Synlait

CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended
31 January 2022

CONTENTS

A birds eye view of Synlait's 600m long rail siding hard stand where up to 30 wagons can be loaded with containers filled from Dry Store 4.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the condensed interim financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, Dairyworks (Australia) Pty Limited, and Synlait Milk (Dunsandel Farms) Limited (together "the Group") as set out on pages 4 to 22 for the six months ended 31 January 2022.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2022 and the financial performance and cash flows for the six months ended on that date.

The Directors consider that the condensed interim 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 condensed interim financial statements with the Financial Markets Conduct Act 2013.

For and on behalf of the Board.

Dr John Penno
Chair
31 March 2022

Simon Robertson
Independent Director
31 March 2022

INCOME STATEMENT

For the six months ended 31 January 2022

	Notes	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited (restated) $'000	Year ended 31 July 2021 Audited $'000
Revenue		**790,591**	664,182	1,367,349
Cost of sales	5	**(721,502)**	(604,529)	(1,300,042)
Gross profit		**69,089**	**59,653**	**67,307**
Other income	4	**15,426**	1,611	3,870
Share of (loss)/profit from associates		**-**	(33)	(33)
Sales and distribution expenses	5	**(18,144)**	(18,738)	(36,791)
Administrative and operating expenses	5	**(24,963)**	(22,908)	(52,018)
Earnings/(loss) before net finance costs and income tax		**41,408**	**19,585**	**(17,665)**
Finance expenses		**(9,876)**	(10,720)	(20,488)
Finance income		**109**	30	44
Loss on derecognition of financial assets		**(567)**	(436)	(1,045)
Net finance costs		**(10,334)**	**(11,126)**	**(21,489)**
Profit/(loss) before income tax		**31,074**	8,459	(39,154)
Income tax expense	2	**(3,169)**	(2,086)	10,703
Net profit/(loss) after tax for the period		**27,905**	**6,373**	**(28,451)**
Earnings per share		**Cents**	Cents	Cents
Basic earnings per share (cents)		**12.77**	3.23	(13.77)
Diluted earnings per share (cents)		**12.74**	3.22	(13.77)

Comparative numbers have been restated due to a change in accounting policy. Refer to note 2 for further detail.

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

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 January 2022

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited (restated) $'000	Year ended 31 July 2021 Audited $'000
Profit/(loss) for the period	27,905	6,373	(28,451)
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	(65,389)	30,306	(6,330)
Exchange differences on translation of foreign operations	27	2	10
Income tax on other comprehensive income	18,309	(8,486)	1,772
Total items that may be reclassified subsequently to profit and loss	(47,053)	21,822	(4,548)
Other comprehensive (deficit)/income for the period, net of tax	(47,053)	21,822	(4,548)
Total comprehensive (deficit)/income for the period	(19,148)	28,195	(32,999)

Comparative numbers have been restated due to a change in accounting policy. Refer to note 2 for further detail.

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

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2022

	Notes	Share Capital $'000	Employee benefits reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total Equity $'000
Equity as at 1 August 2020 (Audited)		268,544	1,322	12,647	(12)	323,983	606,484
Change in accounting policy	2	-	-	-	-	(1,978)	(1,978)
Restated equity at the start of the period		268,544	1,322	12,647	(12)	322,005	604,506
Profit/(loss) for the period (restated)		-	-	-	-	6,373	6,373
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	30,306	-	-	30,306
Exchange differences on translation of foreign operations		-	-	-	2	-	2
Income tax on other comprehensive income		-	-	(8,486)	-	-	(8,486)
Total other comprehensive income		-	-	21,820	2	-	21,822
Total comprehensive income		-	-	21,820	2	6,373	28,195
Issue of new shares		196,082	-	-	-	-	196,082
Employee benefits reserve		148	(637)	-	-	-	(489)
Restated equity as at 31 January 2021 (Unaudited)		464,774	685	34,467	(10)	328,378	828,294
Equity as at 1 August 2021 (Audited)		464,774	698	8,089	(2)	293,555	767,114
Profit/(loss) for the period		-	-	-	-	27,905	27,905
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	(65,389)	-	-	(65,389)
Exchange differences on translation of foreign operations		-	-	-	27	-	27
Income tax on other comprehensive income		-	-	18,309	-	-	18,309
Total other comprehensive income		-	-	(47,080)	27	-	(47,053)
Total comprehensive income		-	-	(47,080)	27	27,905	(19,148)
Issue of new shares		-	-	-	-	-	-
Employee benefits reserve		-	(2)	-	-	-	(2)
Equity as at 31 January 2022 (Unaudited)		464,774	696	(38,991)	25	321,460	747,964

