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# ANNUAL REPORT 2024

# Synlait

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Annie McLaren and Andrew Lindsay,  
Synlait Area Managers

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# DOING MILK DIFFERENTLY FOR A HEALTHIER WORLD

## WELCOME TO SYNLAIT'S ANNUAL REPORT

Our Annual Report reviews Synlait Milk Limited's (Synlait) and subsidiaries' financial performance and business achievements for the year ended 31 July 2024.

An online copy of this Annual Report, and previous annual, interim and sustainability reports, is available at: [synlait.com/investors/](https://synlait.com/investors/)

We are always looking for ways to improve our reporting. Please email any feedback to: [investors@synlait.com](mailto:investors@synlait.com)

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### CORPORATE GOVERNANCE

Our Corporate Governance Statement describes Synlait's current compliance with the NZX Corporate Governance Code (NZX Code) recommendations in the year to 31 July 2024.

The Corporate Governance section of the Annual Report can be found on Synlait's website: [synlait.com/investors/corporategovernance-2024/](https://synlait.com/investors/corporategovernance-2024/)

### SUSTAINABILITY REPORTING

Synlait releases a standalone sustainability report. The report reviews Synlait's strategy and initiatives to achieve our sustainability objectives and targets, and will be released in November 2024.

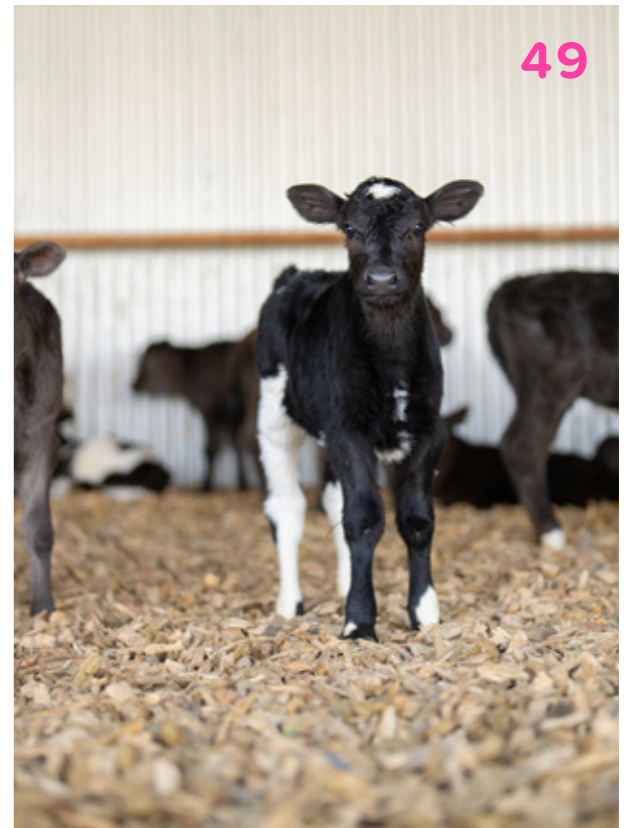
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Nicky Halley, Synlait Farms Operations Manager  
and Andrew Lindsay, Synlait Area Manager.

# CONTENTS

- ABOUT THIS REPORT 02
- CHAIR REVIEW 09
- CEO REVIEW 15
- BEHIND THE HEADLINES 19
- OUR BOARD 23
- OUR EXECUTIVE LEADERSHIP TEAM 24
- STATUTORY INFORMATION 25
- FINANCE REVIEW 49
- FINANCIAL AND PERFORMANCE METRICS 59
- MILK PRICE 60
- FINANCIAL STATEMENTS 61
- AUDITOR'S REPORT 127
- DIRECTORY 131



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Synlait Dunsandel farm staff Imroz and Udit milking.

# CHAIR REVIEW

George Adams

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Synlait's story over the past 12 months has been unprecedented, extraordinary, and historic, with the financial year ended 31 July 2024 (FY24) best summarised by one word – **deleveraging**.

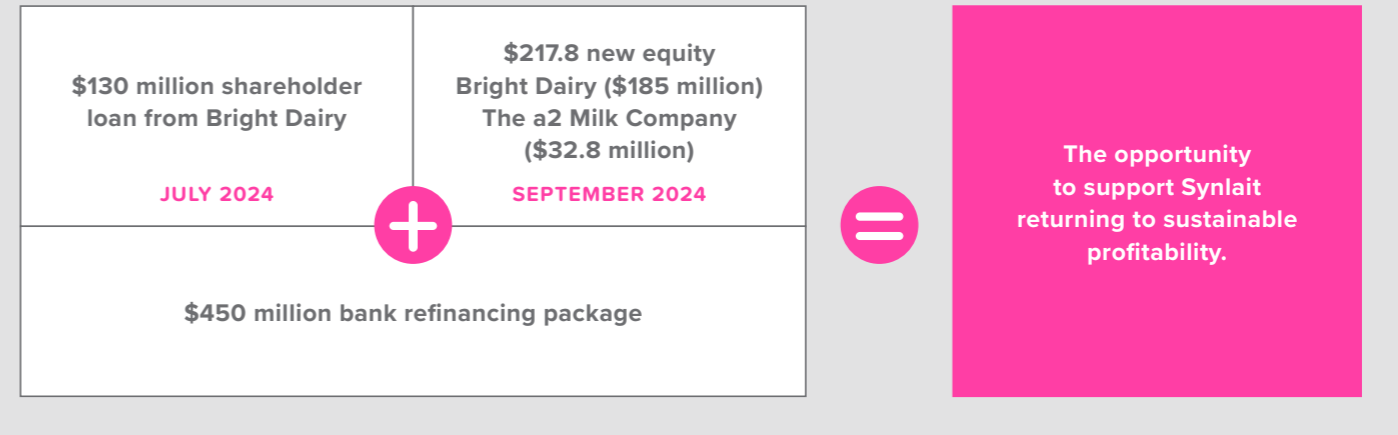
Your Board's decisions, and the changes implemented as a result, were driven by the need to reduce Synlait's debt to more manageable levels. A two-step plan, underpinned by a substantial bank refinancing package, will see us achieve that tomorrow – Tuesday 1 October 2024.

