Synlait

# CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended
31 January 2023

# CONTENTS

## 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, Synlait Milk (Holdings) No. 1 Limited, and Synlait Milk (Dunsandel Farms) Limited (together "the Group") as set out on pages 3 to 23 for the six months ended 31 January 2023.

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

**Simon Robertson**
**Chair**
27 March 2023

**Paul Washer**
**Independent Director**
27 March 2023

## INCOME STATEMENT

For the six months ended 31 January 2023

| | Notes | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|---|
| Revenue | | 769,828 | 790,591 | 1,660,601 |
| Cost of sales | 5 | (688,108) | (721,502) | (1,513,827) |
| **Gross profit** | | **81,720** | **69,089** | **146,774** |
| Other income | 4 | 4,669 | 15,426 | 20,306 |
| Sales and distribution expenses | 5 | (22,368) | (18,144) | (39,423) |
| Administrative and operating expenses | 5 | (35,634) | (23,328) | (49,534) |
| One-off ERP implementation costs | 5 | (5,877) | (1,635) | (3,295) |
| Impairment of Temuka cheese plant assets | | - | - | (12,231) |
| **Earnings before net finance costs and income tax** | | **22,510** | **41,408** | **62,597** |
| Finance expenses | | (14,476) | (9,876) | (18,730) |
| Finance income | | 137 | 109 | 170 |
| Loss on derecognition of financial assets | | (2,066) | (567) | (2,427) |
| **Net finance costs** | | **(16,405)** | **(10,334)** | **(20,987)** |
| **Profit before income tax** | | **6,105** | 31,074 | 41,610 |
| Income tax expense | | (1,292) | (3,169) | (3,087) |
| **Net profit after tax for the period** | | **4,813** | **27,905** | **38,523** |
| **Earnings per share** | | | | |
| Basic earnings per share (cents) | | 2.20 | 12.77 | 17.62 |
| Diluted earnings per share (cents) | | 2.19 | 12.74 | 17.58 |

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 2023

| | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| **Profit for the period** | **4,813** | **27,905** | **38,523** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit and loss** | | | |
| Effective portion of changes in fair value of cash flow hedges | 86,594 | (65,389) | (79,701) |
| Net change in fair value of cash flow hedges transferred to profit and loss | (924) | - | - |
| Exchange differences on translation of foreign operations | (7) | 27 | 24 |
| Income tax on other comprehensive income | (24,246) | 18,309 | 22,316 |
| Total items that may be reclassified subsequently to profit and loss | 61,417 | (47,053) | (57,361) |
| **Other comprehensive income/(deficit) for the period, net of tax** | **61,417** | **(47,053)** | **(57,361)** |
| **Total comprehensive income/(deficit) for the period** | **66,230** | **(19,148)** | **(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 six months ended 31 January 2023

| | 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 2021 (Audited)** | | **464,774** | **698** | **8,089** | **(2)** | **293,555** | **767,114** |
| **Profit 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)** |
| Employee benefits reserve | | - | (2) | - | - | - | (2) |
| **Equity as at 31 January 2022 (Unaudited)** | | **464,774** | **696** | **(38,991)** | **25** | **321,460** | **747,964** |
| **Equity as at 1 August 2022 (Audited)** | | **464,774** | **818** | **(49,296)** | **22** | **332,078** | **748,396** |
| **Profit for the period** | | - | - | - | - | **4,813** | **4,813** |
| **Other comprehensive income** | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges | | - | - | 86,594 | - | - | 86,594 |
| Exchange differences on translation of foreign operations | | - | - | - | (7) | - | (7) |
| Net change in fair value of cash flow hedges transferred to profit and loss | | - | - | (924) | - | - | (924) |
| Income tax on other comprehensive income | | - | - | (24,246) | - | - | (24,246) |
| **Total other comprehensive income** | | - | - | **61,424** | **(7)** | - | **61,417** |
| **Total comprehensive income** | | - | - | **61,424** | **(7)** | **4,813** | **66,230** |
| Employee benefits reserve | | - | 156 | - | - | - | 156 |
| **Equity as at 31 January 2023 (Unaudited)** | | **464,774** | **974** | **12,128** | **15** | **336,891** | **814,782** |

