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Synlait Condensed Interim Financial Statements
For the six months ended 31 January 2024

Synlait Milk Limited

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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) Co., Ltd, Dairyworks Limited, Synlait Milk (Holdings) No.1 Limited, and Synlait Milk (Dunsandel Farms) Limited (together "the Group") as set out on pages 3 to 26 for the six months ended 31 January 2024.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2024 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.



Paul McGilvary
Acting Chair

2 April 2024



Paul Washer
Independent Director

2 April 2024

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Income statement

For the six months ended 31 January 2024

	Notes	Period ended		Year ended
		31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Revenue		652,889	632,329	1,320,758
Cost of sales	6	(625,279)	(563,467)	(1,202,850)
Gross profit		<u>27,610</u>	<u>68,862</u>	<u>117,908</u>
Other income		4,685	4,239	13,294
Sales and distribution expenses	6	(18,784)	(18,368)	(41,548)
Administrative and operating expenses	6	(33,581)	(32,736)	(68,306)
ERP implementation costs	6	-	(5,877)	(6,794)
Impairment of Synlait cash generating unit	3	(50,343)	-	-
(Loss) / earnings before net finance costs and income tax		<u>(70,413)</u>	<u>16,120</u>	<u>14,554</u>
Finance expenses		(21,527)	(13,263)	(29,331)
Finance income		184	122	281
Loss on derecognition of financial assets		(3,182)	(1,618)	(5,771)
Net finance costs		<u>(24,525)</u>	<u>(14,759)</u>	<u>(34,821)</u>
(Loss) / profit before income tax from continuing operations		<u>(94,938)</u>	<u>1,361</u>	<u>(20,267)</u>
Income tax benefit	3	24,924	40	6,123
Net (loss) / profit after tax from continuing operations		<u>(70,014)</u>	<u>1,401</u>	<u>(14,144)</u>
(Loss) / profit from discontinued operations	4	<u>(26,207)</u>	<u>3,412</u>	<u>9,852</u>
(Loss) / profit for the period		<u>(96,221)</u>	<u>4,813</u>	<u>(4,292)</u>
(Loss) / earnings per share				
Basic earnings per share (cents)		(44.02)	2.20	(1.96)
Diluted earnings per share (cents)		(44.02)	2.19	(1.96)
Attributable to continuing operations:				
Basic earnings per share (cents)		(32.03)	0.64	(6.47)
Diluted earnings per share (cents)		(32.03)	0.63	(6.47)
Attributable to discontinued operations:				
Basic earnings per share (cents)		(11.99)	1.56	4.51
Diluted earnings per share (cents)		(11.99)	1.56	4.51

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 2024

	Period ended		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
(Loss) / profit for the period	(96,221)	4,813	(4,292)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	6,328	86,594	64,405
Net change in fair value of cash flow hedges transferred to profit and loss	(50)	(924)	-
Exchange differences on translation of foreign operations	23	(7)	(19)
Income tax on other comprehensive income	(1,772)	(24,246)	(18,033)
Total items that may be reclassified subsequently to profit and loss	<u>4,529</u>	<u>61,417</u>	<u>46,353</u>
Other comprehensive income for the period, net of tax	4,529	61,417	46,353
Total comprehensive (loss) / income for the period	<u>(91,692)</u>	<u>66,230</u>	<u>42,061</u>
(Loss) / profit is attributable to:			
Total comprehensive (loss) / income for the year is attributable to:			
Continuing operations	(65,424)	62,993	32,133
Discontinued operations	(26,268)	3,237	9,928
	<u>(91,692)</u>	<u>66,230</u>	<u>42,061</u>

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

Synlait Milk Limited
Statement of changes in equity
For the six months ended 31 January 2024

Statement of changes in equity

For the six months ended 31 January 2024

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 2022 (Audited)	464,774	818	(49,296)	22	332,078	748,396
Profit or (loss) 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
Equity as at 1 August 2023 (Audited)	464,774	735	(2,924)	3	327,786	790,374
Profit or (loss) for the period	-	-	-	-	(96,221)	(96,221)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	-	-	6,328	-	-	6,328
Exchange differences on translation of foreign operations	-	-	-	23	-	23
Net change in fair value of cash flow hedges transferred to profit and loss	-	-	(50)	-	-	(50)
Income tax on other comprehensive income	-	-	(1,772)	-	-	(1,772)
Total other comprehensive income	-	-	4,506	23	-	4,529
Total comprehensive income	-	-	4,506	23	(96,221)	(91,692)
Employee benefits reserve	-	198	-	-	-	198
Equity as at 31 January 2024 (Unaudited)	464,774	933	1,582	26	231,565	698,880

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 2024

	Notes	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
ASSETS				
Cash and cash equivalents		30,504	12,424	9,290
Trade and other receivables	8	109,277	139,916	82,941
Intangible assets	3,11	3,443	3,607	2,805
Goods and services tax refundable		7,442	14,985	2,711
Prepayments		7,183	8,022	9,879
Inventories	9	316,261	467,747	250,252
Derivative financial instruments		10,718	27,286	16,339
Current tax receivables		7,512	4,350	3,271
Assets of a disposal group held for sale	4	163,535	-	177,881
Total current assets		655,875	678,337	555,369
Non-current assets				
Property, plant and equipment	3,10	947,677	1,017,404	992,996
Intangible assets	3,11	64,531	91,442	77,747
Goodwill	3,11	-	64,189	6,026
Other investments		885	360	935
Derivative financial instruments		4,784	20,776	6,427
Biological assets		4,065	3,857	3,906
Right-of-use assets	3	35,530	22,908	42,204
Total non-current assets		1,057,472	1,220,936	1,130,241
Total assets		1,713,347	1,899,273	1,685,610
LIABILITIES				
Trade and other payables		286,634	422,982	280,954
Loans and borrowings	12	514,136	350,652	243,727
Derivative financial instruments		12,685	27,946	26,862
Lease liabilities		4,123	4,435	5,200
Liabilities directly associated with a disposal group held for sale	4	43,221	-	60,611
Total current liabilities		860,799	806,015	617,354
Non-current liabilities				
Loans and borrowings	12	75,654	178,653	178,998
Derivative financial instruments		900	2,390	-
Deferred tax liabilities		34,780	72,320	54,685
Lease liabilities		39,177	22,676	41,693
Other non-current liabilities		3,157	2,437	2,506
Total non-current liabilities		153,668	278,476	277,882
Total liabilities		1,014,467	1,084,491	895,236
Net assets		698,880	814,782	790,374
Equity				
Share capital	13	464,774	464,774	464,774
Reserves		2,541	13,117	(2,186)
Retained earnings		231,565	336,891	327,786
Total equity attributable to equity holders of the Group		698,880	814,782	790,374
Total equity and liabilities		1,713,347	1,899,273	1,685,610