Our retail shareholders have been a central part of this journey, approving resolutions to deliver a \$130 million shareholder loan in July and, in September, raise circa \$218 million in new equity. Without this support, we would currently be writing a very different chapter in Synlait's history.

Instead, we have the opportunity to support a productive, profitable and purposeful future for Synlait where we seek to deliver value to all of the company's stakeholders.

My eyes were open to the challenges ahead when I joined the Board in March 2024, but I knew there was plenty to be confident about. On the top of that list is Synlait's incredible team. In my short time with the company, I have become proud of their perseverance, unwavering approach to excellence and resilience. I am therefore pleased to present my first Annual Report as Chair of Synlait.

Reducing debt to a manageable level  
A two-step plan underpinned by bank refinancing



### Achieving the reset required

The Companies Act sets very clear expectations for New Zealand's company directors. We are duty-bound to act in good faith and in the company's best interests. That meant the Board, and in particular the Independent Directors who led the deleveraging process, took a methodical approach to assessing all options to reset Synlait's balance sheet.

We started, as most Boards would, by examining the potential for asset sales. While multiple parties expressed interest in Dairyworks, we did not receive an acceptable binding offer. Given that Dairyworks' profitability has exceeded expectations every year since we purchased it in 2020, the Board is comfortable with the outcome which sees Dairyworks' retained.

Our process analysed various ownership structures and alternative

options to raise equity. The poor financial state of Synlait's balance sheet meant these were quickly exhausted. Insolvency, via both receivership and voluntary administration, was also examined, with the Independent Directors concluding the loss of control would result in highly uncertain outcomes for Synlait's stakeholders, including the more than 1,400 employees and over 200 farmers whose livelihoods rely on us.

An equity raise soon emerged as the preferred option, and while a pro-rata structure (that would have enabled retail shareholder participation) was closely examined, analysis showed it unlikely to deliver the required level of equity. Given this would also be a high-risk investment due to Synlait's financial position, the Independent Directors concluded the recapitalisation should only be undertaken with major shareholders who have a detailed

understanding of the company and were willing to subscribe at a premium to the market price.

On average, 95% of Synlait's shareholders who participated voted in favour of the two equity raise resolutions at our Special Shareholders Meeting on 18 September 2024. Retail shareholders strongly supported our plan despite their shareholdings decreasing from 41.2% to 14.9%. That is a strong commitment to Synlait's future, which we are grateful for.

I am also extremely encouraged by Bright Dairy Holding Limited's (Bright Dairy) public commitment to the New Zealand Shareholders Association that, as Synlait returns to a more stable position, Bright Dairy will strongly advocate to ensure retail shareholders are afforded an opportunity to participate in future capital management initiatives.

### Strengthening major shareholder relationships

The support of our two major shareholders, Bright Dairy and The a2 Milk Company, has been critical to Synlait.

Bright Dairy has been our largest shareholder since 2010, when Synlait became the Chinese company's first offshore investment, making this a important partnership for both parties. Over the past 15 years, Bright Dairy has proven itself to be a supportive shareholder. FY24 saw it become our lifeline, providing the \$130 million shareholder loan in July 2024 and \$185 million for our equity raise.

Having Bright Dairy onboard for the next phase of our recovery plan is strategically important for Synlait's executive leadership team. We know Bright Dairy will assist in opening doors as we seek to grow new relationships with global customers in China and South East Asia. It is, therefore, important that I take this opportunity to express our sincere gratitude and a heartfelt 'xièxiè' to Bright Dairy and its leadership team.

Another thank you must go to The a2 Milk Company alongside our congratulations to their Board and executive leadership team for successfully rebuilding their China business post-COVID-19. FY24 has seen Synlait and The a2 Milk Company reset our relationship by agreeing a settlement for our earlier disputes. Synlait's success is important to The a2 Milk Company which is reflected in their decision to take part in the equity raise and retain a 19.8% shareholding in our company. With the settlement agreement including new ways of working together,

FY25 is an opportunity to solidify this newfound sense of cooperation.

### Lifting operational efficiency

Another core feature of the Board and Management's business recovery plan has been proactively stemming operational losses from our North Island assets which have been a major contributor to Synlait's poor financial performance.

The North Island strategic review was initiated in April 2024 and has informed the Board's development of a new pathway to profitability for our northern operations. The review's detailed analysis, which was led by a dedicated internal team, concluded that transportation and manufacturing costs meant it was not financially viable for Synlait to keep processing raw milk at Pōkeno.

As a result, operations will focus solely on the facility's capability to manufacture high-value hybrid advanced nutrition products for all ages. Growing global demand for these products means this is a segment valuable to the future of Synlait.

Making the decision to end raw milk processing at Pōkeno wasn't easy and I want to acknowledge its impact on our North Island farmers who could not have done more to deliver for Synlait. On behalf of the Board, I thank you for your professionalism and understanding.