Comparative numbers have been restated due to a change in accounting policy. Refer to note 2 for further detail.

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

STATEMENT OF FINANCIAL POSITION

As at 31 January 2022

	Notes	31 January 2022 Unaudited $'000	31 January 2021 Unaudited (restated) $'000	31 July 2021 Audited $'000
ASSETS				
Cash and cash equivalents		40,639	9,133	16,020
Trade and other receivables	7	106,209	123,656	109,139
Intangible assets	10	5,093	5,290	3,712
Goods and services tax refundable		10,693	9,340	4,461
Income accruals and prepayments		7,123	7,561	14,297
Inventories	8	335,609	406,404	270,943
Derivative financial instruments		2,780	63,498	30,943
Current tax receivables		1,736	-	1,743
Other current assets		-	2,500	2,500
Total current assets		**509,882**	**627,382**	**453,758**
Non-current assets				
Property, plant and equipment	9	1,018,181	1,007,149	1,027,149
Intangible assets	10	76,949	46,523	59,631
Goodwill		64,189	64,189	64,189
Other investments		110	110	110
Derivative financial instruments		-	969	53
Right-of-use assets		18,419	15,583	14,018
Total non-current assets		**1,177,848**	**1,134,523**	**1,165,150**
Total assets		**1,687,730**	**1,761,905**	**1,618,908**
LIABILITIES				
Trade and other payables		383,985	324,843	264,826
Loans and borrowings	11	91,853	214,199	33,333
Current tax liabilities		-	22,714	-
Derivative financial instruments		38,618	8,903	10,770
Lease liabilities		3,709	3,126	3,243
Total current liabilities		**518,165**	**573,785**	**312,172**
Non-current liabilities				
Loans and borrowings	11	338,144	276,956	459,584
Derivative financial instruments		18,299	3,552	8,830
Deferred tax liabilities		44,216	65,891	59,433
Lease liabilities		18,439	13,427	11,775
Other non-current liabilities	12	2,503	-	-
Total non-current liabilities		**421,601**	**359,826**	**539,622**
Total liabilities		**939,766**	**933,611**	**851,794**
Net assets		**747,964**	**828,294**	**767,114**
Equity				
Share capital	13	464,774	464,774	464,774
Reserves		(38,270)	35,142	8,785
Retained earnings		321,460	328,378	293,555
Total equity attributable to equity holders of the Group		**747,964**	**828,294**	**767,114**
Total equity and liabilities		**1,687,730**	**1,761,905**	**1,618,908**

Comparative numbers have been restated due to a change in accounting policy. Refer to note 2 for further detail.
The accompanying notes form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