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 2023

| | Notes | 31 January 2023 Unaudited $'000 | 31 January 2022 Unaudited $'000 | 31 July 2022 Audited $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | | **12,424** | 40,639 | 14,493 |
| Trade and other receivables | 7 | **139,916** | 106,209 | 91,096 |
| Intangible assets | 10 | **3,607** | 5,093 | 2,692 |
| Goods and services tax refundable | | **14,985** | 10,693 | 5,649 |
| Prepayments | | **8,022** | 7,123 | 16,638 |
| Inventories | 8 | **467,747** | 335,609 | 232,941 |
| Derivative financial instruments | | **27,286** | 2,780 | 6,530 |
| Current tax receivables | | **4,350** | 1,736 | 554 |
| **Total current assets** | | **678,337** | **509,882** | **370,593** |
| **Non-current assets** | | | | |
| Property, plant and equipment | 9 | **1,017,404** | 1,018,181 | 1,015,860 |
| Intangible assets | 10 | **91,442** | 76,949 | 94,467 |
| Goodwill | | **64,189** | 64,189 | 64,189 |
| Other investments | | **360** | 110 | 110 |
| Derivative financial instruments | | **20,776** | - | 1,661 |
| Biological assets | | **3,857** | - | 3,892 |
| Right-of-use assets | | **22,908** | 18,419 | 25,205 |
| **Total non-current assets** | | **1,220,936** | **1,177,848** | **1,205,384** |
| **Total assets** | | **1,899,273** | **1,687,730** | **1,575,977** |
| **LIABILITIES** | | | | |
| Trade and other payables | | **422,982** | 383,985 | 323,123 |
| Loans and borrowings | 11 | **350,652** | 91,853 | 58,885 |
| Derivative financial instruments | | **27,946** | 38,618 | 55,941 |
| Lease liabilities | | **4,435** | 3,709 | 4,301 |
| **Total current liabilities** | | **806,015** | **518,165** | **442,250** |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 11 | **178,653** | 338,144 | 295,592 |
| Derivative financial instruments | | **2,390** | 18,299 | 20,573 |
| Deferred tax liabilities | | **72,320** | 44,216 | 41,866 |
| Lease liabilities | | **22,676** | 18,439 | 24,750 |
| Other non-current liabilities | | **2,437** | 2,503 | 2,550 |
| **Total non-current liabilities** | | **278,476** | **421,601** | **385,331** |
| **Total liabilities** | | **1,084,491** | **939,766** | **827,581** |
| **Net assets** | | **814,782** | **747,964** | **748,396** |
| **Equity** | | | | |
| Share capital | 12 | **464,774** | 464,774 | 464,774 |
| Reserves | | **13,117** | (38,270) | (48,456) |
| Retained earnings | | **336,891** | 321,460 | 332,078 |
| **Total equity attributable to equity holders of the Group** | | **814,782** | **747,964** | **748,396** |
| **Total equity and liabilities** | | **1,899,273** | **1,687,730** | **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 six months ended 31 January 2023