An acknowledgement also to our North Island team whose feedback throughout the review process has been invaluable, while continuing to provide exceptional service to the customers at our northern sites.

### Growing a new future with our farmers

While Synlait's relationship with our 54 North Island farmer suppliers will, in time, be ending because of necessary changes to our Pōkeno facility, the company recognises that farmers are an important backbone for our business.

The good thing about working with farmers is that, as a cohort, they excel at giving frank feedback. Synlait's farmer suppliers are forward-thinking people who have been clear in their expectations of us to deleverage and pay stronger advance rates.

Many of our farmer suppliers have put us on notice to deliver by advising of their intention to cease their Synlait supply agreements.

Today we announce additional payments for our farmer suppliers. We hope these, along with the progress made to improve Synlait's financial position, will lift their confidence in us.

### Maintaining a strong helm

The Board farewelled Dr John Penno and Hon Ruth Richardson in the second half of FY24. As a co-founder of Synlait, John's contribution has been immense. Ruth served on the Board for 15 years – a long and dedicated tenure for any Director. We thank both John and Ruth for their service and know they will continue, as shareholders, to take a keen interest in Synlait.

Bright Dairy made two Director changes this year. Tao Zhang joined in February to replace Ruibing Liu (Ryan). Tao brings strong financial and industry knowledge from Bright Dairy. Leon Fung, appointed

in June 2024, is a New Zealand business leader with 20 years' experience in multi-national companies in the dairy and food sectors. This experience adds significant value to the Board.

I would also like to extend a big thank you to Paul McGilvary who stepped into the Acting Chair role after Simon Roberston resigned early in our financial year. Paul, alongside all our Directors, has provided valuable counsel as I transitioned into the Chair role.

Finally, I would like to thank our CEO Grant Watson and his executive leadership team for their strong leadership during an extremely challenging year. They have made significant progress to stabilise and materially strengthen the foundations of the business. In addition, they have worked tirelessly to reset of our balance sheet, improve key customer relationships, while maintaining strong connections with our farmers, customers and suppliers. The Board is also aware of and grateful to many in the wider Synlait team for some very long hours worked to deliver the deleveraging activities in particular.

### Entering FY25 with new sense of calm

FY24 has had a long list of urgent challenges for the Synlait team. However, we can now confidently draw a line under several of the difficulties we faced and move onto the more important matters concerning running a growing and viable business.

Synlait's ability to achieve a successful refinance of its banking facilities one year from now will require a marked improvement in trading performance and retained milk supply (through a reduction in farmer supplier cessations).

The Board and Management are committed to further resetting Synlait and are focused on continuing to deliver the next steps of the company's business recovery plan. Given that this is Synlait's immediate priority, the Board and Management will not provide an FY25 guidance statement at this time.

Our full guidance statement can be found in the investor presentation.

FY25 will not be a time for us to take our foot off the pedal. There is still a lot of work to do and key focuses will include:

- Ensuring we retain our farmer suppliers
- Attracting new customers to increase capacity utilisation and generate an uplift in earnings
- Delivering on new product development requests from our global customers, along with entering new markets
- Attracting and retaining key talent to ensure we have the workforce required to deliver Synlait's suite of complex products

Your Board is in no doubt that Synlait is well equipped to progress each of these workstreams and, in time, return the company to sustainable profitability.

We are buoyed by the energy of Synlait's employees who go above and beyond for this business every day.

Now, with deleveraging behind us, we can all focus on the next phase of

Synlait's business recovery plan. My prediction is FY25's activity will be best summarised by a new word – delivering.



George Adams  
Chair

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Synlait bus arriving at Gary and Rowan Michael's farm in Dunsandel.



## CEO REVIEW

Grant Watson

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**Synlait began FY24 with too much production capacity across its facilities, unsustainably high levels of debt, significantly higher interest rates, and sharply declining demand for infant formula at a macro level.**

**While we begin FY25 with strong momentum and solid foundations, these challenges are evident in FY24's result.**

Revenue is up 2% to \$1.64 billion with the group's total gross profit sitting at \$56.0 million.

A \$114.6 million impairment against our North Island assets due to underutilisation, coupled with foreign exchange impacts, increased financing, legal and consultancy costs (attached to deleveraging and The a2 Milk Company disputes), and softening global demand for lactoferrin have contributed to an overall net loss after tax of \$182.1 million.

At a headline level the result is extremely disappointing. However, we have reset the balance sheet off the back of our successful equity raise and refreshed banking syndicate. This would not have been possible without your support and belief in our company and its people.

In addition, the work completed to settle our disputes with The a2 Milk Company, reduce costs (including headcount), and increase productivity and efficiency is not reflected in today's numbers. This includes the North Island strategic review, which delivers a pathway for our North Island operations to reach a cashflow

breakeven position in circa two years (and sustainable, profitable growth beyond that) after an extremely tough decision to exit raw milk processing at Pōkeno.

The result also does not showcase the grit, determination, and loyalty that our Synlait team has displayed while going above and beyond during heightened levels of volatility and uncertainty.

Our team is just one group I need to thank today. I am also grateful to our major shareholders Bright Dairy and The a2 Milk Company for participating in our equity raise and to those who guided the process, including our advisors, Bell Gully and Jarden, and our in-house Corporate Affairs and Legal teams.

Recognition must also go to the Dairyworks team who attained a record earnings before interest, taxes, depreciation, and amortization (EBITDA) result in the midst of an extended strategic review process, our farmers and other suppliers and my executive leadership team who have worked long hours delivering both business as usual and deleveraging activity.