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 2024

	Notes	Period ended		Year ended
		31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Cash flows from operating activities				
Cash receipts from customers		774,149	720,009	1,608,110
Cash paid for milk purchased		(412,424)	(425,685)	(720,926)
Cash paid to other creditors and employees		(451,234)	(411,174)	(851,255)
Net movement in goods and services tax		(7,597)	(9,336)	4,486
Income tax refunds		(1,007)	1,527	(1,378)
Net cash (outflow) / inflow from operating activities	7	(98,113)	(124,659)	39,037
Cash flows from investing activities				
Interest received		130	137	311
Acquisition of property, plant and equipment		(16,698)	(27,467)	(48,821)
Proceeds from sale of property, plant and equipment		222	137	584
Acquisition of intangible assets		(728)	(5,695)	(16,074)
Proceeds from sale of intangible assets		-	2,174	3,072
Acquisition of biological assets		(41)	(75)	(197)
Proceeds from sale of biological asset		148	-	-
Acquisition of investment		-	(250)	(825)
Net cash outflow from investing activities		(16,967)	(31,039)	(61,950)
Cash flows from financing activities				
Receipt of borrowings	12	96,667	49,167	15,777
Net movement in working capital facility	12	70,362	125,424	51,589
Interest paid		(27,339)	(18,863)	(44,306)
Repayment of lease liabilities		(2,998)	(2,094)	(4,400)
Net cash inflow from financing activities		136,692	153,634	18,660
Net increase / (decrease) in cash and cash equivalents				
Cash and cash equivalents at the beginning of the period		10,271	14,493	14,493
Effects of exchange rate changes on cash and cash equivalents		(51)	(5)	31
Cash included in disposal group classified as held for sale	4	(1,328)	-	(981)
Cash and cash equivalents at end of the period		30,504	12,424	9,290

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 2024

1 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) Co., Ltd, 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.

2 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 (NZ 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 2023.

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).

Material uncertainties relating to Going Concern

As at 31 January 2024, the Group recorded an after-tax loss for the six months of \$96.2m, operating cash outflows of \$98.1m and a working capital deficit of \$204.9m, with loans and borrowings due for repayment and/or refinancing in the next twelve months of \$514.1m. Borrowings due for repayment and/or refinancing in the next twelve months include secured syndicated senior debt of \$334.1m and unsecured subordinated retail bonds of \$180m.

In preparing these financial statements, the Directors have conducted a comprehensive assessment of certain events, conditions, and related material uncertainties. Although the Directors have concluded that it is appropriate to prepare these interim financial statements on a going concern basis, they have concluded that there are material uncertainties which may cast significant doubt over the Group's ability to continue trading as a going concern.

The material uncertainties are outlined in detail below and have arisen primarily as a result of:

- A slow recovery in business performance, due to a variety of factors, impacting short-term cashflows;
- A protracted Dairyworks sale process; and
- Significant levels of debt due for repayment in the short term, as noted in the financial position section below, resulting in the Group's current liabilities exceeding its current assets by \$204.9m. The Group is unable to repay these debts on demand without additional support from shareholders or from other sources of capital.

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Notes to the condensed interim financial statements (continued)

The successful execution of an equity raise in combination with other deleveraging options by 31 July 2024, as discussed in this note, is critical to the ability of the Group to continue trading as a going concern. The final combination of options and the timing and outcome of those options which will be executed are subject to material uncertainties. The Directors remain committed and engaged in achieving a successful deleveraging of the Group's financial position, which should significantly improve the Group's credit quality and enable a successful refinancing and/or repayment of the Group's banking facilities and the \$180m subordinated retail bond due within the next 12 months. The Directors' assessment of the going concern assumption assumes successful execution of the sale of Dairyworks and an equity raise, the quantum of which might be reduced by a possible divestment of the Group's North Island production facilities.

The following is the Director's analysis of all relevant material uncertainties:

Dispute with The a2 Milk Company

On 15 September 2023, The a2 Milk Company provided notice of cancellation of the exclusivity arrangements for the production of a2 Platinum and other nutritional products under the Nutritional Powders Manufacturing and Supply Agreement (NPMSA). Synlait disputes The a2 Milk Company's notice of cancellation of exclusivity and is engaged in a binding confidential arbitration process to determine the validity of The a2 Milk Company's notice. An outcome is not yet known. However the Group has reflected a probability weighted outcome to any potential impact on forecast sales volumes in the five-year forecast on which goodwill and asset impairment testing is based as well as the impact on forecast cash flows over that period. Refer to note 3 for further information on impairment testing.

Trading performance

The Group announced two material profit downgrades to its previously announced FY24 guidance in the first half of the 2024 financial year. These downgrades were the result of lower-than-expected sales volumes of Advanced Nutrition and UHT cream products, margin compression across all product groups, inventory management issues, high financing costs due to higher interest rates and debt levels, and higher than expected manufacturing costs due to lower than expected utilisation of the North Island plants and continued cost pressures. These events and conditions led to a before-tax loss for the period ended 31 January 2024 of \$37.8m (excluding the impact of impairment of the Synlait CGU of \$50.3m and the impairment loss on measurement of Dairyworks book value to estimated fair value less costs of disposal of \$31.1m).

The Directors and management have been engaged in an urgent process to address the deterioration in the Group's trading performance and resulting financial position. Measures include a restructuring of the Group's executive leadership team, the initiation of a cost-out programme, and a significant focus on operational and sales performance. Significant focus is also being placed on addressing operational delays which have resulted in lower-than-expected sales of Advanced Nutrition products, and on a re-launch of the Group's UHT cream products for which current year demand was impacted by production issues and delays with initial product runs. The Group also remains committed to deleveraging its balance sheet with the aim of significantly reducing net debt and financing costs.