| | Notes | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash receipts from customers | | **720,009** | 810,327 | 1,711,573 |
| Cash paid for milk purchased | | **(425,685)** | (390,154) | (804,665) |
| Cash paid to other creditors and employees | | **(411,174)** | (296,780) | (675,834) |
| Net movement in goods and services tax | | **(9,336)** | (6,232) | (1,188) |
| Income tax refunds | | **1,527** | 89 | 3,034 |
| **Net cash (outflow)/inflow from operating activities** | 6 | **(124,659)** | **117,250** | **232,920** |
| **Cash flows from investing activities** | | | | |
| Interest received | | **137** | 109 | 170 |
| Acquisition of property, plant and equipment | | **(27,467)** | (25,896) | (53,855) |
| Proceeds from sale of property, plant and equipment | | **137** | 30,178 | 30,467 |
| Acquisition of intangible assets | | **(5,695)** | (20,110) | (39,053) |
| Proceeds from sale of intangible assets | | **2,174** | - | - |
| Acquisition of biological assets | | **(75)** | - | (3,350) |
| Acquisition of investment | | **(250)** | - | - |
| **Net cash outflow from investing activities** | | **(31,039)** | **(15,719)** | **(65,621)** |
| **Cash flows from financing activities** | | | | |
| Receipt/(repayment) of borrowings | 11 | **49,167** | (39,420) | (82,500) |
| Net movement in working capital facility | 11 | **125,424** | (23,570) | (56,537) |
| Interest paid | | **(18,863)** | (12,524) | (26,051) |
| Repayment of lease liabilities | | **(2,094)** | (1,919) | (4,079) |
| **Net cash inflow/(outflow) from financing activities** | | **153,634** | **(77,433)** | **(169,167)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,064)** | 24,098 | (1,868) |
| Cash and cash equivalents at the beginning of the period | | **14,493** | 16,020 | 16,020 |
| Effects of exchange rate changes on cash and cash equivalents | | **(5)** | 521 | 341 |
| **Cash and cash equivalents at end of the period** | | **12,424** | **40,639** | **14,493** |

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 2023

## 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, Synlait Milk (Holdings) No. 1 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.

These interim financial statements should be read in conjunction with the Group's financial statements for the period ended 31 July 2022.

Synlait Milk Limited is subject to seasonal fluctuations which have an impact on both revenue and production levels. These occur due to changes in product mix decisions from fluctuations in customer demand and in response to the unpredictable nature of milk supply as climatic conditions influence milk supply across the North Island and South Island of New Zealand.

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 2023 and the Group's forecast financial results and cashflows from the 12 months subsequent to the date of issue of these financial statements.

The Group's current liabilities exceed its current assets by $127.7m as a result of the revolving credit and working capital facilities being classified as current liabilities at 31 January 2023. The Directors are confident that the facilities, which expire on 1 October 2023, will be renewed in July 2023. This expectation is based on year-to date and forecast compliance with banking covenants, longstanding and continued support from the Group's banking syndicate, positive initial renewal strategy discussions with the banking syndicate, and a high degree of confidence in the successful renewal of the SAMR license.

While the future is always uncertain, the Directors consider that the Group is a going concern.

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

*NZ IAS 37 - Cost of Fulfilling a Contract*

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

These amendments 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.

## 02. BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT (CONTINUED)

### New accounting standards, interpretations, and amendments not yet adopted

*NZ CS 1, CS 2, CS 3 - 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.

Certain comparatives have been restated to conform to changes in current year presentation which have arisen as a result of the Group's recent implementation of its SAP ERP (Enterprise Resource Planning) system.

### Material events and other significant items during the period

*SAP ERP system implementation*

Delayed release of ingredient products due to complications which arose after Synlait's new SAP ERP system went live on 1 August 2022 resulted in significantly reduced sales volumes.

In December 2022, after significant remedial work, monthly ingredient export volumes returned to near normal levels and the backlog of orders is now expected to clear by the end of the 2023 fiscal year. The delayed sales have resulted in lower profit and operating cashflows and higher net debt and interest costs.

As a result of the temporary and unanticipated significant increase in net debt levels brought on by the delays, the Group's working capital facility was temporarily increased. Refer to note 11 for further information on loans and borrowings.

*China market access*

On 21 February 2023 the Group's State Administration for Market Regulation (SAMR) registration, which allows it the ability to manufacturer The a2 Milk Company's Chinese labelled 至初® Infant Formula expired.

SAMR re-registration is required under China's new food safety legislation and requirements. The re-registration process continues to progress through the final stages. Synlait is on track for re-registration and commencement of production in Q4 FY 23.

### Climate Risk

The Group's operations are likely to 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. Refer to note 16 for additional information relating to the Cyclone Gabrielle extreme weather event which occurred subsequent to 31 January 2023.

