

AUGUST 2023

SUPPLIER NEWSLETTER

# Leading Edge



**Synlait** Lead with  
**Pride**



**Quality by  
Design Award**

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## KIA ORA FARMER SUPPLIERS

Thanks to those of you who joined our online call on Tuesday night. It was good to be able to reconnect especially given the challenging times we are collectively working through. If you have further questions, Charles, the team, and I are here to answer them.

I want to acknowledge upfront what a tough season we are facing. We have seen on-farm costs rising for approximately 24 months but did not foresee the magnitude of downward pressure in commodity prices we are now experiencing.

### WHY IS THIS HAPPENING?

China is a critical market for Synlait and all New Zealand dairy exports. China plays an essential role in our performance as a country and is a core part of Synlait's strategy as a crucial export market for our customers. In addition, it appears property prices have weakened, youth unemployment is rising, and birth rates are falling. We are also seeing local investment in China's dairy industry. Significant capital has been invested in local processing assets to create a robust domestic dairy industry.

### HOW DOES THIS TRANSLATE INTO YOUR MILK PRICE?

We have recently reduced our forecast base milk price for the 2023/2024 season to \$7.00/kgMS. We noted in early August that pricing levels needed to improve when we released the \$7.00/kgMS forecast, which may eventuate in the back half of the season. We are now faced with increased downwards pressure in the short term based on the last Global Dairy Trade auction. As we discussed on Tuesday, there is downward pressure on our \$7.00/kgMS forecast. We are waiting to assess the next one-to-two Global Dairy Trade auctions to give you an updated base milk price forecast. As soon as we have this, we will update you.

We also know that cashflows are tight. Lifting advance rates is a priority for us and one of the key reasons we are focussed on strengthening our balance sheet to give us more flexibility in this area. Again, we will keep you updated on advance rate improvements.

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## ANNUAL RESULTS AND 2022/2023 SEASON MILK PRICE

We closed our books for the current financial year on 31 July 2023. Details for our annual results meetings are below. Our current estimate is that we will pay an extra 28c/kgMS (on average) above the base milk price for FY23, driven by various incentives. Our final milk price for the 2022/2023 season will be confirmed when our full year 2023 results are released on Monday 25 September. The 2023/2024 season forecast will be updated at the same time.

## WHY YOU CAN HAVE CONFIDENCE IN OUR FUTURE.

The last three years have been extremely tough but we are excited about what lies ahead. Our Board approved our refreshed strategy last month. Our strategy has a far greater level of focus on our Advanced Nutrition and Foodservice businesses. I spent much of last week with our senior leaders from all over Synlait on how we will execute against our strategy. We will provide more detail on our FY24 execution plans at the annual results meetings later this month.

Thanks for your continued support. Our advance rates are not where we want them to be. We understand and hear your frustrations.

Please feel free to reach out to me directly on the number below.

Ngā mihi



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CEO

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## KIA ORA

Further to Grant's opening comments I want to personally acknowledge how tough this season is now looking. Things appear to be moving very fast in our largest market and with so much of your product heading offshore we will always be highly exposed to fluctuations in international dairy prices. We have all been through cycles in pay out but what makes this one different is the steep increase in on-farm costs which you have all experienced over the past three years.

My team and I are holding the mirror up to ourselves to ensure that through supplying Synlait you should not be incurring any unnecessary costs – primarily connected to Lead with Pride™. We are strongly committed to preserving the integrity of the program given the wide range of benefits we see emerging here, but we also want to be flexible with some timing aspects. The team are working on options in this area and you can expect detail on this shortly. Before incurring significant expenditure on your farm (primarily in connection to supplying Synlait) please reach out – I'd like a chance to discuss these items in advance rather than look back once you have incurred the cost.

In addition to this short term focus we are also continuing to upgrade our milk supply offer – and we are involving farmers in this process! Pre calving, we ran a range of workshops with the Synlait On-Farm Excellence and Milk Supply teams, plus members of the Farmer Leadership team. You may hear terms such as 'Enabler' or 'Workstream' in connection with this activity, but my primary focus is on the specific initiatives and changes that we intend to make to our supply offer to maintain our competitive advantage with regards milk supply. In the coming months you can expect to hear more about the outcomes of this activity especially on those items that we have identified as needing

to be ready for the 2024/25 season. If you would like to know about this space, feel free to reach out to me direct or talk to any member of the Farmer Leadership Team.