Financial position

Whilst resolution of the above business performance challenges will improve business performance, they will not result in a level of forecast cash inflows necessary to meet significant upcoming debt amortisation obligations. At 31 January 2024, the Group's current liabilities exceed current assets by \$204.9m, driven by the classification of \$514.1m of the Group's total net debt of \$559m as repayable within 12 months of balance date. On 28 March 2024 the Group renegotiated terms with its banking syndicate and obtained an extension to 15 July 2024 in respect of a \$130m loan prepayment which was originally due on 28 March 2024.

The Group also obtained an amendment to the shareholder funds covenant (reduced from a requirement of \$600m at all times to \$400m at all times) and interest coverage ratio (reduced from a requirement of 2.25x to 1.75x for the 31 July 2024 covenant test) to allow additional time for deleveraging options to be executed by no later than 31 July 2024.

The Group's renegotiated loan amortisations over the next 12 months include:

- a) Debt repayments - \$130m mandatory prepayment to the banking syndicate by 15 July 2024 and repayment of the \$180m of unsecured subordinated retail bond which matures on 17 December 2024; and
- b) Seasonal amortisation, in line with the routine cycle of debt within the business as outlined in note 12.

Notes to the condensed interim financial statements (continued)

The working capital facilities as specified in note 12, expire on 1 October 2024 and will require refinancing. The revolving credit facility expires on 1 October 2025.

To ensure sufficient cash and debt facilities are available to repay these obligations, the Group is progressing various deleveraging options with haste, including raising equity, alternative asset sales, and exploring alternative forms of financing.

Without successful execution of an equity raise in combination with other deleveraging options by 31 July 2024, the Group will be in breach of its banking covenants and the banking syndicate will have the right to call on the full \$410m of outstanding bank debt. The Supervisor for the \$180m subordinated bond will also have the right to call on the bond which will become repayable on demand immediately due to the bank facilities being in default. The loss of support from the Group's banking syndicate due to the above commitments not being met resulting in the facilities and bond being called as well as the inability to refinance longer term debt would result in significant adverse effects on the Group, including the ability for the Group to remain a going concern.

Impairment

As noted, the Group has recorded a total asset impairment loss of \$81.4 million for the period. At the time of these interim financial statements this also creates further uncertainty with respect to going concern as it is uncertain what impact this may have on investor sentiment, share price and financing options.

To address the liquidity risk arising from the Group's upcoming debt obligations and net current liabilities, a range of deleveraging initiatives are currently underway, with certain initiatives at a well-progressed stage, albeit subject to material uncertainties with respect to timings and outcomes. These initiatives include:

a) Dairyworks divestment

The Group's Dairyworks subsidiary remains classified as a held for sale disposal Group. Challenging market conditions and tight capital markets have resulted in a slower than anticipated sales process however the Group remains engaged with prospective purchasers and continues to aim for a completed sale in the second half of the year. Proceeds from the sale of Dairyworks will be used to repay a mandatory \$130m debt prepayment which was originally due on 28 March 2024 but deferred to 15 July 2024 after an extension was granted by the Group's banking syndicate on 28 March 2024. Material uncertainties associated with the timing and outcome of the sale will continue until the sale is complete. These include material uncertainties over receipt of a suitable offer, execution of a sale and purchase agreement, and obtaining required shareholder and regulatory approvals, including approval from the Overseas Investment Office (if required), within the required timeframe.

To ensure liquidity requirements are met the Group's 39.01% shareholder, Bright Dairy, has committed to providing up to \$130m in the form of a bridging inter-company loan if the Group is unable to meet the 15 July 2024 \$130m mandatory prepayment obligation due to further delays to the sales process. The loan is subject to obtaining all requisite corporate, shareholder and external approvals on reasonable terms and conditions mutually acceptable by the Group and Bright Dairy which are yet to be determined.

b) Equity raise

The Group is currently engaged in a process which will aim to further deleverage the Group's balance sheet through the issuing of equity. The quantum and structure of the equity raise is still being decided and will depend on the timing and outcome of other deleveraging options described in this note. Material uncertainties will exist around the quantum, timing, structure, participation rate, and ultimate success of the equity raise and resulting impact on the Group's capital and ownership structure. The Group's shareholder structure creates further complexity and uncertainty around the potential outcome of an equity raise. An unsuccessful equity raise will result in significant adverse effects on the Group, including the ability for the Group to remain a going concern.

An equity raise will be required by 31 July 2024, as a primary means in which to remain a going concern, in that it would be required in order to continue to comply with banking covenants and improve the Group's credit quality sufficiently to retain the support of the Group's banking syndicate and allow for the successful repayment and refinancing of syndicated debt facilities on 30 September 2024 and the subordinated bonds on 17 December 2024.

Recognising this uncertainty the Directors have sought support from its 39.01% shareholder, Bright Dairy, who have affirmed participation in a potential capital raise, subject to meeting certain terms and conditions which were still being worked through at the time of release of these interim financial statements.

The Directors have also commenced workstreams on additional alternative deleveraging options including a strategic asset review and alternative forms of financing.

Notes to the condensed interim financial statements (continued)

c) Strategic asset review

On 2 April 2024, the Group announced it was conducting a strategic review of its North Island assets. The Group has struggled to reach an acceptable level of utilisation of its North Island drying and packaging plants. While the medium-term demand outlook has improved, the North Island operations will continue to contribute to negative cash flows until utilisation improves which is forecast to occur from FY26. To minimise the adverse impact of the underutilised plants on the Group's near-term cash flows and ensure liquidity, the Group is exploring the possibility of selling either partial or full interests in the plants. The Directors have sought support from its 39.01% shareholder, Bright Dairy, who have affirmed their support for the Board's decision to undertake a strategic review involving the potential sale of North Island assets. Discussions have commenced with prospective investors and purchasers for the North Island plants, with initial interest expressed. Whether an asset is divested will depend on the timing and outcome of the other deleveraging options presented in this note. Consequently, there will be material uncertainties in respect of the necessity, scale, timing, required approvals, and ultimate outcome of potential further asset divestments.

d) Alternative forms of financing

The Group is progressing alternative financing options, including restructuring the banking syndicate to add additional banks or obtaining financing through a perpetual capital note (if required). The perpetual capital note could provide preferred equity funding of \$100m to \$150m to repay debt as part of the wider deleveraging programme, if required. The Group has had positive initial discussions on a potential restructure of the banking syndicate and is well progressed with the perpetual capital note.

