11%
11. JB Were (NZ) Nominees Limited	1,930,000	1.07%
12. FNZ Custodians Limited	1,254,000	0.70%
13. MASFEN Securities Limited	981,000	0.55%
14. JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct – NZCSD	905,000	0.50%
15. Hobson Wealth Custodian Limited	869,000	0.48%
16. FNZ Custodians Limited	865,000	0.48%
17. Francis Horton Tuck	800,000	0.44%
18. Falstaff Investments Limited	768,000	0.43%
19. Craddock Farms Limited	654,000	0.36%
20. Khia Goom Phua	569,000	0.32%
Total	143,636,000	79.80%

11. SPREAD OF PRODUCT HOLDERS

The spread of Synlait's ordinary shareholders as at 31 July 2023 is as follows:

Size of holding	Number of investors	Percentage of investors	Total number of shares	Percentage issued
1 – 1,000	2,793	42.81%	1,251,286	0.57%
1,001 – 5,000	2,383	36.53%	6,231,623	2.85%
5,001 – 10,000	690	10.58%	5,222,324	2.39%
10,001 – 50,000	547	8.38%	10,886,259	4.98%
50,001 – 1,000,000	94	1.44%	15,233,724	6.97%
1,000,001 and over	17	0.26%	179,756,445	82.24%
Total	**6,524**	**100%**	**218,581,661**	**100%**

The spread of Synlait's bondholders as at 31 July 2023 is as follows:

Size of holding	Number of holders	Percentage of holders	Total number of bonds	Percentage issued
1,001 – 5,000	56	5.89%	277,000	0.15%
5,001 – 10,000	165	17.35%	1,591,000	0.88%
10,001 – 50,000	573	60.25%	15,596,000	8.66%
50,001 – 1,000,000	145	15.25%	25,311,000	14.06%
1,000,001 and over	12	1.26%	137,225,000	76.24%
Total	**951**	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 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 an ordinary 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 require 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 recommendation in the NZX Code during the year to 31 July 2023 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 the CEO) as at 31 July 2023. The prior year's comparison is in brackets.

Group	Female	Male	Total
Board	2 (3)	6 (5)	8 (8)
Officer	3 (2)	8 (7)	11 (9)
Total	**5 (5)**	**14 (12)**	**19 (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 2024. The prior year's comparison is in brackets:

Measure	Progress at 31 July 2023 – compared to FY 22
Reduction of the gender pay gap to ≤ 5%	13% (17%)[1]
40-50% of leadership positions (people leaders, supervisors, specialist roles and senior leadership) held by women	40% (37%)
No regretted losses of high potential female employees	4 (8)

[1] The methodology adopted in the 2022 Annual Report used a mean to report Synlait's progress towards the reduction of the gender pay gap. This year, Synlait have adopted a methodology using a median to measure our progress. Accordingly, the FY 22 figure in this report has been updated to the median as at 31 July 2022 and a median has ben used to access the progress as at 31 July 2023.

DIRECTORY

Registered and head office
1028 Heslerton Road
Rakaia, RD13
New Zealand

Contact us
+64 3 373 3000
info@synlait.com
synlait.com

You can also follow us on Facebook and LinkedIn

Share register
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2
159 Hurstmere Rd
Takapuna
Auckland 0622
0800 467 335
+64 9 488 8777
enquiry@computershare.co.nz

Auditor
PricewaterhouseCoopers
PwC Centre
Level 4, 60 Cashel Street
PO Box 13244
Christchurch 8013
New Zealand
+64 3 374 3000
pwc.co.nz

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.*

Tom Mawle, Blackford Farm, Mt Hutt, Canterbury.