The Chair's report covers the balance sheet activity in detail, so this report will focus on FY24's business performance and our aggressive approach to supporting a more positive result in FY25.

For further information on our financial performance, read the financial review section of this report and the investor presentation.

### **Synlait's right to win**

Advanced Nutrition and Foodservice continue to be strategic business units, with sales volumes up 7% and 519% respectively.

Key achievements include our first full year of UHT whipping cream production, launching cream into South East Asia, readying our new range of Nutrabase™ nutritional base powders for market and improving Pōkeno's operational efficiency, capability and focus on Advanced Nutrition. Our North Island teams have also completed a detailed commissioning phase and will begin manufacturing new products for a global customer in FY25.

FY25 will also see an overall focus on volume growth alongside the development of a new generation whipping cream, and finalising sales contracts for Nutrabase™. Our team will also support The a2 Milk Company to investigate opportunities in the infant formula category including the scoping phase of a second State Administration for Market Regulation (SAMR) license at Dunsandel.

### **Dairyworks delivers record EBITDA result**

FY24 was an extremely strong year for the Dairyworks team who achieved a record EBITDA result of \$22.8 million off the back of strong sales growth, operational stability and low staff turnover.

This was underpinned by the relaunch of the Rolling Meadow brand, increased

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demand from Woolworths Australia, and new supply agreements with other Australian partners. Other key achievements included entry into Thailand and capital investments delivering enhanced food quality and production efficiencies. In addition, 85% of Dairyworks' packaging is now recyclable (the remaining 15% will transition in FY25).

Growth is earmarked to continue in FY25 with a 10% volume increase delivered through the new Australian agreements, additional product lines for Woolworths Australia, the onboarding of a major trans-Tasman retailer, and entry into Vietnam and the Philippines.

**Retaining and valuing our farmer suppliers**

Synlait manages approximately 4% (84.5 million kgMS) of New Zealand's milk supply and ended the 2023/2024 season with 276 farms supplying Synlait.

FY24 has been a challenging time for our Milk Supply team with a significant majority of our farmer suppliers submitting cease notices to Synlait. Farmers' expectations of competitive advance rates along with an improvement in the company's balance sheet have been made clear.

We have listened and acted on these concerns. We expect that our deleveraging outcomes, competitive milk price and stronger advance rates will lift confidence.

Furthermore, to support this, we are announcing additional payments for our farmer suppliers to recognise the impact our financial position had on their businesses and, for South Island farmers, how critical their milk supply is to Synlait's future.

We expect that these combined actions will result in cease notice withdrawals. The Investor Presentation provides further details on the payments.

Synlait remains focused on providing world-class on-farm support. Progress in FY24 included the Lead With Pride™ incentive changes, a five-year partnership with Nestlé to support on-farm sustainability, and a new partnership with Farmlands that saved farmers over \$1.5 million.

**Looking to our future**

Synlait's business recovery will continue during FY25. Core focus areas include lifting volumes, further cost reductions, and optimising trading and operational performance.

Progress delivered in FY24 has provided us with a strong foundation for success:

- The asset sales workstreams, urgent need to recapitalise the business, and the dispute with The a2 Milk Company are all behind us.
- Our strengthened executive leadership team can now focus

on returning Synlait to sustainable profitability without distraction.

- Pōkeno's sole focus on advanced nutrition will increase efficiency and capability in high-value product categories.
- Our settlement with The a2 Milk Company allows us to focus on a partnering approach to drive joint value creation.
- After five version upgrades, our enterprise resource planning (ERP) system is stable, and we can leverage its benefits to help transform our supply chain and quality functions.
- Early success in IWS<sup>1</sup> implementation will accelerate its uptake and improve operational efficiency.
- New and improved inventory management systems and capability is in place.
- Having demonstrated performance around cream, plant-based advanced nutrition, and new GB standard China-label product, our manufacturing team is strengthened to enable profitable growth across each of our core categories.
- Strong relationships with new and existing customers are expected to deliver lifts in volume and company revenue.

Synlait's business recovery is well progressed. With several material distractions behind us, my leadership team and I are focused on delivering strong business growth and execution to ensure we reestablish healthy levels of business profitability for our shareholders.

Nāku noa, nā

**Grant Watson**  
CEO

New Rolling Meadow branding launched in 2024.

<sup>1</sup> IWS stands for Integrated Work Systems. It is a continuous improvement programme across Synlait's operations. Further information on IWS is in the Behind The Headlines section on the next page.

## BEHIND THE HEADLINES

### Infant formula enters US market



Infant formula appears on the shelves in the USA.

The premium infant formula (0-12 months) which we manufacture for The a2 Milk Company went on shelves in the USA in August 2023. This was a significant milestone for The a2 Milk Company and Synlait.

An infant formula shortage in the US last year created the opportunity with America's Food and Drug Administration (FDA) changing the rules to allow overseas manufacturers to apply to enter the market.

The a2 Milk Company was granted access and we continue to support their efforts to prepare the product, packaging, and necessary regulatory approvals to achieve long-term US market access.

### Scaling up the B Corp™ system



B Corp™ certification applies across all Synlait sites.

Synlait was recertified as a B Corp™ in December 2023. Our score increased by 21.5%.

B Corp™ is the global gold standard for sustainability. Accreditation is a competitive differentiator for Synlait.

Recertification means Synlait meets the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

Improvements in Synlait's score came from changes to governance, along with improving the measurement and management of greenhouse gas footprints across our value chain.