### Milk price accrual

At interim reporting date, the milk price accrual is a key management estimate. The milk price 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 price 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:

- Synlait: manufacture and sale of liquid milk and milk powder based products (nutritionals, ingredients, fresh milk, and ultra heat treatment ('UHT') milk products).
- Dairyworks: manufacture and sale of cheese and other products (cheese, butter)

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

### (b) Description of segments

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

| | 31 January 2023<br>Unaudited<br>$'000<br>Synlait | 31 January 2023<br>Unaudited<br>$'000<br>Dairyworks | 31 January 2023<br>Unaudited<br>$'000<br>Eliminations | 31 January 2023<br>Unaudited<br>$'000<br>Total |
|---|---|---|---|---|
| External revenue | 631,224 | 138,604 | - | 769,828 |
| Inter-segment revenue from sale of goods | 1,105 | - | (1,105) | - |
| Revenue from sale of goods | 632,329 | 138,604 | (1,105) | 769,828 |
| **Net profit after tax for the period** | **1,399** | **3,414** | - | **4,813** |

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

| | 31 January 2023<br>Unaudited<br>$'000<br>Synlait | 31 January 2023<br>Unaudited<br>$'000<br>Dairyworks | 31 January 2023<br>Unaudited<br>$'000<br>Eliminations | 31 January 2023<br>Unaudited<br>$'000<br>Total |
|---|---|---|---|---|
| Finance income | 122 | 15 | - | 137 |
| Finance expense | (13,263) | (1,213) | - | (14,476) |
| Depreciation and amortisation | (26,452) | (2,538) | - | (28,990) |
| Income tax benefit/(expense) | 41 | (1,333) | - | (1,292) |
| Total assets | 1,714,910 | 184,363 | - | 1,899,273 |
| Total liabilities | (1,001,077) | (83,414) | - | (1,084,491) |
| **Total net assets** | **713,833** | **100,949** | - | **814,782** |

| | 31 January 2022<br>Unaudited<br>$'000<br>Synlait | 31 January 2022<br>Unaudited<br>$'000<br>Dairyworks | 31 January 2022<br>Unaudited<br>$'000<br>Eliminations | 31 January 2022<br>Unaudited<br>$'000<br>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 after tax for the period** | **26,783** | **1,122** | - | **27,905** |

| | 31 January 2022<br>Unaudited<br>$'000<br>Synlait | 31 January 2022<br>Unaudited<br>$'000<br>Dairyworks | 31 January 2022<br>Unaudited<br>$'000<br>Eliminations | 31 January 2022<br>Unaudited<br>$'000<br>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)/benefit | (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 July 2022<br>Audited<br>$'000<br>Synlait | 31 July 2022<br>Audited<br>$'000<br>Dairyworks | 31 July 2022<br>Audited<br>$'000<br>Eliminations | 31 July 2022<br>Audited<br>$'000<br>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** |

| | 31 July 2022<br>Audited<br>$'000<br>Synlait | 31 July 2022<br>Audited<br>$'000<br>Dairyworks | 31 July 2022<br>Audited<br>$'000<br>Eliminations | 31 July 2022<br>Audited<br>$'000<br>Total |
|---|---|---|---|---|
| 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 assets | - | (12,231) | - | (12,231) |
| Income tax (expense)/benefit | (4,386) | 1,299 | - | (3,087) |
| Total assets | 1,401,915 | 174,062 | - | 1,575,977 |
| Total liabilities | (784,057) | (43,524) | - | (827,581) |
| **Total net assets** | **617,858** | **130,538** | - | **748,396** |

## 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 2023 Unaudited | Period ended 31 January 2022 Unaudited | Year ended 31 July 2022 Audited |
|---|---|---|---|
| China | 12% | 20% | 12% |
| Rest of Asia | 16% | 24% | 27% |
| Middle East and Africa | 1% | 5% | 3% |
| New Zealand | 63% | 41% | 48% |
| Australia | 6% | 9% | 7% |
| Rest of World | 2% | 1% | 3% |
| **Total** | **100%** | **100%** | **100%** |

All Group non-current assets are located in New Zealand, other than $0.2m (31 January 2022: $0.5m, 31 July 2022: $0.3m) located in China.

### (d) Other profit and loss disclosures

Revenues of approximately 44% (31 January 2022: 39%, 31 July 2022: 40%) are derived from the top three external customers.