For the six months ended 31 January 2022

	Notes	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited (restated) $'000	Year ended 31 July 2021 Audited $'000
Cash flows from operating activities				
Cash receipts from customers		810,327	611,349	1,327,444
Cash paid for milk purchased		(390,154)	(320,097)	(653,132)
Cash paid to other creditors and employees		(296,780)	(357,879)	(652,402)
Net movement in goods and services tax		(6,232)	(2,940)	1,937
Income tax payments		89	2	(7,979)
Net cash inflow/(outflow) from operating activities	6	**117,250**	**(69,565)**	**15,868**
Cash flows from investing activities				
Interest received		109	30	44
Acquisition of property, plant and equipment		(25,896)	(62,126)	(116,163)
Proceeds from sale of property, plant and equipment		30,178	3,467	1,102
Acquisition of intangible assets		(20,110)	(11,364)	(24,205)
Proceeds from sale of intangible assets		-	-	2,450
Net cash outflow from investing activities		**(15,719)**	**(69,993)**	**(136,772)**
Cash flows from financing activities				
Repayment of borrowings	11	(39,420)	(65,000)	(50,000)
Net movement in working capital facility	11	(23,570)	26,363	12,586
Interest paid		(12,524)	(11,786)	(23,108)
Repayment of lease liabilities		(1,919)	(2,808)	(4,499)
Receipt of cash from issue of shares	13	-	196,081	196,082
Net cash (outflow)/inflow from financing activities		**(77,433)**	**142,850**	**131,061**
Net increase in cash and cash equivalents		24,098	3,292	10,157
Cash and cash equivalents at the beginning of the period		16,020	5,887	5,887
Effects of exchange rate changes on cash and cash equivalents		521	(46)	(24)
Cash and cash equivalents at end of the period		**40,639**	**9,133**	**16,020**

Comparative numbers have been restated due to a change in accounting policy. Refer to note 2 for further detail.

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2022

01. REPORTING ENTITY

The condensed interim financial statements presented consolidate the financial results of the Group, including Synlait Milk Limited and its subsidiaries Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited, Dairyworks Limited, Dairyworks (Australia) Pty Limited, and Synlait Milk (Dunsandel Farms) Limited.

Synlait Milk Limited is primarily involved in the manufacture and sale of dairy products.

The parent company, Synlait Milk Limited, 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 a FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

02. BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT

The condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) as appropriate for interim financial statements. They comply with International Accounting Standard 34 (IAS 34) and New Zealand equivalent to International Accounting Standard 34 (NZ IAS 34) Interim Financial Reporting and other applicable financial reporting standards appropriate for profit oriented entities.

Synlait Milk Limited is subject to seasonal fluctuations which have an impact on both revenue and production levels due to northern hemisphere dairy market demand and the dairy milking season. Synlait Milk Limited recognises this is the nature of the industry and plans and manages the business accordingly.

Items included in the interim financial statements of the Group are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The financial statements are presented in New Zealand Dollars ($), which is the functional currency of the parent and are rounded to the nearest thousand ($'000).

Going concern

In preparing these financial statements, the Directors have assessed the Group's ability to continue as a going concern. In making this assessment, the Directors have considered the level of debt and facilities the Group had available at 31 January 2022, the Group's renegotiation of financing arrangements in July 2021, the Group's return to profitability and improved operating cash flows in the current period, and the Group's forecast financial results for the 18 months subsequent to the date of issue of these financial statements.

The Group's current liabilities exceed its current assets by $8.3m as a result of the working capital facility being classified as a current liability at 31 January 2022. The facility is renegotiated annually.

While uncertainties continue to exist as a result of the COVID-19 pandemic, the Directors consider that the Group is a going concern.

New accounting standards, interpretations, and amendments adopted during the period

IFRS 9, IAS 39, IFRS 7, IFRS 4, Insurance contracts and IFRS 16 leases - Interest Rate Benchmark Reform, Phase 2

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

As at 31 January 2022, these amendments did not affect the Group's financial statements as it has not yet transitioned any agreements that are exposed to Inter-bank Offered Rates (IBOR) to an alternative benchmark interest rate. The replacement of the rate is not expected to result in a significant change in the Group's interest rate risk management strategy or interest rate risk. The Group continues to monitor developments on alternative benchmark interest rates and expect to transition to alternative rates as widespread market practice is established.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Change in computer software capitalisation policy as a result of the IFRIC agenda decision on cloud software (software as a service or "SaaS") implementation costs.

In April 2021 IFRIC released an agenda decision in contradiction of the Group's historical policy of capitalising cloud software implementation costs. The agenda decision disallows the capitalisation of costs for the implementation of cloud software except for costs relating to the development of customised software code where the customer maintains control of the code and its future benefits.