We have had some early seasons disruptions to collections. I want to assure you that this is not a sign of things to come, and we have a daily plan regarding milk and collection management that is kicking off in early September. Our disruptions to-date are primarily connected to some late work as part of our winter close and the upgrades Juliette wrote about in the newsletter last month. We have been commissioning new assets onsite which enable us to streamline tanker offloading on site. We also experienced some unexpected outages at the tanker wash bay and some resourcing challenges as we incorporated the night shift.

I'm hopeful that calving has gone well on your farms. I'm hearing of improved conditions in the North Island and good conditions in the South, so I have my fingers crossed for a strong peak for all of us that is both well overdue and needed.

If there is anything that we can be doing to help your farming business, please contact any member of the team.

Regards,

A handwritten signature in black ink, appearing to read 'C Fergusson'.

Charles Fergusson  
Director – On-Farm Excellence & Business Sustainability

## AUGUST MILK PRICE



- Synlait Forecast Milk Price
- Industry Weighted Average YTD Cumulative Milk Price
- Industry Indicative Monthly Milk Price

## SYNLAIT MILK PRICE BAROMETER 2023/2024 SEASON AND TRACKING



The YTD milk price will fall steeply over the coming months due to recent sharp falls in commodity prices and the seasonal ramp up in volumes.

**Note:** The arrow indicates the overall result of the latest auction as a % rise/fall and is not an indicator of the season's milk price.

## RATES TABLE

Forecast Payments - \$ per kgMS	2022/ 2023	2023/ 2024
Jun paid Jul	\$5.50	\$5.20
Jul paid Aug	\$5.80	\$5.20
Aug paid Sep	\$5.80	\$4.60
Sep paid Oct	\$5.80	\$4.60
Oct paid Nov	\$5.80	\$4.60
Nov paid Dec	\$5.80	\$4.60
Dec paid Jan	\$5.80	\$4.60
Jan paid Feb	\$6.05	\$4.75
Feb paid Mar	\$6.30	\$4.90
Mar paid Apr	\$6.35	\$5.10
Apr paid May	\$6.45	\$5.35
May paid Jun	\$6.65	\$5.55
Jun retro paid Jul	\$6.75	\$5.75
Jul retro paid Aug	\$7.40	\$6.30
Aug retro paid Sep	\$7.85	\$6.75
Final retro paid Oct	\$8.20	\$7.00

**Milk Price Barometer Disclaimer:**  
The analysis and data contained in the milk price barometer is provided "as is" and without warranty of any kind, either expressed or implied. Synlait Milk Limited and or any employee shall not have any liability for any loss sustained by anyone who has relied on the information contained in the milk price barometer publication. All opinions expressed in the milk price barometer are indicative and are subject to change without notice, you should always obtain current information and perform due diligence before making financial decisions.

**\*Note:** The assumed product sold is based on a normalised sales curve for the industry, including an average 3-month lag from order to shipment.

## MILK PRICE BAROMETER DASHBOARD

### \$7.00

**Current Forecast:**

The 2023/24 forecast base milk price was revised to \$7.00/kgMS from \$8.00/kgMS on 11 August 2023. Commodity prices fell sharply on 16 August 2023, the second consecutive auction, putting further downward pressure on our forecast.

### 4.2%

**Dairy Market:**

On average, prices fell 4.2% in July 2023. Prices dropped 3.9% at the first auction and softened 1.1% at the second auction. BMP -12.0%, Butter -9.7%, SMP -8.4%, AMF -1.9% and WMP -1.8%. At the end of July, the value of fat in butter was 20% higher than in AMF, leading SMP + Butter to be the preferable ingredients stream.

### 9.4%

**Last Auction Result:**

Note this analysis does not include the results of the August 2023 auctions. Prices fell 9.4% on average in August. China's economic woes deepened, subsequently, prices plummeted. WMP -13.0%, SMP -5.5%, Butter -3.5%, AMF -1.6% and BMP +10.2%. After the 16 August auction, the reference commodity basket price is 27% below the rolling 3-year average and 21% below the rolling 5-year average.

### 12%

**Percentage of Product Sold:**

Approximately 12% of the 2023/24 season's product is assumed sold at the end of July.

## SUPPLY DYNAMICS

**+ Supply Fundamentals (- milk price):**

- China – strong Chinese milk production, combined with weak demand, has led to increased onshore milk powder production and higher inventory levels.