## 04. OTHER INCOME

The decrease in other income is due to an $11.9m gain on sale and leaseback included in the comparative period which arose on the sale and leaseback of the Group's Auckland land and building located at 89 Richard Pearse Drive.

## 05. EXPENSES

| | Notes | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|---|
| *The following items of expenditure are included in cost of sales:* | | | | |
| Depreciation and amortisation | | 21,479 | 23,440 | 46,892 |
| Employee and contractor costs | | 46,418 | 38,254 | 78,271 |
| Export freight | | 7,188 | 7,462 | 14,341 |
| Increase/(decrease) in inventory provision | 8 | 6,512 | (6,164) | (2,118) |
| Increase/(decrease) in onerous contracts provision | 8 | 1,204 | 448 | (2,101) |
| *The following items of expenditure are included in sales and distribution:* | | | | |
| Depreciation and amortisation | | 2,899 | 1,826 | 3,867 |
| Distribution | | 3,043 | 2,091 | 5,238 |
| Employee and contractor costs | | 10,097 | 8,445 | 16,924 |
| Sales and marketing | | 1,832 | 1,894 | 4,048 |
| *The following items of expenditure are included in administrative and operating:* | | | | |
| Consultancy | | 2,375 | 1,497 | 3,148 |
| Depreciation and amortisation | | 4,612 | 1,767 | 3,482 |
| Directors' fees and related costs | | 413 | 414 | 837 |
| Employee and contractor costs | | 18,323 | 13,677 | 28,441 |
| Information services and subscriptions | | 5,735 | 4,155 | 8,668 |
| Share based payments expense | | 108 | (2) | 115 |
| *The following items of expenditure are included in one-off ERP costs:* | | | | |
| Consultancy | | 3,925 | 112 | 1,108 |
| Employee and contractor costs | | 526 | 374 | 829 |
| Information services and subscriptions | | 1,426 | 1,141 | 1,327 |

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

| | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| Profit for the period | 4,813 | 27,905 | 38,523 |
| **Non-cash and non-operating items:** | | | |
| Depreciation and amortisation of non-current assets | 26,704 | 25,098 | 50,030 |
| Depreciation of right-of-use assets | 2,286 | 1,935 | 4,211 |
| Loss/(gain) on sale of property, plant and equipment | 46 | (12,005) | (11,699) |
| Loss on livestock sales | 69 | - | - |
| Impairment of property, plant and equipment and intangible assets | - | - | 12,231 |
| Gain on sale of New Zealand Units | (1,436) | - | - |
| New Zealand Units surrendered | 1,177 | - | 2,407 |
| Non-cash share based payments expense | 156 | (2) | 120 |
| Interest costs classified as financing cash flow | 14,476 | 9,876 | 18,730 |
| Interest received classified as investing cash flow | (137) | (109) | (170) |
| Loss on derecognition of financial assets | 2,066 | 567 | 2,427 |
| Deferred tax | 6,567 | 3,091 | 4,749 |
| (Gain)/loss on derivative financial instruments | (739) | 144 | 18 |
| Unrealised foreign exchange loss/(gain) | 5 | (521) | (341) |
| Gain on revaluation of biological assets | (53) | - | (558) |
| **Movements in working capital:** | | | |
| (Increase)/decrease in trade and other receivables | (48,822) | 2,170 | 17,284 |
| Decrease/(increase) in prepayments | 8,616 | 7,174 | (2,341) |
| (Increase)/decrease in inventories | (234,806) | (64,666) | 38,003 |
| (Increase)/decrease in goods and services tax refundable | (9,336) | (6,232) | 1,312 |
| Decrease in other current assets | - | 2,500 | - |
| Increase in trade and other payables | 107,485 | 120,318 | 56,795 |
| (Increase)/decrease in current tax asset | (3,796) | 7 | 1,189 |
| **Net cash (outflow)/inflow from operating activities** | **(124,659)** | **117,250** | **232,920** |