### Whakapuāwai reaches 250,000 plant milestone



Nick Vernon, Sustainability Manager, planting in the Wairuna project.

Our Whakapuāwai biodiversity programme continues to grow with another 80,000 native seedlings dispatched during FY24.

Established as part of our commitment to restoring and regenerating native ecosystems and boosting biodiversity, Whakapuāwai is now in its sixth year.

Each year the programme grows up to 40 varieties of native seedlings which are planted on Synlait farms and community projects.

FY24 saw the project reach farms north of the Waimakariri River and in South Canterbury for the first time, making it widespread across the Canterbury region.

### More recognition for award-winning whipping cream



Joyhana UHT whipping cream on display at CIIE.

FY24 saw Synlait finish its first full year of producing Joyhana UHT whipping cream.

Joyhana's distribution network has grown to more than 300 customers in China.

It won the prestigious 'New Product Innovation Award' at the China International Bakery Exhibition in May 2023.

Joyhana won two awards at the China International Import Expo (CIIE) last November and gained further recognition a month later when the Shanghai chef team used it and won gold at the IKA International Olympic Cooking Competition.

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### Improving efficiency in manufacturing



Glenn Laing, Director of Manufacturing, congratulates Rueben Frahm, Dairy Liquid Plant Manager.

FY24 has seen Synlait introduce Integrated Work Systems (IWS), a global framework that improves reliability, reduces costs and lifts productivity in manufacturing.

IWS has four phases and fosters a culture of 100% ownership and a zero-loss mindset.

Our dairy liquid facility at Dunsandel achieved phase 1 in March 2024, followed by Auckland's blending and canning line and our flex line at Pokeno.

Synlait teams that use IWS support the system, labelling it a more efficient way of working that significantly reduces downtime and cost.

### Partnership to help farmer suppliers reduce emissions



Grant Watson, Synlait CEO, and Patricia Stroup, Nestlé Global Chief Procurement Officer.

Synlait announced a unique three-way partnership with our farmer suppliers and Nestlé in March 2024.

The partnership is helping to fund innovative on-farm emissions reduction tools.

These include effluent management systems, emissions-friendly feed options, advanced soil testing, alternative fertilisers and tree planting.

This partnership will help Synlait reach its greenhouse gas emission targets, while opening the potential for commercial opportunities with Nestlé which is the world's largest food and beverage company.

### Synlait farms Lead With Pride™ certified



Nicky Halley, Farm Operations Manager, and some of the Dunsandel farm team.

Our two Synlait-owned farms, located next to our Dunsandel facility, were Lead With Pride™ certified in April 2024.

Synlait established Lead With Pride™ in 2013. It is an external accreditation recognising farm suppliers who achieve best practice across four pillars – environment, animal health and welfare, milk quality and social responsibility.

Over 75% of our farmer suppliers now have Lead with Pride™ certification. It is great to have our own farms among them.

### UHT whipping cream enters South East Asia



Production for Uhrenholt is underway in the Dunsandel liquids plant.








Synlait has a new partnership with global food company Uhrenholt which has launched UHT whipping cream in South East Asia.

The cream is distributed under the 'Emborg Professional' brand.









Product was exported to Taiwan, Singapore and Thailand during the final quarter of FY24 with strong demand forecasts.

Uhrenholt chose to work with Synlait because of a shared passion for dairy and our approach to working with in-market distribution partners.

## OUR BOARD OF DIRECTORS

Chair	Independent Directors	Bright Dairy Appointed Directors	
 <p><b>George Adams</b></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Committee Member</li> <li>Nominations Sub-Committee Member</li> </ul> <p><i>George was appointed as an Independent Director of Synlait in March 2024 to fill a casual vacancy.</i></p> <p><i>George was elected Chair in May 2024. George's transition to the Chair role followed a well-signalled plan that Acting Chair Paul McGilvary would return to his position as an Independent Director once a permanent successor was found and elected. George was elected with the full support of the Board.</i></p> <p><i>George will formally stand for election by Synlait shareholders at the company's Annual Meeting in December 2024.</i></p>	 <p><b>Paul McGilvary</b></p> <ul style="list-style-type: none"> <li>People, Environment &amp; Governance Committee Chair</li> <li>Audit &amp; Risk Committee Member</li> <li>Nominations Sub-Committee Member</li> </ul>	 <p><b>Julia Zhu</b></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Committee Member</li> </ul>	 <p><b>Edward Yang</b></p> <ul style="list-style-type: none"> <li>People, Environment &amp; Governance Committee Member</li> <li>Nominations Sub-Committee Member</li> </ul>
	 <p><b>Paul Washer</b></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Committee Chair</li> <li>People, Environment &amp; Governance Committee Member</li> <li>Nominations Sub-Committee Member</li> </ul>	 <p><b>Tao Zhang</b></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Committee Member</li> </ul>	 <p><b>Leon Fung</b></p> <ul style="list-style-type: none"> <li>People, Environment &amp; Governance Committee Member</li> </ul>

## OUR EXECUTIVE LEADERSHIP TEAM

Advanced Nutrition and Ingredients		Foodservice		On-Farm Excellence	
 <p><b>Grant Watson</b> Chief Executive Officer</p>	 <p><b>Naiche Nogueira</b> Chief Revenue Officer</p>	 <p><b>Abby Ye</b> President China and Director of Foodservice</p>	 <p><b>Charles Fergusson</b> Director On-Farm Excellence, Business Sustainability and Corporate Affairs</p>		
Enablers					
 <p><b>Andy Liu</b> Chief Financial Officer</p>	 <p><b>Paul Mallard</b> Chief Operating Officer</p>	 <p><b>Rob Stowell</b> Chief Commercial Officer</p>	 <p><b>Cathy Gamlen</b> Director of People and Culture</p>		

The Board has commenced a search to find a candidate to fill the vacancy of the Board Appointed Director after John Penno resigned in May 2024.