The further divestment of North Island assets and alternative forms of financing remain plan B options and material uncertainties will exist with respect to whether these options are required to be progressed further, as well as the timing and outcome of the options.

e) Letter of support from Bright Dairy

As referred to above and within the subsequent events note 17, on 28 March 2024 the Group received a binding letter of support from Bright Dairy, the ultimate owner of the Group's major shareholder, which indirectly owns 39.01% of the shares in the Group. The letter includes a commitment to participate in a future equity capital raising (subject to certain terms and conditions including consideration of current shareholding structure) and to extend up to a \$130m inter-company bridging loan at the request of Synlait to ensure short term liquidity requirements can be met (if required), subject to the Group and Bright Dairy receiving all necessary approvals. In addition, it provides support for the deleveraging options which are currently progressing.

The letter also reinforces Bright Dairy's ongoing support for the Group in more general terms, including other commitments to the Group on a non-binding basis.

Conclusion

Despite the options available to the Group, the Directors reiterate that there are material uncertainties as noted above, relating to unknown future events that are not fully within their control, that may impact its ability to successfully execute one or more of the above options. Therefore there are material uncertainties related to events and conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments which may be required if the Group is unable to continue as a going concern.

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

There are no new policies, standards, interpretations, or amendments that were adopted in the period which have or are expected to have a material impact on the Group.

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Notes to the condensed interim financial statements (continued)

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

NZ CS 1, CS 2, CRDC - Climate related disclosures

In December 2022, The External Reporting Board ('XRB') of New Zealand issued Aotearoa New Zealand Climate Standards, a new climate-related disclosure framework. Three new standards have been issued: NZ CS 1 Climate-related Disclosures, NZ CS 2 Adoption of Climate-related Disclosures, and NZ CS 3 General Requirements for Climate-related Disclosures. The guidance is aligned to the International Task Force on Climate-related Disclosures ('TCFD') disclosure framework which focuses on governance, strategy, risk management, and metrics and targets.

The Group is preparing for the release of initial disclosures in November 2024 for the period ended 31 July 2024.

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.

Material events and other significant items during the period

Impairment testing of Synlait CGU

The Group was required to undertake an impairment test of the Synlait cash generating unit ("Synlait CGU") at 31 January 2024 due to the significant excess of net asset value over market capitalisation and two material earnings downgrades to its previously announced FY24 guidance in the first half of the 2024 financial year constituting indicators of impairment in accordance with NZ IAS 36 "Impairment of Assets." An impairment charge of \$50.3m has been recorded in the period and is driven by a more conservative view of margins and volumes expected to be achieved over the forecast period on which impairment testing is based as well as underutilisation of the Group's North Island facilities. Refer to note 3 for further information.

Dairyworks sale and loss on measurement of Dairyworks disposal group

On 2 June 2023, the Group announced its intention to divest of its Dairyworks subsidiary resulting in the classification of Dairyworks as a held for sale disposal group. A board approved programme remains underway to divest Dairyworks, with an aim to complete a sale in the second half of the 2024 financial year. Whilst certain routine approvals will be required to enable the sale, the Group considers that these are likely to be granted. At 31 January 2024, the fair value less costs of disposal (FVLCD) of Dairyworks was determined to be below the net asset value of the disposal group. As a consequence, a loss on measurement to FVLCD of \$31.1m was recognised in the period. Refer to note 4 for further information.

Amendments to banking facilities

Subsequent to 31 January 2024, the Group obtained an extension to 15 July 2024 in respect of the \$130m loan prepayment which was originally due on 28 March 2024. The Group also obtained an amendment to the shareholder funds covenant (reduced from a requirement of \$600m at all times to \$400m at all times) and interest coverage ratio (reduced from a requirement of 2.25x to 1.75x for the 31 July 2024 covenant test).

Material change in accounting estimate

During the period, the Group adopted a new inventory costing methodology which has been determined to be a change in accounting estimate in accordance with NZ IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and accounted for prospectively.

The new methodology has been designed to reflect a cost of production specific to the cost base of the asset used in that production. This has resulted in an increase in overhead costs attributed to ingredient products (with a trivial change in costs attributed to consumer food and foodservice products), reflecting Synlait utilising nutritional-grade facilities for ingredients production.

The change in estimate has resulted in a significant one-off impact in the current financial period (\$8.4m reduction to NPAT) due to a significantly higher level of overhead costs attributed to opening work-in-progress inventories of Advanced Nutrition base powders.

Notes to the condensed interim financial statements (continued)

Arbitration and disputes with The a2 Milk Company

During the period, the Group announced it was 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 Nutritional Powders Manufacturing and Supply Agreement (NPMSA) for a2 Platinum® and other nutritional products. The parties have jointly appointed the arbitrator and are in the process of finalising the arbitration agreement which will govern the arbitration and set the timetable for the exclusivity dispute to be resolved during 2024. Synlait and The a2 Milk Company have agreed that additional matters in dispute between the parties will be resolved through arbitration. This includes the ownership of the know-how and intellectual property in the products, the continuance or otherwise of certain commercial clauses under the NPMSA, responsibility for airfreighting costs, pricing, whether or not certain products are products under the NPMSA or new products, and other matters in dispute. An outcome for the arbitration is not yet determinable however the Group has recognised provisions and accruals where reliable estimates can be made, based on information available. As the arbitration progresses (or a final determination is made by the arbitrator), these assumptions may change, however no further contingent assets or liabilities have been disclosed.

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.

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.

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3 Impairment of assets

During the period, the Group announced downgrades to forecast financial performance and traded at a market capitalisation significantly below net asset value. Because these constitute indicators of impairment, the Group was required to test for impairment as at 31 January 2024. The impairment test has been performed for the Synlait CGU only as the indicators of impairment are directly related to the CGU's performance.

