



NZX: SML

ASX: SM1

22 December 2023

Market update

Synlait Milk Limited (Synlait) is providing several updates on its relationship with The a2 Milk Company and a broader company update, as set out below.

Exclusivity arbitration update

As previously announced, Synlait is involved in a confidential binding arbitration process with The a2 Milk Company to determine the validity of The a2 Milk Company's notice of cancellation of the exclusivity arrangements under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for a2 Platinum® and other nutritional products. The parties have jointly appointed the arbitrator and are agreeing on an arbitration agreement and timetable for the matters to be resolved during 2024. Synlait and The a2 Milk Company have agreed that this arbitration will also include the below issues:

- Whether the obligation on Synlait under the NPMSA to procure the supply of a minimum annual volume of product, and certain priority arrangements in favour of The a2 Milk Company under the NPMSA, will cease to apply if the exclusivity provision under the NPMSA is found to have been validly cancelled;
- What, if any, intellectual property under the NPMSA, and related know-how in the products, is owned by The a2 Milk Company; and
- Which party is responsible for certain one-off airfreighting costs.

New pricing and other matters in dispute

Synlait recently entered a good faith negotiation period under the NPMSA regarding a separate issue between the parties about pricing regarding products manufactured by Synlait for The a2 Milk Company. The resolution of this matter is important because it could impact the margin for certain products manufactured under the NPMSA historically and going forward. Synlait advises that the good faith negotiation period under the NPMSA expired yesterday. Synlait wants the matters resolved and will refer the pricing matters to a confidential binding arbitration.

Synlait also advises that it has received notice of further potential claims from The a2 Milk Company relating primarily to the NPMSA. The claims involve costs associated with product services, surplus or damaged packaging materials costs, new product development, lost profit on delayed deliveries, and alleged failure to share cost savings from the use of third-party ingredients. The a2 Milk Company has not asserted any monetary loss in its claims at this stage. The parties are underway with good faith negotiations to attempt to resolve these matters.

Synlait remains of the view that together both companies stand the best chance of weathering the China market dynamics. Synlait continues to hold the Chinese regulatory State Administration for Market Regulation (SAMR) license which is attached to Synlait's Dunsandel manufacturing facilities. The license is for The a2 Milk Company's Chinese labelled 至初® Infant Formula (stages one, two and three). The company expects to manufacture those products for The a2 Milk Company for products destined for the China market for the period of that license (currently expiring September 2027). Synlait continues to support The a2 Milk Company as its major customer.



Company update

Synlait acknowledges it has been a challenging year, and it is working to re-set. To achieve this, it is:

- Engaging with its banking syndicate about a deleveraging plan and the required prepayment of at least \$130 million, which is required by 28 March 2024.
- Working to significantly reduce debt levels which remain elevated, including the NZX listed bonds.
- Progressing with the Dairyworks sale. Synlait remains in discussions with potential purchasers, but a sale cannot at this time be assured. Synlait's Board and Management is considering several options to deleverage its balance sheet, with a view to narrowing those options in the first quarter of 2024.
- Progressing with the search for a New Independent Director to fill the Board vacancy. Pending any such appointment, one Director nominated by Bright Dairy continues to abstain from voting on any Board decisions.
- Continuing to receive support from Bright Dairy. At Synlait's recent Annual Meeting of Shareholders in December 2023, Bright Dairy stated that its support for Synlait remains steadfast. Bright Dairy is the third-largest player in China's dairy industry and views its investment in Synlait as a vital gateway to resources and capabilities in advanced dairy-related nutrition. This is not just for infants and children but also extends to adult and senior demographics.

Synlait expects its half year Net Profit After Tax to be down compared to the corresponding period in FY23, mainly due to increased financing costs and changes in margin.

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