Dairyworks CEO Tim Carter continues to report to Synlait CEO Grant Watson.

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## STATUTORY INFORMATION

### 01. BUSINESS OPERATIONS

Synlait is a nutrition company. It combines expert farming with state-of-the-art processing to produce Advanced Nutrition, Foodservice, and Ingredient products. In the year to 31 July 2024, Synlait made no changes to its company structures.

#### North Island strategic review

In April 2024, Synlait announced it would undertake a strategic review of its North Island assets, including its manufacturing facility in Pōkeno and its blending and canning facility in Auckland. The strategic review was undertaken as part of Synlait's business recovery plan. It explored a wide range of potential options, including alternative ownership structures, mothballing the Pōkeno plant, and how to balance its capability to process both dairy and plant-based proteins.

The strategic review remained underway at the end of this financial year. However, after the balance date on 9 September 2024, Synlait announced that one of the review's findings was that switching between processing plant-based proteins and raw dairy hinders the Pōkeno plant's operational efficiency. In addition, it found that transportation and a range of manufacturing costs meant it was not financially viable for Synlait to keep processing milk at Pōkeno. As a result, the Board decided to focus Pōkeno's operations solely on producing advanced nutrition products that do not require raw milk. The Board is no longer actively seek a buyer for Pōkeno, however in the event a compelling offer was made for the asset, the company may consider it.

In FY25, Synlait has 54 farmer suppliers in the Waikato, and the company will meet all of its contractual obligations to those farmer suppliers. They will remain Synlait suppliers until the end of their supply agreements. However, Open Country will now collect and process the milk.

#### Dairyworks and Talbot Forest Cheese divestments

The Board announced a strategic review of its Dairyworks and Temuka assets in June 2023.

In June 2024, the Board provided an update on the Dairyworks sale process. While the Board received interest in the business from several parties, a binding offer has not materialised at an acceptable level. Although the company would consider credible offers, the sale process no longer remains formally open.

The Temuka assets remain in an idle state. Synlait continues to search for a buyer, however a sale of the assets within the next 12 months is no longer considered highly probable.

A view of Synlait Dunsandel from the Synlait-owned farms.

## 02. DIRECTORS

Synlait's Directors are profiled on our website: [synlait.com/people/](https://synlait.com/people/).

This table sets out the people that held office (or ceased to hold office) as a Director of Synlait and its subsidiaries during the year ending 31 July 2024:

Company	Directors	Appointed
Synlait Milk Limited	George Adams (Chair) <sup>1</sup>	Independent 21 March 2024
Synlait Milk Finance Limited	Leon Fung <sup>2</sup>	Bright Dairy Appointed 3 June 2024
	Dr John Penno <sup>3</sup>	Board Appointed 21 July 2013
	Paul McGilvary <sup>4</sup>	Independent 24 January 2022
	Paul Washer	Independent 2 December 2022
	Ruibing Liu (Ryan) <sup>5</sup>	Bright Dairy Appointed 19 June 2023
	Hon. Ruth Richardson <sup>6</sup>	Bright Dairy Appointed 16 November 2009
	Sihang Yang (Edward)	Bright Dairy Appointed 11 November 2010
	Simon Roberston <sup>7</sup>	Independent 25 November 2020
	Tao Zhang <sup>8</sup>	Bright Dairy Appointed 26 February 2024
	Yi Zhu (Julia)	Bright Dairy Appointed 19 June 2023
Company	Directors	
The New Zealand Dairy Company Limited	Grant Watson	
	Robert Stowell	
Eighty Nine Richard Pearse Drive Limited	Grant Watson	
	Robert Stowell	
Synlait Business Consulting (Shanghai) Co., Ltd	Grant Watson	
	Robert Stowell	
	Paul Mallard	
Dairyworks Limited	Grant Watson	
	Timothy Carter	
Synlait Milk (Dunsandel Farms) Limited	Grant Watson	
	Robert Stowell	
Synlait Milk (Holdings) No.1 Limited	Grant Watson	
	Robert Stowell	

Synlait has considered the independence of its three Independent Directors against the definition in the NZX Listing Rules, the commentary to recommendation 2.4 in the NZX Corporate Governance Code and its Board Charter and is satisfied its Independent Directors meet the requirements for independence.

As permitted by waivers from the NZX Listing Rules, Bright Dairy Holdings Limited, a shareholder of Synlait, is entitled to appoint four Directors to Synlait's Board. One of those Directors must ordinarily reside in New Zealand and have local commercial and governance experience for an NZX listed company. Currently that Director is Leon Fung.

## 03. DIRECTOR INTERESTS

The following declarations of interest were made by Directors of Synlait and its subsidiaries under section 140 of the Companies Act 1993. Entries which are italicised indicate new disclosures during the year ended 31 July 2024.