While no indicators of impairment exist for the Dairyworks CGU, because it is classified as a disposal group it is required to be measured at fair value less costs of disposal (FVLCD) in accordance with the requirements of NZ IAS 5 "Non-current Assets Held for Sale and Discontinued Operations." Refer to note 4 for further information.

The Group's impairment test is based on a value-in-use (VIU) calculation which uses five-year cash flows based on Board approved business plans and is discounted based on a CGU specific weighted average cost of capital (WACC) as determined by an independent third party. The discounted cash flow was modelled using the following key assumptions:

	31 January 2024 Unaudited	31 July 2023 Audited
Synlait CGU		
Annual revenue growth rates within forecast operating cashflow	(0.5%) - 7.6%	3.9% - 11.8%
Allowance for increase in expenses within forecast operating cash flow	(1.5%) - 5.7%	1.5% - 8.8%
Post-tax discount rate	9.6%	9.2%
Pre-tax discount rate	11.9%	11.8%
Terminal growth rate	2.5%	2.0%

Assumptions as at 31 January 2023 have not been disclosed as no impairment test was performed in respect of the period. The terminal growth rate has increased to 2.5% to reflect the Group's strategic focus on high growth markets. Within the cash flow forecasts a probability weighted assessment was performed for areas of significant uncertainty.

During the period there were downward revisions to future forecast financial performance due to a more conservative view of margins and volumes which the Group expects to achieve over the next 5 years. This is due to uncertainty over a dispute with a key customer of the Group (The a2 Milk Company), increasing competition in the key China market where Synlait is developing new customer business in the Advanced Nutrition category resulting in a more conservative approach to pricing, uncertainty over future milk supply, and other macroeconomic factors.

While significant effort and resource continues to be dedicated to progressing growth in the Chinese and Southeast Asian markets, the decline in forecast volumes also reflects delays in onboarding new Advanced Nutrition customers in recent years.

This has resulted in an impairment charge of \$50.3m. The impairment charge has been mostly allocated to the Group's North Island operations as a consequence of significant underutilisation.

The impairment has been calculated follows:

	31 January 2024 Unaudited \$'000
Synlait CGU	
Carrying amount of Synlait CGU at 31 January 2024 prior to impairment test	1,260,707
Recoverable value based on value in use	<u>1,210,364</u>
Impairment	<u>50,343</u>

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3 Impairment of assets (continued)

The impairment charge has been allocated against the Synlait CGU's assets as follows:

Balance sheet line item	Carrying amount 31 January 2024 prior to impairment Unaudited \$'000	Impairment allocation Unaudited \$'000	Carrying amount 31 January 2024 post impairment Unaudited \$'000
Net working capital	155,118	-	155,118
Goodwill	6,026	(6,026)	-
Property, plant and equipment	983,359	(35,682)	947,677
Biological assets	4,065	-	4,065
Intangible assets (current and non-current)	73,581	(5,607)	67,974
Right-of-use assets	38,558	(3,028)	35,530
Total	<u>1,260,707</u>	<u>(50,343)</u>	<u>1,210,364</u>

The impairment charge has given rise to a deferred tax asset of \$12.4m and has increased the income tax benefit for the period by a corresponding amount.

The recoverable amount is highly sensitive to small movements within the key assumptions.

Change in key assumption	Impact on estimated VIU recoverable amount Increase/(decrease) Unaudited \$'000
25 basis point increase in discount rate	(39,538)
25 basis point decrease in discount rate	42,471
50 basis point decrease in terminal growth rate	(68,685)
50 basis point increase in terminal growth rate	59,588
5% decrease within forecast cash flows*	(93,978)
5% increase within forecast cash flows*	93,978

* 5% increase/decrease in forecast operating cashflows used as a proxy for probability weightings applied to annual revenue growth rate and allowance for increase in expenses.

4 Held for sale assets and discontinued operations

The Dairyworks CGU comprised of Dairyworks Limited continues to be classified as a disposal group held for sale. Dairyworks' financial performance has been presented as profit/(loss) from discontinued operations and all profit and loss note disclosures have been re-presented to exclude the impact of discontinued operations.

A board approved programme remains underway to divest of Dairyworks, with an aim to complete a sale in the second half of the 2024 financial year. Whilst certain routine approvals will be required to enable a sale, the Group considers that these are likely to be granted. At 31 January 2024, the fair value less costs of disposal (FVLCD) of Dairyworks was determined to be below the net asset value of the disposal group. As a consequence, a loss on measurement to FVLCD of \$31.1m was recognised in the period.

4 Held for sale assets and discontinued operations (continued)

(a) Financial performance and cashflow information

	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Revenue	141,850	138,604	282,822
Cost of sales	(125,844)	(125,746)	(256,738)
Other income	29	430	3,039
Sales and distribution expenses	(3,826)	(3,998)	(6,768)
Administrative and operating expenses	(2,736)	(2,898)	(5,889)
Net finance costs	(2,663)	(1,647)	(3,455)
Income tax	(1,880)	(1,333)	(3,159)
Loss on measurement of disposal group to FVLCD	(31,137)	-	-
Loss / (profit) from discontinued operations	(26,207)	3,412	9,852
Net cash inflow/outflow			
Net cash (outflow) / inflow from operating activities	(21,143)	1,165	32,488
Net cash (outflow) / inflow from investing activities	(4,297)	(501)	(1,787)
Net cash inflow / (outflow) from financing activities	25,787	1,224	(30,090)
Net increase in cash generated by the discontinued operation	347	1,888	611

(b) Disaggregation of assets and liabilities held for sale

The following assets and liabilities were reclassified as held for sale:

	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Assets of disposal group classified as held for sale			
Cash and cash equivalents	1,328	-	981
Trade, other receivables and other current assets	8,826	-	9,865
Inventories	66,002	-	52,253
Property, plant and equipment	29,345	-	25,594
Intangible assets	17,093	-	17,093
Goodwill	58,163	-	58,163
Impairment of goodwill resulting from measurement to FVLCD	(31,137)	-	-
Right-of-use assets	13,915	-	13,932
Total	163,535	-	177,881

Property, plant, and equipment includes \$7.2m of assets, comprised primarily of land and buildings, which are currently being considered for sale separately to the disposal group. A binding offer of \$7.5m has been received for the assets.