**- Supply Fundamentals (+ milk price):**

- Expensive input costs and falling milk prices are squeezing profit margins globally. Milk production growth in the Northern Hemisphere is expected to slow in the second half of 2023.
- NZ production was down 0.4% in June. Historically, June collections only account for 1% of total season collections.
- US production recorded its first YoY decline in 12 months in June. Although the 0.02% drop is slight, it continues the downward trend which began at the beginning of 2023.
- EU June production is yet to be finalised, but a slight decline of 0.1% is firming. If confirmed, it will be the first YoY drop in 10 months. The impact of Europe's extreme heat has begun to be seen with Italy's production down 5.3% in June.

**What to watch:**

- Relative milk price and input cost movements.
- Climate indicators are trending towards El Niño thresholds. El Niño weather patterns typically bring drier conditions to NZ and Australia and wetter conditions to South America.

## DEMAND DYNAMICS

**- Demand Fundamentals (- milk price):**

- China's economy experienced a slight rebound earlier this year, after COVID restrictions were lifted. However, the world's second largest economy is coming to grips with long-standing economic issues and slowing global demand for China's exports.
- The steep drop in Chinese demand has significantly impacted commodity prices and the 2023/24 forecast milk price. The dynamics underlying the unfolding crisis are unlikely to be short-lived.
- China's consumer prices experienced deflation YoY in July, producer prices dropped for the 10th month in a row, the property crisis has deepened with a major property developer on the brink of defaulting on its debt and soaring youth unemployment. China has suspended publishing youth unemployment data.

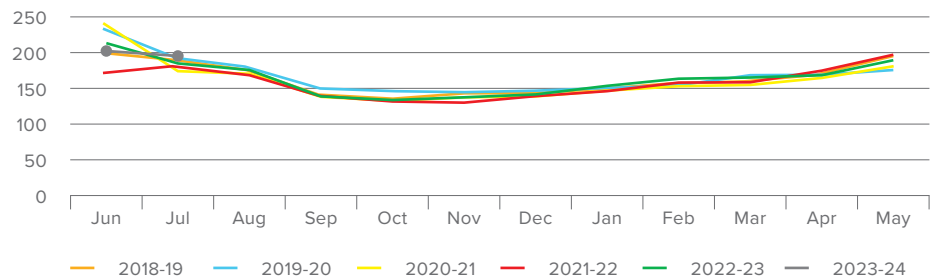
**What to watch:**

- China – whether the government announces any bold stimulus policies to slow the downward spiral the economy is in.
- Global macroeconomic situation – with inflation cooling, the conversation has shifted from how high will interest rates need to go to how long will they stay elevated.

## TOP 10 AND AVERAGE SCC

Top 10 Milk Quality Suppliers is measured by adding the average SCC (divided by 20,000), bactoscan (divided by 1000) and temperature for the month, and adding two additional points for any grades incurred during the period.

### LAST 5 SEASONS AVERAGE SCC PER MONTH



## TOP 10 AVERAGE SCC RESULTS JULY 2023

Ranking	Supplier	Owner	Sharemilker/Farm Manager	Result
1	2351	Kolmar Dairies Ltd	Bruce and Sarah Turpie	80
2	2018	Dewhirst Land Company Ltd	Andrew and Zoe Lapping	86
3	5329	RH and PM Anderson	David and Lisa Anderson	90
4=	2017	Dewhirst Land Company Ltd	Andrew and Zoe Lapping	93
4=	2087	Jersey Oaks Farm Ltd – Waikuku	John Sabino	93
5	5424	Handy Farm Ltd	Nathan and Rebecca Hubbard	97
6	2084	Broadlea Dairy Ltd	Paul Hurst and Thomas Fisher	98
7	2086	Jersey Oaks Farm Ltd	Brainard Garcia	99
8	2075	Knightlea Ltd	Will and Louise Bailey	102
9	5641	Landcorp Farming Ltd Pamu – Halls	Rodney Lynch	103
10	5386	NZSF Waikato Farms Ltd – Te Aroha	Duncan Heidtmann	110

## TOP 10 LEADING MILK QUALITY SUPPLIERS JULY 2023

Ranking	Supplier	Owner	Sharemilker/Farm Manager	Result
1	5641	Landcorp Farming Ltd Pamu – Halls		13.15
2	2086	Jersey Oaks Farm Ltd	Brainard Garcia	13.35
3	5329	RH and PM Anderson	David and Lisa Anderson	13.65
4	2017	Dewhirst Land Company Ltd	Andrew and Zoe Lapping	13.8
5=	2351	Kolmar Dairies Ltd	Bruce and Sarah Turpie	13.95
5=	5424	Handy Farm Ltd	Nathan and Rebecca Hubbard	13.95
6	2087	Jersey Oaks Farm Ltd – Waikuku	John Sabino	14.45
7	2075	Knightlea Ltd	Will and Louise Bailey	14.8
8	2018	Dewhirst Land Company Ltd	Andrew and Zoe Lapping	15.2
9	5386	NZSF Waikato Farms Ltd – Te Aroha	Duncan Heidtmann	16.3
10=	5065	Johnston Farms Ltd	Andrew and Rosie Johnston	16.4
10=	5629	Landcorp Farming Ltd Pamu – Bounty	Bevan Samuel	16.4