### George Adams<sup>1</sup>

*Chair and Director Synlait Milk Limited*

*Director Synlait Milk Finance Limited*

*Chair and Director and Shareholder Insightful Mobility Limited*

*Chair and Director Netlogix Group Holdings Limited*

*Chair and Director Bremworth Limited*

*Director and Shareholder Arborgen Holdings Limited*

*Chair and Director and Shareholder Apollo Foods Limited*

*Director The Apple Press Limited*

*Director Mars Manufacturing Limited*

*Director and Shareholder Apollo Brands Limited*

*Chair and Director NZFF Holdco Limited*

*Chairman Business Leaders Health and Safety Forum*

*H&S Impact Fund Advisor for Accident Compensation Corporation*

*Receipt of Directors' Fees from Synlait Milk Limited at approved rate*

*Insurance cover arranged by Synlait Milk Limited*

*Deed of Indemnity and Access from Synlait Milk Limited*

<sup>1</sup>George Adams was appointed as an Independent Director on 21 March 2024 to fill a casual vacancy following Simon Roberston's retirement from the Board on 20 October 2023. George Adams was elected Chair on 30 April 2024, with Acting Chair Paul McGilvary returning to his position as an Independent Director.

<sup>2</sup>Leon Fung joined the Board as a Bright Dairy Appointed Director on 3 June 2024, replacing Hon. Ruth Richardson.

<sup>3</sup>Dr John Penno retired as a Board Appointed Director on 30 April 2024.

<sup>4</sup>Paul McGilvary was elected Acting Chair in October 2023 following Simon Roberston's resignation, and held the position until 30 April 2024, when it was permanently filled by George Adams.

<sup>5</sup>Ruibing Liu (Ryan) retired from the Board on 9 February 2024 and was replaced by Tao Zhang on 26 February 2024.

<sup>6</sup>Hon. Ruth Richardson retired as a Bright Dairy Appointed Director on 3 June 2024 and was replaced by Leon Fung.

<sup>7</sup>Simon Roberston retired from the Board as Chair and Independent Director on 20 October 2023.

<sup>8</sup>Tao Zhang joined the Board as a Bright Dairy Appointed Director on 26 February 2024, replacing Ruibing Liu (Ryan).

<sup>1</sup>George Adams joined the Board as an Independent Director on 21 March 2024.

### 03. DIRECTOR INTERESTS (CONTINUED)

#### Simon Robertson<sup>2</sup>

Director and Shareholder Synlait Milk Limited

Director Synlait Milk Finance Limited

Director Alliance Group Limited

Director Balance Agri-Nutrients Limited

Trustee Robertson Family Trust

Trustee GR Foot Trust

Trustee Norman Family Trust

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

#### Dr. John Penno<sup>3</sup>

Director and Shareholder Synlait Milk Limited

Director Synlait Milk Finance Limited

Director Okuora Farms Limited

Director and Shareholder Okuora Holdings Limited (and through Okuora Holdings Limited, shareholder in Pastoral Robotics Limited and The Pure Food Co Limited<sup>4</sup>, shareholder in Signum Holdings Limited (*in liquidation*))

Chair and Shareholder Wangapeka River Hops Limited

Chair and Shareholder The Pure Food Co Limited<sup>5</sup>

Director and Shareholder of Leaft Foods Holdings Limited (and through Leaft Food Holdings Limited, shareholder in its related subsidiary companies including Leaft Foods Limited, Leaft Foods IP Limited and Leaft Nominee Limited)<sup>6</sup>

Director and Shareholder Thorndale Dairies Limited

Director and Shareholder The New Zealand Merino Company Limited

Trustee John Penno Trust

Through Signum Holdings Limited, shareholder in TCL Holdings Limited (previously Trust Codes Limited) and Cloud Computing Continuation Services Limited<sup>7</sup>

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

#### Paul McGilvary

Director and Shareholder Synlait Milk Limited

Director Synlait Milk Finance Limited

Director AsureQuality Limited<sup>8</sup>

Director New Zealand Hops Limited

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

#### Paul Washer

Director Synlait Milk Limited

Director Synlait Milk Finance Limited

Chief Financial Officer Pact Group Holdings (Australia) Pty Ltd

Director Pact Group Holdings Limited<sup>9</sup>

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

#### Ruibing Liu (Ryan)<sup>10</sup>

Director Synlait Milk Limited

Director Synlait Milk Finance Limited

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

#### Hon. Ruth Richardson<sup>11</sup>

Director and Shareholder Synlait Milk Limited

Director Synlait Milk Finance Limited

Director Ruth Richardson (NZ) Limited

Director New Zealand Taxpayers' Union

Trustee Christchurch Early Intervention Trust

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

<sup>2</sup> Simon Robertson retired from the Board as Chair and Independent Director on 20 October 2023.

<sup>3</sup> Dr John Penno retired from as the Board appointed Director on 30 April 2024.

<sup>4</sup> Okuora Holdings Limited ceased to be a shareholder in The Pure Food Co Limited on 1 August 2023.

<sup>5</sup> Dr John Penno retired as a Director and Chair on 22 January 2024.

<sup>6</sup> During the period, Leaft Group went through a corporate restructuring resulting in the revised structure being adopted.

<sup>7</sup> TCL Holdings Limited (previously Trust Codes Limited) was a supplier to Synlait on normal terms of trade until October 2022, but has not provided services to the Group after that date. Since Okuora Holdings Limited invested in Signum Holdings Limited, there has, and continues to be, a protocol in place whereby John Penno abstains from all Board discussions and decisions involving the supply arrangements between Synlait and TCL Holdings Limited.

<sup>8</sup> Paul McGilvary retired as a director of AsureQuality Limited on 30 April 2024.