4 Held for sale assets and discontinued operations (continued)

	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Liabilities of disposal group classified as held for sale			
Trade, other payables and other current liabilities	(24,353)	-	(42,680)
Current tax liability	(4,199)	-	(2,990)
Lease liabilities	(13,420)	-	(14,337)
Deferred tax liabilities	(1,249)	-	(604)
Total	<u>(43,221)</u>	<u>-</u>	<u>(60,611)</u>

(c) Loss on measurement to FVLCD

At 31 January 2024, the net asset value of the Dairyworks disposal group prior to measurement to FVLCD was \$151.4m and fair value less costs of disposal was estimated to be \$120.3m (determined with reference to non binding offers received). The \$31.1m shortfall of FVLCD below the net asset value of the disposal group has been recognised as a loss on measurement to FVLCD and allocated entirely against goodwill, reducing the carrying value to \$27.1m. The carrying value of goodwill prior to the allocation of the loss was \$58.2m. No tax benefit has been recognised in respect of the loss.

5 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 2024 Unaudited			
	Synlait \$'000	Dairyworks \$'000	Eliminations \$'000	Total \$'000
External revenue	651,675	141,850	-	793,525
Inter-segment revenue from sale of goods	1,214	-	(1,214)	-
Revenue from sale of goods	<u>652,889</u>	<u>141,850</u>	<u>(1,214)</u>	<u>793,525</u>
Net (loss) / profit after tax for the period	(70,014)	(26,207)	-	(96,221)

5 Segment reporting (continued)

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

(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		Year ended
	31 January 2024 Unaudited	31 January 2023 Unaudited	31 July 2023 Audited
China	6 %	15 %	13 %
Rest of Asia	24 %	19 %	25 %
Middle East and Africa	8 %	2 %	5 %
New Zealand	55 %	56 %	49 %
Australia	5 %	6 %	5 %
Rest of World	<u>2 %</u>	<u>2 %</u>	<u>3 %</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

All Group non-current assets are located in New Zealand, other than \$0.1m (31 January 2023: \$0.2m, 31 July 2023: \$0.1m) located in China.

(d) Other profit and loss disclosures

Revenues of approximately 52% (31 January 2023: 50%, 31 July 2023: 55%) are derived from the top three external customers.

6 Expenses

	Notes	Period ended		Year ended
		31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
<i>The following items of expenditure are included in cost of sales:</i>				
Depreciation and amortisation		22,233	19,859	41,061
Employee and contractor costs		43,132	39,264	80,585
Energy costs		15,934	13,967	25,376
Freight		8,427	9,490	17,769
Milk transport		16,827	16,239	26,980
Repairs and maintenance		8,081	7,452	18,701
Inventory provisions and write-downs		9,739	12,372	19,796
<i>Provision movements included in inventory provisions and write-downs:</i>				
Increase in inventory provision	9	781	6,512	6,057
Increase in onerous contracts provision	9	(595)	1,204	2,001
<i>The following items of expenditure are included in sales and distribution expense:</i>				
Depreciation and amortisation		4,095	2,416	5,998
Employee and contractor costs		10,240	8,236	17,637
Insurance		837	790	1,609
Freight		1,059	2,555	5,449
Consultancy, legal, and transaction costs		490	573	1,729
Rent and storage		1,059	440	898
<i>The following items of expenditure are included in administrative and operating expense and ERP implementation costs:</i>				
Depreciation and amortisation		4,199	4,177	12,251
Employee and contractor costs		15,223	17,353	33,356
Director fees		388	413	827
Share based payments expense		198	108	1
Consultancy, legal, and transaction costs		5,190	7,622	14,575
Information services and subscriptions		4,738	4,976	9,339

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7 Reconciliation of (loss) / profit after income tax to net cash outflow from operating activities

	Period ended		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
(Loss) / profit for the period	(96,221)	4,813	(4,292)
Non-cash and non-operating items:			
Impairment of Synlait cash generating unit	50,343	-	-
Loss on measurement of Dairyworks disposal group to FVLCD	31,137	-	-
Depreciation and amortisation of non-current assets	27,629	26,704	54,205
Depreciation of right-of-use assets	2,897	2,286	5,484
(Gain) / loss on sale of property, plant and equipment	(241)	46	(154)
(Gain) / loss on livestock sales	(98)	69	-
Impairment of property, plant and equipment and intangible assets	-	-	165
Gain on sale of New Zealand Units	-	(1,436)	(1,769)
New Zealand Units surrendered	1,843	1,177	1,177
Non-cash share based payments expense	198	156	(83)
Interest costs classified as financing cash flow	23,437	14,476	31,846
Interest received classified as investing cash flow	(130)	(137)	(311)
Loss on derecognition of financial assets	3,881	2,066	6,743
Deferred tax	(21,021)	6,567	(4,610)
Loss / (gain) on derivative financial instruments	339	(739)	143
Unrealised foreign exchange loss / (gain)	51	5	(31)
(Gain) / loss on revaluation of biological assets	(118)	(53)	183
Movements in working capital:			
(Increase) in trade and other receivables	(22,299)	(48,822)	(1,227)
Decrease in prepayments	3,684	8,616	4,900
(Increase) in inventories	(79,757)	(234,806)	(69,565)
(Increase) / decrease in goods and services tax refundable	(7,597)	(9,336)	4,486
(Decrease) / increase in trade and other payables	(13,039)	107,485	11,474
(Increase) / decrease in current tax asset	(3,031)	(3,796)	273
Net cash (outflow) / inflow from operating activities	(98,113)	(124,659)	39,037

8 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.

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9 Inventories

	Period ended		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Raw materials at cost	76,880	132,074	79,497
Raw materials at net realisable value	-	1,722	-
Work in progress at cost	73,286	55,906	111,528
Work in progress at net realisable value	2,055	559	1,062
Finished goods at cost	148,343	243,199	52,725
Finished goods at net realisable value	15,697	34,287	5,440
Total inventories	316,261	467,747	250,252

Raw material inventories at \$76.9m (12,822 MT) (31 January 2023: \$133.8m, 21,458 MT; 31 July 2023: \$79.5m, 12,245 MT) have decreased from 31 January 2023 due to the reclassification of Dairyworks raw materials inventory to assets held for sale. The decrease from 31 July 2023 is driven by changes in planned product mix.