The Group has historically capitalised implementation phase costs and subsequently depreciated the costs over the life of the underlying software service contract (over a period not exceeding 4 years). During the year ended 31 July 2021, the Group made the decision to align its accounting policy with the IFRIC agenda decision and retrospectively derecognise cloud software implementation costs which had been recognised as intangible assets. The Group has also made the decision to disallow future capitalisation of cloud software costs except for those instances where the Group maintains control of any custom software code and has the ability to restrict others' access to those benefits.

For the avoidance of doubt, the Group's current implementation of SAP is not within the scope of the agenda decision as the underlying license is perpetual, on-premise, and the Group has control over the infrastructure on which SAP runs.

For further information, please refer to the Group's annual report for the year ended 31 July 2021.

The change in accounting policy has had the following impacts on the prior years presented in these financial statements:

	31 January 2021 $'000	31 January 2020 $'000	31 January 2019 $'000	31 January 2018 $'000
Increase in software expense	(452)	(694)	(532)	-
Decrease in depreciation expense	450	237	-	-
Decrease in tax expense	1	128	149	-
Decrease in profit for the year	**(1)**	**(329)**	**(383)**	**-**
Decrease in intangible assets	(2,737)	(1,955)	(653)	-
Decrease in deferred tax liability	759	547	183	-
Decrease in retained earnings	1,978	1,408	470	-
Decrease in basic and diluted earnings per share ($)	0.000	(0.002)	(0.002)	0.000

There are no other standards, interpretations, or amendments 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. Except for the above noted change in software capitalisation policy, there have been no other significant changes in accounting policies during the current period and the same accounting policies and methods of computation are followed in these financial statements as the most recent annual financial statements for the year ended 31 July 2021.

Certain comparatives have been restated to conform to current year presentation.

Material events during the period

Sale and leaseback of Auckland land and building

On 4 October 2021, the Group completed the sale and leaseback of its Auckland land and building located at 89 Richard Pearse Drive which had a book value of $12.6m at the time of sale. Total proceeds were $30.1m resulting in a tax exempt gain on sale of $17.1m (net of transaction costs of $0.4m) of which $11.9m was recognised in other income in the current period. The measurement requirements of NZ IFRS 16 require the unrecognised $5.2m portion of the gain to be allocated to the right of use asset, reflecting the proportion of the previous carrying amount of the land and building that relates to the right of use retained, and to be amortised over the life of the lease. The leaseback gave rise to a right of use asset of $6.2m (including future site restoration costs of $2.5m), a lease liability of $8.9m, and a deferred tax asset of $1.5m. As a result of the gain on sale being exempt from tax, the Group's effective tax rate of 10.0% in the period was significantly lower in comparison to previous periods (31 January 2021: 24.7%, 31 July 2021: 28.7%).

COVID-19 and emergence of Omicron variant

Current global economic conditions continue to be highly volatile due to the COVID-19 pandemic, which was declared in March 2020. During the period, the highly transmissible Omicron variant of COVID-19 emerged as the dominant strain of COVID-19 globally and within New Zealand. The Omicron variant is expected to significantly impact day to day life in New Zealand in the second half of FY22. As a result, management is constantly working to ensure contingency and risk mitigation plans are in place to reduce the impact of COVID-19 to the Group's operations which include but are not limited to: vaccine mandates, mandatory rapid antigen testing at all operational sites, availability of non-operations staff and management to fill staff shortages, safety stock of key raw materials and packaging inventories, establishment of continuity plans with key suppliers, enhanced hygiene practices and use of personal protective equipment, and mandatory employee distancing.

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

Milk accrual

At interim reporting date, the milk accrual is a key management estimate. The milk accrual represents the amount the Group is forecasting to pay its suppliers for the current year less advance payments made during the period. The Group's policy is to value its inventory using the weighted average monthly milk price based on the Group's forecast annual milk price for the season. Managements' forecast of the milk price for the season is the basis of the calculation of the milk accrual and at interim reporting date requires judgement from management. Key assumptions in the calculation of the forecast annual milk price for the season include dairy commodity prices, on-farm milk composition, sales and production curves, annual foreign exchange conversion rate and other conversion costs.