## 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 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| Raw materials at costs | 132,074 | 82,139 | 94,777 |
| Raw materials at net realisable value | 1,722 | 253 | 997 |
| Work in progress at cost | 55,906 | 49,312 | 56,541 |
| Work in progress at net realisable value | 559 | 236 | 195 |
| Finished goods at cost | 243,199 | 157,913 | 75,965 |
| Finished goods at net realisable value | 34,287 | 45,756 | 4,466 |
| **Total inventories** | **467,747** | **335,609** | **232,941** |

Raw material inventories at $133.8m (21,548 MT) (31 January 2022: $82.4m, 15,159 MT; 31 July 2022: $95.8m, 17,738 MT) have substantially increased reflecting cost increases, higher volumes on hand to support increased manufacture of Advanced Nutritionals base powders in the second half of the year, higher stocks to de-risk stockouts, timing differences in bulk cheese procurement for maturation purposes, and a higher than normal amount of stock in transit which met recognition criteria at 31 January 2023.

Work in progress inventories at $56.5m (7,727 MT) (31 January 2022: $49.5m, 6,451 MT; 31 July 2022: $56.7m, 7,934 MT) increased from the comparative period due to a higher volume of Advanced Nutritionals base powder stocks and a higher cost and volume of maturation cheese.

Finished goods have increased half on half to $277.5m (47,220 MT) (31 January 2022: $203.7m 37,763 MT; 31 July 2022: $80.4m, 12,093 MT). The increase is due to higher holdings of ingredients inventories due to delayed shipments resulting from ERP implementation issues and a stock build of consumer-packaged infant formula in preparation for the 21 February 2023 expiry of the SAMR license.

The cost of inventories recognised as an expense during the period was $653.6m (31 January 2022: $685.6m, 31 July 2022 $1,446.6m). The cost of inventories recognised as an expense includes $8.7m (31 January 2022: $5.2m; 31 July 2022: $7.0m) in respect of write downs of inventory to net realisable value.

The total inventory condition provision at reporting date was $12.7m, of which $5.0m related to finished goods, $1.5m to work in progress, and $6.2m to raw materials (31 January 2022: $2.2m, $1.4m for finished goods, $0.4m for work in progress, and $0.4m for raw materials; 31 July 2022: $6.2m, $2.2m for finished goods, $0.7m for work in progress, and $3.3m for raw materials). The increase is the result of expired raw materials resulting from changes in customer demand and its impact on planned product mix, and a higher-than-normal rate of production issues during commissioning trials of new product.

In addition, the total onerous contracts provision as at reporting date was $1.2m (31 January 2022: $2.4m; 31 July 2022: $nil). The decrease compared to the comparative period is due to the decreasing milk price.

## 09. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2023, $23.6m has been added to capital work in progress relating primarily to the Pokeno plant modification project. During this period, $5.5m of historical work in progress relating primarily to routine capital expenditure has been transferred to fixed assets.

## 10. INTANGIBLE ASSETS

During the six months ended 31 January 2023, $3.6m has been added to intangible work in progress relating primarily to the SAP ERP implementation project. During this period, $60.1m of historical work in progress relating primarily to the SAP ERP implementation project has been transferred to intangible assets. In addition, $1.2m of New Zealand Units (NZUs) were surrendered during the period, and $0.7m of NZUs were sold.

## 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 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Working capital facility (syndicated) NZD | 133,101 | 21,800 | - |
| Working capital facility (syndicated) USD | 51,208 | 70,053 | 58,885 |
| Revolving credit facility | 166,667 | - | - |
| Loan facility fees | (324) | - | - |
| | 350,652 | 91,853 | 58,885 |
| **Non-current liabilities** | | | |
| Revolving credit facility | - | 160,580 | 117,500 |
| Loan facility fees | - | (413) | (216) |
| Subordinated Bonds | 180,000 | 180,000 | 180,000 |
| Bond facility fees | (1,347) | (2,023) | (1,692) |
| | 178,653 | 338,144 | 295,592 |
| **Total loans and borrowings** | 529,305 | 429,997 | 354,477 |

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 $66.7m maturing 1 October 2023, with NZD $33.3m amortising 31 July 2023 and the remainder maturing on 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 which included temporary increases to NZD $300m from 20 October 2022, to NZD $330m from 21 December 2022, and then decreasing over 6 months to NZD $250m from 30 June 2023. Facility limits were updated on 21 December 2022 in an amended agreement.