Work in progress inventories at \$75.3m (11,488 MT) (31 January 2023: \$56.5m, 7,727 MT; 31 July 2023: \$112.6m, 14,664 MT) have increased from 31 January 2023 due to higher holdings of Advanced Nutrition base powders. The decrease from 31 July 2023 is due to the consumption of base powders into finished goods inventory.

Finished goods inventories at \$164.0m (30,221 MT), (31 January 2023: \$277.5m, 47,220 MT; 31 July 2023: \$58.2m, 9,117 MT) have decreased from 31 January 2023 due to higher holdings in the comparative period as a result of shipment delays driven by ERP implementation challenges, as well as the reclassification of Dairyworks inventory to assets held for sale. The increase from 31 July 2023 is due to higher holdings of ingredients powders which are typically at higher levels at 31 January due to normal trends in sales phasing.

The cost of inventories recognised as an expense during the period was \$601.4m (31 January 2023: \$526.2m, 31 July 2023: \$1,158.2m). The cost of inventories recognised as an expense includes \$7.4m (31 January 2023: \$7.0m; 31 July 2023: \$19.8m) in respect of write downs of inventory to net realisable value.

The total inventory condition provision at reporting date was \$9.7m, of which \$4.6m related to finished goods, \$0.6m to work in progress, and \$4.5m to raw materials (31 January 2023: \$12.7m, \$5.0m for finished goods, \$1.5m for work in progress, and \$6.2m for raw materials; 31 July 2023: \$9.6m, \$5.9m for finished goods, \$1.3m for work in progress, and \$2.4m for raw materials).

In addition, the total onerous contracts provision as at reporting date was \$1.4m (31 January 2023: \$1.2m; 31 July 2023: \$2.0m).

During the period, the Group changed the method in which it allocates overhead costs to the cost of inventories. This has been treated as a change in accounting estimate. Refer to note 2 for further information.

10 Property, plant and equipment

During the six months ended 31 January 2024, \$12.3m has been added to capital work in progress relating primarily to routine operational capital expenditure. During this period, \$35.4m of historical work in progress was capitalised which related primarily to upgrades to our North Island operations to enable production of plant-based Advanced Nutrition products.

At 31 January 2024, an impairment charge of \$35.7m was also allocated to property, plant, and equipment relating to the Group's North Island plants. Refer to note 3 for further information.

11 Intangible assets

During the six months ended 31 January 2024, \$0.7m has been added to intangible work in progress relating primarily to routine operational capital expenditure. During this period, \$0.4m of historical work in progress was capitalised.

11 Intangible assets (continued)

At 31 January 2024, an impairment charge of \$6.0m was allocated to goodwill, resulting in the carrying value of goodwill for the Synlait CGU being reduced to \$nil at 31 January 2024 (31 January 2023: \$6.0m). In addition, a \$5.6m impairment charge was allocated pro-rata to remaining intangible assets. Refer to note 3 for further information. Note that goodwill for the period ended 31 January 2023 includes goodwill attributable to Dairyworks which has been included in the Dairyworks disposal group at 31 January 2024. Refer to note 4 for further information.

12 Loans and borrowings

	Period ended		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
Current liabilities			
Working capital facility (syndicated) NZD	111,967	133,101	46,071
Working capital facility (syndicated) USD	68,869	51,208	64,403
Revolving credit facility	154,298	166,667	133,333
Loan facility fees	(355)	(324)	(80)
Subordinated Bond	180,000	-	-
Subordinated bond fees	(643)	-	-
	<u>514,136</u>	<u>350,652</u>	<u>243,727</u>
Non-current liabilities			
Revolving credit facility	75,702	-	-
Loan facility fees	(48)	-	-
Subordinated Bonds	-	180,000	180,000
Bond facility fees	-	(1,347)	(1,002)
	<u>75,654</u>	<u>178,653</u>	<u>178,998</u>
Total loans and borrowings	<u>589,790</u>	<u>529,305</u>	<u>422,725</u>

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 ANZ Bank, Bank of China, China Construction Bank, HSBC, and Rabobank.

The Group facilities include:

- Secured revolving credit facilities of NZD \$230m. These facilities step down over time with maturity dates between 31 July 2024 and 1 October 2025.

-A secured working capital facility of NZD \$270m, maturing 1 October 2024 together with an NZD \$10m on-demand bilateral facility. This facility is a seasonal facility where the facility limits change at several times during the term of facility.

In addition, the Group is required to make a prepayment of the higher of any Dairyworks sales proceeds and \$130m by no later than 15 July 2024. This prepayment was originally due on 28 March 2024 before an extension was granted by the banking syndicate on 28 March 2024 (refer to note 17 for further information).

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 2024 and 31 January 2023 and the twelve months ended 31 July 2023.

12 Loans and borrowings (continued)

The following summarises banking covenants effective for the year ending 31 July 2024:

1. Total shareholder funds of no less than NZD \$600m at all times. Subsequent to reporting date, the covenant was amended to a requirement of NZD \$400m at all times. It is likely that the shareholder funds requirement will be amended further upon completion of deleveraging.
2. Working capital ratio of no less than 1.5x at all times.
3. Interest cover ratio of no less than 2.25x for the 31 July 2024 reporting date, increasing to 3.0x for the 31 July 2025 reporting date. Subsequent to reporting date, the ratio was amended to a requirement of 1.75x for the 31 July 2024 reporting date, with no change to the 31 July 2025 requirement.
4. Leverage ratio of no greater than 3.5x for the 31 July 2024 reporting date, decreasing to no greater than 3.25x on and from the 31 July 2025 reporting date.
5. Senior leverage ratio of no greater than 2.25x for the 31 July 2024 reporting date.

Retail bonds:

Borrowings under the retail bond programme are supported by a Master Trust Deed and supplemented by the Series Supplement entered into between the Group and the New Zealand Guardian Trust Company Limited. The retail bonds are unsecured and subordinated and mature on 17 December 2024. At 31 January 2024, the retail bond had a fair value of NZD \$154.1m (31 January 2023: NZD \$169.9m, 31 July 2023: NZD \$158.8m), based on NZX Debt Market valuation (NZDX).