03. SEGMENT REPORTING

(a) Reportable segments

The Group identifies the following segments:

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

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

(b) Description of segments

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

	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
External revenue	663,756	126,835	-	790,591
Inter-segment revenue from sale of goods	445	-	(445)	-
Revenue from sale of goods	664,201	126,835	(445)	790,591
Net profit/(loss) after tax for the period	26,783	1,122	-	27,905

The following is an analysis of other financial information by reportable segment:

	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000	31 January 2022 Unaudited $'000
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
Finance income	105	4	-	109
Finance expense	(8,322)	(1,554)	-	(9,876)
Depreciation and amortisation	(24,140)	(2,893)	-	(27,033)
Income tax expense	(2,669)	(500)	-	(3,169)
Total assets	1,495,742	191,988	-	1,687,730
Total liabilities	(848,392)	(91,374)	-	(939,766)
Total net assets	647,350	100,614	-	747,964

	31 January 2021 Unaudited (restated) $'000	31 January 2021 Unaudited (restated) $'000	31 January 2021 Unaudited (restated) $'000	31 January 2021 Unaudited (restated) $'000
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
External revenue	551,625	112,557	-	664,182
Inter-segment revenue from sale of goods	10,097	-	(10,097)	-
Revenue from sale of goods	561,722	112,557	(10,097)	664,182
Net profit/(loss) after tax for the period	4,521	1,852	-	6,373
Finance income	4	26	-	30
Finance expense	(8,961)	(1,759)	-	(10,720)
Depreciation and amortisation	(24,517)	(3,142)	-	(27,659)
Income tax expense	(1,368)	(718)	-	(2,086)
Total assets	1,586,718	175,187	-	1,761,905
Total liabilities	(859,237)	(74,374)	-	(933,611)
Total net assets	727,481	100,813	-	828,294

	31 July 2021 Audited $'000	31 July 2021 Audited $'000	31 July 2021 Audited $'000	31 July 2021 Audited $'000
	Nutritionals, ingredients, fresh milk	**Cheese, butter, yoghurt**	**Eliminations**	**Total**
External revenue	1,138,302	229,047	-	1,367,349
Inter-segment revenue from sale of goods	12,785	-	(12,785)	-
Revenue from sale of goods	1,151,087	229,047	(12,785)	1,367,349
Net profit/(loss) after tax for the period	(28,802)	351	-	(28,451)
Finance income	14	30	-	44
Finance expense	(16,876)	(3,612)	-	(20,488)
Depreciation and amortisation	(48,855)	(6,117)	-	(54,972)
Income tax benefit/(expense)	10,985	(282)	-	10,703
Total assets	1,406,236	212,672	-	1,618,908
Total liabilities	(738,433)	(113,361)	-	(851,794)
Total net assets	667,803	99,311	-	767,114

03. SEGMENT REPORTING (CONTINUED)

(c) Geographical revenue

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

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

	Period ended 31 January 2022 Unaudited	Period ended 31 January 2021 Unaudited	Year ended 31 July 2021 Audited
China	20%	13%	14%
Rest of Asia	24%	24%	24%
Middle East and Africa	5%	5%	5%
New Zealand	41%	51%	47%
Australia	9%	5%	8%
Rest of World	1%	2%	2%
Total	**100%**	**100%**	**100%**

All Group non-current assets are located in New Zealand, other than $0.5m (31 January 2021: $0.6m, 31 July 2021: $0.5m) located in China.

(d) Other profit and loss disclosures

Revenues of approximately 39% (31 January 2021: 50%, 31 July 2021: 42%) are derived from the top three external customers.

04. OTHER INCOME

Other income includes a one time $11.9m gain on sale relating to the sale and leaseback of the Group's land and building located at 89 Richard Pearse Drive in Auckland. The gain was exempt from income tax. Refer to note 2 for further detail.