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 2023 and 31 January 2022 and the twelve months ended 31 July 2022.

The following summarises banking covenants effective for the year ending 31 July 2023:

1. Total shareholder funds of no less than NZD $600m 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 at all times.
4. Leverage ratio of no greater than 4.0x at 31 July 2023.
5. Senior leverage ratio of no greater than 3.0x at 31 July 2023.

### 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 2023, the retail bond had a fair value of NZD $169.9m (31 January 2022: NZD $175.2m, 31 July 2022: NZD $164.2m), based on NZX Debt Market valuation.

## 12. SHARE CAPITAL

The Group had 218,581,661 ordinary shares on issue as at 31 January 2023 (31 January 2022: 218,581,661, 31 July 2022: 218,581,661). There were no shares granted in the period (31 January 2022: nil, 31 July 2022: nil).

## 13. RELATED PARTY TRANSACTIONS

### Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by Synlait Milk Limited (31 January 2022: 39.01%; 31 July 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 incorporated to hold 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 and Eighty Nine Richard Pearse Drive owned the land and buildings at which the blending and canning plant was being constructed. The land and building were sold in October 2021. Both companies are now non-trading entities.

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.

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.

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.

### (a) Transactions with other related parties

| | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| *Purchase of goods and services* | | | |
| Bright Dairy and Food Co Ltd - Directors fees | 222 | 156 | 311 |
| New Hope Innovation (Hong Kong) - Sale of milk powder products | - | 582 | 582 |
| *Sales of goods and services* | | | |
| Bright Dairy and Food Co Ltd - Sale of milk powder products | 38 | 27,125 | 32,671 |
| Sichuan New Hope Nutritional Food Co. Ltd - Sale of milk powder products | - | 408 | 408 |
| New Hope Innovation (Hong Kong) - Sale of milk powder products | - | 50 | 163 |

All transactions with related parties are at arm’s length on normal trading terms.

### (b) Outstanding balances

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

| | Period ended 31 January 2023 Unaudited $'000 | Period ended 31 January 2022 Unaudited $'000 | Year ended 31 July 2022 Audited $'000 |
|---|---|---|---|
| *Current receivables (sales of goods and services)* | | | |
| Bright Dairy and Food Co Ltd - Sale of milk powder products | - | - | (27) |
| Bright Dairy and Food Co Ltd - Reimbursement of costs | (1,205) | (892) | (1,072) |
| Sichuan New Hope Nutritionals Ltd - Sale of milk powder products | - | (65) | (65) |
| Sichuan New Hope Nutritionals Ltd - Other costs | - | 683 | 740 |
| New Hope Innovation (Hong Kong) - Sale of milk powder products | - | (108) | - |

## 14. CONTINGENCIES

As at 31 January 2023 the Group had no contingent liabilities or assets (31 January 2022: $nil, 31 July 2022 $nil).

## 15. COMMITMENTS

The Group has committed expenditure as at 31 January 2023 for the construction of Pokeno plant modifications of $3.2m (31 January 2022: $19.1m, 31 July 2022: $5.3m).

The Group has also committed a further investment of $3.3m to a public-private joint venture in which $0.3m was invested during the period. 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.

## 16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

### Cyclone Gabrielle

On 13 February 2023 the Group's Auckland and Pokeno operations were temporarily suspended for approximately 30 hours as a result of the Cyclone Gabrielle extreme weather event. The event did not result in a material financial impact to the Group's performance.

### China State Administration for Market Regulation (SAMR) License

On 21 February 2023 the Group's SAMR license, which allows it to produce China label infant formula for sale by The A2 Milk Company, expired. Refer to the "Material events and other significant items" section of these notes for additional information.

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

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# 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 2023, 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 2023, 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 responsibilities are further described in the *Auditor's responsibilities for the review of the condensed interim 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. Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

### Responsibilities of Directors for the condensed interim 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 responsibilities for the review of the condensed interim 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 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
27 March 2023