13 Share capital

The Group had 218,581,661 ordinary shares on issue as at 31 January 2024 (31 January 2023: 218,581,661, 31 July 2023: 218,581,661). There were no shares granted in the period (31 January 2023: nil, 31 July 2023: nil).

14 Related party transactions

Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by the Synlait Milk Limited (31 January 2023: 39.01%; 31 July 2023: 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) Co., Ltd was incorporated. The wholly owned foreign entity started operations from 1 August 2019 and the principal activity of the entity is to provide services to assist Synlait to market products in China.

On 1 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.

14 Related party transactions (continued)

On 25 May 2022 Synlait Milk (Dunsandel Farms) Limited was incorporated for the purposes of dairy farming operations on land located adjacent to the Group's Dunsandel Operations.

(a) Transactions with other related parties

	Period ended		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
<i>Purchase of goods and services</i>			
Bright Dairy and Food Co Ltd - Directors fees	133	222	267
New Hope Innovation (Hong Kong) - Sale of milk powder products	-	-	-
<i>Sale of goods and services</i>			
Bright Dairy and Food Co Ltd - Sale of milk powder products	268	38	1,807
Sichuan New Hope Nutritional Foods Co. Ltd - Sale of milk powder products	-	-	-
Other	-	-	-

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		Year ended
	31 January 2024 Unaudited \$'000	31 January 2023 Unaudited \$'000	31 July 2023 Audited \$'000
<i>Current receivables</i>			
Bright Dairy and Food Co Ltd - Sale of milk powder products	-	-	609
Bright Dairy and Food Co Ltd - Reimbursement of costs	(1,218)	(1,205)	(1,118)
Sichuan New Hope Nutritional Ltd - Sale of milk powder products	-	-	-
Sichuan New Hope Nutritional Ltd - Other costs	-	-	-
New Hope Innovation (Hong Kong) - Sale of milk powder products	-	-	-

15 Contingencies

No contingent liabilities or assets have been recognised in these financial statements (31 January 2023: \$nil, 31 July 2023 \$nil).

16 Commitments

The Group has committed expenditure as at 31 January 2024 for routine operational capital expenditure projects of \$4.2m (31 January 2023: \$3.2m, 31 July 2023: \$0.8m).

The Group has also committed a further investment of \$2.8m to a public-private joint venture in which \$0.8m has been invested to date. 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.

17 Events occurring after the reporting period

Amendment of banking facilities

On 28 March 2024 the Group obtained an extension to 15 July 2024 in respect of the \$130m loan prepayment which was originally due on 28 March 2024. The Group also obtained an amendment to the shareholder funds covenant (reduced from a requirement of \$600m at all times to \$400m at all times) and interest coverage ratio (reduced from a requirement of 2.25x to 1.75x for the 31 July 2024 covenant test).

Financial support from Bright Dairy

On 28 March 2024 the Group received a binding letter of support from Bright Dairy, the ultimate owner of the company's major shareholder, which indirectly owns 39.01% of the shares in Synlait. The letter reinforces Bright Dairy's ongoing support for Synlait. The letter includes a commitment to participate in a future equity capital raising (if required) and to extend up to a \$130m inter-company loan at the request of Synlait to ensure short term liquidity requirements can be met, subject to Synlait and Bright receiving all necessary approvals.

Strategic review of North Island assets

On 2 April 2024 the Group announced its decision to undertake a strategic review of its North Island assets, including its manufacturing facility in Pokeno and its blending and canning facility in Auckland. It will explore the highest-value ownership structure of the assets to maximise value for all shareholders.

The strategic review is expected to take several months, and there is no certainty that any transaction will result. No decisions will be made regarding any potential transaction or other outcomes until the completion of the strategic review.

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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 controlled entities (the "Group"), which comprise the statement of financial position as at 31 January 2024, 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 selected explanatory notes.

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 2024, 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).

Material uncertainty related to going concern

We draw attention to Note 2 of the condensed interim financial statements, which indicates that the Group incurred a loss for the period of \$96.2m and operating cash outflows of \$98.1m for the six month period ended 31 January 2024 and that its current liabilities exceed its current assets by \$204.9m as at that date. \$514.1m of borrowings are classified as current liabilities and are due for repayment or refinancing in the next twelve months from the date of these condensed interim financial statements.

The ability of the Group to continue trading as a going concern is dependent on the ability of the Directors to successfully execute an equity raise in combination with other deleveraging options by 31 July 2024 in order to meet its \$130m mandatory prepayment obligation on 15 July 2024, banking covenant requirements and improve the Group's credit quality sufficiently to retain the support of the Group's banking syndicate and allow for successful repayment or refinancing of its banking facilities and the \$180m unsecured subordinated senior bond due within the next 12 months. A key element of a successful equity raise and any of the other deleveraging options is the support of the Group's major shareholder, Bright Dairy. As explained in Note 2, the outcome and timing of deleveraging plans and resulting impact on banking syndicate support are subject to material uncertainties, including unknown future events that are not entirely within the Directors' control. These events and conditions, along with the other matters set forth in Note 2, indicate that material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Emphasis of matter - impairment of Synlait Cash Generating Unit

We draw attention to Note 3 to the consolidated interim financial statements which describes the key assumptions used in the impairment model of the Synlait Cash Generating Unit and that a \$50.3m impairment loss has been recognised during the period.

Note 3 also indicates that the assessment of the value-in-use calculation is highly sensitive to various assumptions. There are significant uncertainties that can impact the key assumptions, and as a result the magnitude of the impairment. These relate to a dispute with a key customer of the Group (The a2 Milk Company), increasing competition from domestic Advanced Nutrition brands in the key China market resulting in pricing pressure, delays in the onboarding of new Advanced Nutrition customers, future milk supply and other macroeconomic factors. The outcome of these uncertainties could materially impact the value-in-use recoverable amount both positively and negatively. Our conclusion is not modified in respect of this matter.



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. In addition to our role as auditor, our firm carried out a non audit service for the Group in the area of a limited scope logistics benchmarking review. The provision of this other service has not impaired our independence.

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 Company's 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:

Chartered Accountants
2 April 2024

Christchurch