05. EXPENSES

	Notes	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited (restated) $'000	Year ended 31 July 2021 Audited $'000
The following items of expenditure are included in cost of sales				
Depreciation and amortisation		22,847	22,607	45,638
Employee benefit expense		36,238	41,001	80,926
KiwiSaver contributions		930	1,059	1,941
(Decrease)/increase in inventory provision	8	(6,164)	(585)	6,257
Increase/(decrease) in onerous contracts provision	8	448	1,235	1,777
The following items of expenditure are included in sales and distribution				
Depreciation and amortisation		2,411	3,202	5,579
Employee benefit expense		8,209	8,246	16,177
KiwiSaver contributions		237	196	419
The following items of expenditure are included in administrative and operating				
Depreciation and amortisation		1,775	1,850	3,755
Employee benefit expense		12,372	10,471	25,201
KiwiSaver contributions		306	282	604
Directors' fees		414	414	829
Share based payments expense		64	673	(610)
Impairment of intangibles		-	530	530

06. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited (restated) $'000	Year ended 31 July 2021 Audited $'000
Profit/(loss) for the period	27,905	6,373	(28,451)
Non-cash and non-operating items:			
Depreciation and amortisation of non-current assets	25,098	24,644	50,236
Depreciation of right-of-use assets	1,935	3,015	4,736
(Gain)/loss on sale of property, plant and equipment	(12,005)	27	100
Impairment of property, plant and equipment and intangible assets	-	530	2,242
Share of loss from associate	-	33	33
Non-cash share based payments expense	(2)	(673)	(476)
Interest costs classified as financing cash flow	9,876	10,720	20,488
Interest received classified as investing cash flow	(109)	(30)	(44)
Loss on derecognition of financial assets	567	436	1,045
Deferred tax	3,091	3,936	7,329
Loss/(gain) on derivative financial instruments	144	(4,044)	(64)
Unrealised foreign exchange (gain)/loss	(521)	46	24
Movements in working capital:			
Decrease/(increase) in trade and other receivables	2,170	(59,973)	(45,323)
Decrease/(increase) in income accruals and prepayments	7,174	4,843	(1,893)
Increase in inventories	(64,666)	(137,021)	(1,561)
(Increase)/decrease in goods and services tax refundable	(6,232)	(2,942)	1,937
Decrease in other current assets	2,500	-	-
Increase in trade and other payables	120,318	82,362	31,814
Increase/(decrease) in current tax liabilities	7	(1,847)	(26,304)
Net cash inflow from operating activities	117,250	(69,565)	15,868

07. TRADE AND OTHER RECEIVABLES

The Group has derecognised trade receivables that have been sold pursuant to the terms of receivables purchase agreements that the Group has entered into with its bankers. The Group has assessed the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the respective banks.

08. INVENTORIES

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited $'000	Year ended 31 July 2021 Audited $'000
Raw materials at costs	82,139	82,580	74,390
Raw materials at net realisable value	253	-	-
Work in progress at cost	49,312	100,366	82,647
Work in progress at net realisable value	236	355	1,593
Finished goods at cost	157,913	182,273	82,495
Finished goods at net realisable value	45,756	40,830	29,818
Total inventories	335,609	406,404	270,943

Raw material inventories at $82.4m (15,159 MT) (31 January 2021: $82.6m, 16,667 MT; 31 July 2021: $74.4m, 13,733 MT) have decreased marginally.

Work in progress inventories at $49.5m (6,451 MT) have decreased (31 January 2021: $100.7m, 16,053 MT; 31 July 2021: $84.2m, 12,896 MT) due to lower levels of our core infant formula base powders and the drawdown of bulk cheese inventories on hand.

Finished goods have decreased to $203.7m (37,293 MT) (31 January 2021: $223.1m, 47,585 MT; 31 July 2021: $112.3m, 21,424 MT). The decrease is due to an active programme to rebalance inventory levels across the Group.