## QUALITY BY DESIGN AWARD

### CONGRATULATIONS SAM MALLARD

The 2023 Quality by Design Award was awarded to Sam Mallard at Align Farms. This award recognises processes or initiatives which have been implemented to generate value on farm. These initiatives have a focus on using methods such as root cause analysis to solve problems, or a continuous improvement approach.

Sam joined the Align Farms team in 2016 and now manages both Synlait supplying farms, Align Emilius and Align Jacawanda. Constantly looking for continued improvements over both LWP certified farms, Sam and the farming team have taken out extensive soil sampling in a single year (totalling to 350 samples!) to enable a balance in soil nutrients from changes in paddock boundaries and a new self-automated irrigation system across both platforms and utilising all ten pivots to maximise water pressure and flow across the system.

There is a significant amount of monitoring and measuring on farm which has created a large amount of evidence to identify opportunities, the farm now has a vast amount of soil intra-paddock information to maximise pasture growth, along with adjusting an irrigation system to increase efficiencies and remove existing technology restrictions.

### HOW IT WAS ACHIEVED

The farm paddocks boundaries have been changed from a circle/half circle to rectangular paddocks. The new paddock format previously had soil tests that were not uniform to the new layout. These paddocks were soil tested by using the old farm map with the new farm map overlaid, with each intra-section of the paddock getting tested.

The first step in year one was mapping GPS location for where each soil transects were, followed by year two of soil sampling each block (from previous paddock boundaries) within the paddock. This allowed Sam and the team to create a fertiliser plan customised to each paddock, to allow soil NPKS to be balanced at optimum levels across all paddocks.

For irrigation across the platforms, the uniformity of flow was optimised by reviewing each individual pivots capabilities, the degrees of design, and each of the gear boxes across all ten pivots to allow for optimum speed and timing. Nozzle sizes on the smaller pivots across the two dairy platforms were changed to allow a higher flow of mm/second.

Both farms now only use their scheme water irrigation system across the ten pivots, and they don't require any previous well water, they also now run automated in conjunction with one another, without compromising the pressure and flow of others.

**Rebecca Howe**  
Sustainability Advisor



## YOU'RE INVITED – SYNLAIT ANNUAL RESULTS MEETINGS

Please join Grant Watson, CEO, and Robert Stowell, CFO as they present Synlait's 2023 Annual Results, there will be time for Q&A and the presentation will be followed by a light meal.

All suppliers, stakeholders and rural professionals are encouraged to attend.

Please RSVP below for catering:

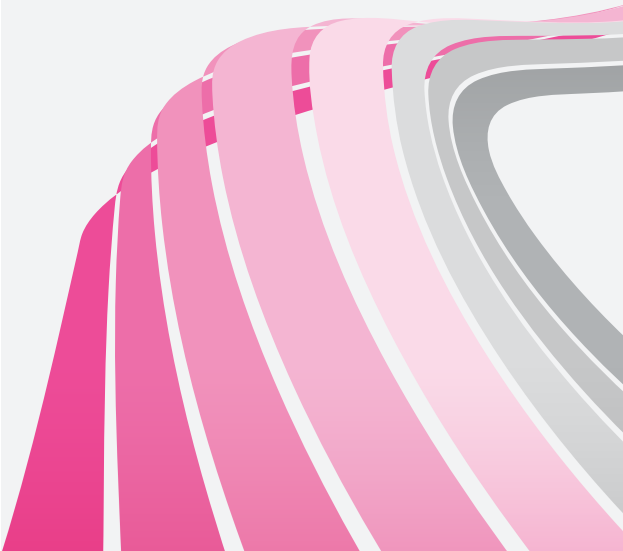
- To register for the North Island Waikato meeting [click here](#)
- To register for the South Island Dunsandel meeting [click here](#)



## SAVE THE DATE – SOUTH ISLAND CHRISTMAS PARTIES

Please save the following dates for Christmas parties in the South Island:

- **Dunsandel**  
Tuesday 28 November  
Dunsandel Community Centre
- **Geraldine**  
Thursday 30 November  
Geraldine Rugby Club
- **Ashburton**  
Tuesday 5 December  
Allenton Rugby Football Club
- **Mandeville**  
Wednesday 6 December  
Mandeville Sports Centre



## SAVE THE DATE – LWP FOCUS DAYS THIS SEASON

We are bringing on-farm opportunities again this season for farmers to join us to share information of interest to those on dairy farms. If you wish to join, please save the dates below into your diaries:

- |   |  |
|---|--|
| • <b>Canterbury</b><br>Thursday 9 November 2023<br>Tuesday 9 April 2024 | • <b>Waikato</b><br>Tuesday 7 November 2023<br>Thursday 2 May 2024 |
|---|--|





# NEW THINKING SOLVES EFFLUENT ISSUE

## FARM OVERVIEW

Pannetts Dairies Ltd is a 900-cow split calving dairy operation, located in the heart of Mid-Canterbury on free-draining light soils. The farm is 201ha effective and is irrigated via groundwater from two wells to three centre pivots and long lines in the corner.

There is a 60-bail rotary cowshed on-farm with a 750 cows free-stall winter barn, with an additional 145-cow free-stall barn and associated 60-80 cow loafing pad in this structure. The farm's effluent system has been designed based on scale and dealing with large volumes of effluent produced daily.

All effluent from the dairymat, winter barns, and concrete areas enters a concrete sump, the sump is mixed 24 hours with a submersible stirrer, and content is fed into a Bauer Screw-press separator that presses the material through a 1mm screen. Solids are returned to a concrete bunker and discharged via a muck spreader to the discharge area not covered by the main pivot.

All separate effluent is pumped across to a holding pond that is synthetic-lined and is 17,843m<sup>3</sup> in volume. Liquid effluent is injected into the main pivot and discharged across approximately 140ha.

## SCALE = PROBLEMS

Dealing with large volumes of effluent daily from both the winter barns and dairy shed comes with challenges such as odour, discharge timing, and discharging throughout the season. Pannetts Dairies themselves have faced issues around odour sourced from holding effluent for extended

periods of time. The solution hasn't come easy or 100% eliminated the odour issues, they tried to keep the pond low, with the use of contractors to empty the pond right out (costly), change the in-shed chemicals, and spray content in the pond more regularly, however, the odour issues were still there.

At times you could smell the pond from the road, and the flood wash was also quite bad. They would regularly get blockages of the pivot nozzles. The growth rates matched the district averages.

## SOLUTION - POND BOOST

"Time to think outside the box" – along came MarineLab, a Christchurch-based company that focuses on improving water quality at the council-operated wastewater treatment plants. The pond was initially given a high dose of Pond Boost and 200L of their Pond Shock to start the process, and over the next three days the pond had a huge amount of bubbling, and the effluent was effectively stirred up by the biological action.

The farm continued to dose the recommended five litres of product into the effluent system daily at the source (concrete sump) this is going into the system immediately before the screw press separator, to treat the solids, flood wash, and the pond. Later changing to a dosing pump directly after the screw-press, as the flood wash recycle provides treatment of the solids as it goes back around the system again. The dosing pump allows a consistent level of Pond Boost in the system rather than a single shock dose each day, making for a more consistent result in odour reduction of the flood wash.

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Pannetts Pond

Effluent is an excellent source of organic material, together with its bacterial and nutrient value it benefits soil health.

Operations Manager Rick Butler says Pond Boost has led to a positive impact on odour and eliminated blockages of pivot nozzles. The grass growth was measured with a usual range between 125kg/ha and as much as 200kg/ha in the areas where effluent was applied at 5% effluent to water at 10mm depth through the main pivot. Urea applications to the discharge area have been stopped altogether as grass growth was at or above the district average. There has also been a marked improvement in the smell of the flood wash.

Rick has seen that there are other benefits to Pond Boost such as making nutrients completely plant-available, reducing leaching and runoff, and ensuring deeper and stronger root systems creating denser pasture and improving soil health.

In short, Rick has found Pond Boost to have solved the effluent problems for Pannetts Dairies, and there is evidence of improved sustainability and efficiency. Rick thinks that Pond Boost may well be the game changer for the New Zealand Dairy industry, and in the current economic climate will be the difference between profit and loss.

**Nick Vernon**  
Sustainability Advisor

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