The cost of inventories recognised as an expense during the period was $685.6m (31 January 2021: $567.9m; 31 July 2021: $1,212.4m). The cost of inventories recognised as an expense includes $5.2m (31 January 2021: $4.6m; 31 July 2021: $10.1m) in respect of write downs of inventory to net realisable value.

The total inventory condition provision at reporting date was $2.2m, of which $1.4m related to finished goods, $0.4m to work in progress, and $0.4m to raw materials (31 January 2021: $1.6m, $0.9m for finished goods, $0.5m for work in progress, and $0.2m for raw materials; 31 July 2021: $8.3m, $3.6m for finished goods, $4.0m for work in progress, and $0.7m for raw materials). The slight increase is the result of new product developments which are initially at a higher risk of being produced out of spec.

In addition, the total onerous contracts provision as at reporting date was $2.4m (31 January 2021: $1.6m; 31 July 2021: $2.1m). Onerous contracts have increased due to rising milk prices driving a higher cost to fulfill.

Infant base powder inventories of $43.7m (5,648 MT) (31 January 2021: $73.8m, 12,516 MT; 31 July 2021: $67.7m, 10,720 MT) have been reclassified from finished goods to work in progress.

09. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2022, $27.0m has been added to capital work in progress relating primarily to the Pokeno plant modification project. During this period, $5.1m of historical work in progress relating primarily to routine capital expenditure has been transferred to fixed assets. $12.6m of property, plant, and equipment was derecognised in relation to the sale and leaseback of the Group's Auckland land and buildings. Refer to note 2 for further detail.

10. INTANGIBLE ASSETS

During the six months ended 31 January 2022, $16.9m has been added to intangible work in progress relating primarily to the SAP ERP implementation project. During this period, $0.5m of historical work in progress relating primarily to routine capital expenditure has been transferred to intangible assets. In addition, $3.2m of New Zealand Units were acquired during the period.

11. 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 consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited $'000	Year ended 31 July 2021 Audited $'000
Current liabilities			
Working capital facility (syndicated) NZD	21,800	77,900	-
Working capital facility (syndicated) USD	70,053	51,299	-
Revolving credit facility	-	85,000	33,333
	91,853	214,199	33,333
Non-current liabilities			
Working capital facility (syndicated) NZD	-	-	60,495
Working capital facility (syndicated) USD	-	-	54,928
Revolving credit facility	160,580	100,000	166,667
Loan facility fees	(413)	(373)	(153)
Subordinated bonds	180,000	180,000	180,000
Bond facility fees	(2,023)	(2,671)	(2,353)
	338,144	276,956	459,584
Total loans and borrowings	429,997	491,155	492,917

The bank loans 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 $100m maturing 1 October 2023, with NZD $29.6m amortising 31 March 2022, NZD $3.7m amortising 31 July 2022, and NZD $33.3m amortising 31 July 2023. The amounts due to amortise on 31 March 2022 and 31 July 2022 were not drawn at 31 January 2022.
- A secured revolving credit facility (Facility B) of NZD $50m maturing 1 October 2023.
- A secured revolving credit facility (Facility C) of NZD $50m maturing 1 October 2023.
- A secured working capital facility of NZD $250m maturing 1 October 2022 which temporarily increased by NZD $80m to NZD $330m in September 2021 and stepped back down to NZD $250m in February 2022.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group met all externally imposed capital requirements for the six months ended 31 January 2022 and 31 January 2021. The Group had the interest cover ratio, the total debt to EBITDA ratio and senior debt to EBITDA ratio covenants as at 31 July 2021 waived, however met all other externally imposed capital requirements.

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 January 2022, the retail bond had a fair value of NZD $175.2m (31 January 2021: $184.4m 31 July 2021: NZD $175.0m), based on NZX Debt Market valuation.

The following summarises banking covenants effective for the year ending 31 July 2022:

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

12. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprises entirely of a future site restoration obligation relating to the leaseback of the Auckland land and building.

13. SHARE CAPITAL

The Group had 218,581,661 ordinary shares on issue as at 31 January 2022 (31 January 2021: 218,581,661, 31 July 2021: 218,581,661). There were no shares granted in the period (31 January 2021: 39,274,753: 31 July 2021: 39,274,753).

14. RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by Synlait Milk Limited (31 January 2021: 39.01%; 31 July 2021: 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.

14. RELATED PARTY TRANSACTIONS (CONTINUED)

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 the Hong Kong operations of the Chinese dairy group, New Hope Dairy Limited, and 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.

In May 2017 the Group acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and canning plant in Auckland, which was subsequently sold to Synlait Milk Limited. The New Zealand Dairy Company Limited is now a non-trading entity. Eighty Nine Richard Pearse Drive Limited owned the land and buildings at which the Auckland blending and canning plant was constructed. Eighty Nine Richard Pearse Drive Limited has since sold its land and building to an independent third party and is now being leased back by the Group's parent company, Synlait Milk Limited (refer to note 2 for further detail).

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

On 1 April 2020, the Group acquired 100% of the share capital in Dairyworks Limited. Dairyworks Limited specialises in the processing, packaging, and marketing of dairy products, including cheese, butter, and milk powder. Dairyworks Limited owns an Australian subsidiary, Dairyworks (Australia) Pty Limited. Refer to the Group's 31 July 2020 financial statements for additional information regarding the acquisition of Dairyworks Limited.

On 3 August 2020, Synlait Milk (Dunsandel Farms) Limited was incorporated for the purpose of holding the Group's future farming operation which is expected to commence in the second half of FY22.

(a) Transactions with other related parties

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited $'000	Year ended 31 July 2021 Audited $'000
Purchase of goods and services			
Bright Dairy and Food Co Ltd - Directors fees	156	133	267
New Hope Innovation (Hong Kong) - Sale of milk powder products	582	-	-
Sales of goods and services			
Bright Dairy and Food Co Ltd - Sale of milk powder products	27,125	5,531	10,175
Sichuan New Hope Nutritional Food Co. Ltd - Sale of milk powder products	408	-	-
New Hope Innovation (Hong Kong) - Sale of milk powder products	50	809	1,268

(b) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Period ended 31 January 2022 Unaudited $'000	Period ended 31 January 2021 Unaudited $'000	Year ended 31 July 2021 Audited $'000
Current receivables (payables)			
Bright Dairy and Food Co Ltd - Sale of milk powder products	-	3,564	3,040
Bright Dairy and Food Co Ltd - Reimbursement of costs	(892)	(625)	(758)
Sichuan New Hope Nutritionals Ltd - Sale of milk powder products	(65)	(65)	-
Sichuan New Hope Nutritionals Ltd - Other costs	683	269	559
New Hope Innovation (Hong Kong) - Sale of milk powder products	(108)	253	272

15. CONTINGENCIES

As at 31 January 2022 the Group had no contingent liabilities or assets (31 January 2021: $nil, 31 July 2021 $nil).

16. COMMITMENTS

The Group has committed expenditure as at 31 January 2022 for the construction of Pokeno plant modifications of $19.1m (31 January 2021: $42.0m, 31 July 2021: $16.1m) and the SAP implementation project of $1.3m (31 January 2021: $11.7m, 31 July 2021: $6.7m). The Group expects to commit approximately $15.6m of additional expenditure to the completion of the SAP implementation project.

17. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no events occurring subsequent to 31 January 2022 which require adjustment to or disclosure in the financial statements.

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

REPORT ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

Our conclusion

We have reviewed the condensed interim financial statements of Synlait Milk Limited (the Company) and its subsidiaries (the Group), which comprise the statement of financial position as at 31 January 2022, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2022, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibility is further described in the *Auditor's responsibility for the review of the financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carried out other services for the Group in the areas of unusual transaction analysis and historic performance analysis. The provision of these other services has not impaired our independence.

Directors responsibility for the financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these condensed interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial statements

Our responsibility is to express a conclusion on the condensed interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the condensed interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of condensed interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these condensed interim financial statements.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

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

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
Christchurch
31 March 2022