<sup>9</sup> Pact Group Holdings Limited is the ultimate holding company of a number of subsidiaries, some of which, Paul Washer is also a Director and/or Shareholder of. Pact Group, via its subsidiaries Alto Packaging Limited, Astron Plastics Limited and VIP Plastic Packaging (NZ) Limited, is a supplier to Synlait on normal terms of trade. There is a protocol in place whereby Paul Washer abstains from all Board discussions and decisions involving the supply agreements between Synlait and Pact Group.

<sup>10</sup> Ruibing Liu retired from the Board on 9 February 2024

<sup>11</sup> Hon. Ruth Richardson retired from the Board on 3 June 2024.



### 03. DIRECTOR INTERESTS (CONTINUED)

#### Sihang Yang (Edward)

Director Synlait Milk Limited  
 Director Synlait Milk Finance Limited  
 Receipt of Directors' Fees from Synlait Milk Limited at approved rate  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Yi Zhu (Julia)

Director Synlait Milk Limited  
 Director Synlait Milk Finance Limited  
 Receipt of Directors' Fees from Synlait Milk Limited at approved rate  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Tao Zhang<sup>12</sup>

Director Synlait Milk Limited  
 Director Synlait Milk Finance Limited  
 Receipt of Directors' Fees from Synlait Milk Limited at approved rate  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Leon Fung<sup>13</sup>

Director Synlait Milk Limited  
 Director Synlait Milk Finance Limited  
 Chief Executive Officer NIG Nutritionals Limited  
 Director and Shareholder Auspocean Limited  
 Director Silver Fern Biotech & Products Limited  
 Director and Shareholder MTC Information Technology NZ Limited  
 Director and Shareholder Tec-Pe New Zealand Limited  
 Director and Shareholder Beverly Hills Asset Management Limited  
 Receipt of Directors' Fees from Synlait Milk Limited at approved rate  
 Insurance cover arranged by Synlait Milk Limited

#### Grant Watson

Director Dairyworks Limited  
 Director Synlait Milk (Dunsandel Farms) Limited  
 Director Eighty Nine Richard Pearse Drive Limited  
 Director The New Zealand Dairy Company Limited  
 Director Synlait Milk (Holdings) No.1 Limited  
 Director Synlait Business Consulting (Shanghai) Co., Ltd.  
 Shareholder 365 Ventures Limited  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Robert Stowell

Director Synlait Milk (Dunsandel Farms) Limited  
 Director Eighty Nine Richard Pearse Drive Limited  
 Director The New Zealand Dairy Company Limited  
 Director Synlait Milk (Holdings) No.1 Limited  
 Director Synlait Business Consulting (Shanghai) Co., Ltd.  
 Director and Shareholder Orange Homes (2022) Limited  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Timothy Carter

Director Dairyworks Limited  
 Director and Shareholder Niko Holdings 2003 Limited  
 Shareholder Tatahi Holdings Limited  
 Insurance cover arranged by Synlait Milk Limited  
 Deed of Indemnity and Access from Synlait Milk Limited

#### Paul Mallard

Director Synlait Business Consulting (Shanghai) Co., Ltd.

<sup>12</sup> Tao Zhang was appointed to the Board on 26 February 2024.

<sup>13</sup> Leon Fung was appointed to the Board on 3 June 2024.

## 04. DIRECTOR REMUNERATION

There was no change to the fees paid to Directors of Synlait this financial year. The fees received by Directors, as approved by shareholders on 27 November 2019 and effective 1 April 2020, are:

Role	Fee
Directors, excluding the Chair and Committee Chairs	\$88,900
Board Chair	\$178,000
Audit and Risk Committee Chair	\$104,150
People Environment and Governance Committee Chair	\$100,900

This table sets out the total remuneration and the value of other benefits received by Synlait Directors during the year ended 31 July 2024:

Directors	Role	Remuneration
George Adams <sup>1</sup>	Independent Director Board Chair	\$55,711
Leon Fung <sup>2</sup>	Bright Dairy Appointed Director	\$14,011
Dr. John Penno <sup>3</sup>	Board Appointed Director	\$66,675
Paul McGilvary <sup>4</sup>	Independent Director Chair of People, Environment and Governance Committee Acting Chair	\$141,927
Paul Washer	Independent Director Chair of Audit and Risk Committee	\$104,151
Ruibing Liu (Ryan) <sup>5</sup>	Bright Dairy Appointed Director	\$46,749
Hon. Ruth Richardson <sup>6</sup>	Bright Dairy Appointed Director	\$79,848
Sihang Yang (Edward)	Bright Dairy Appointed Director	\$88,900
Simon Roberston <sup>7</sup>	Independent Director	\$39,179
Tao Zhang <sup>8</sup>	Bright Dairy Appointed Director	\$38,063
Zhu Yi (Julia)	Bright Dairy Appointed Director	\$88,900

Fees are not paid to Directors or employees of Synlait for acting as a Director of any Synlait subsidiary companies.

<sup>1</sup> George Adams was appointed to the Board on 21 March 2024, and elected Chair on 30 April 2024.

<sup>2</sup> Leon Fung was appointed to the Board on 3 June 2024.

<sup>3</sup> Dr John Penno retired from the Board on 30 April 2024.

<sup>4</sup> Paul McGilvary was Acting Chair from October 2023 to 30 April 2024, and is Chair of People, Environment and Governance Committee. Paul stepped down from his role of Chair of the People, Environment and Governance Committee whilst he was Acting Chair, but he has since resumed the position.

<sup>5</sup> Ruibing Liu (Ryan) retired from the Board on 9 February 2024.

<sup>6</sup> Hon. Ruth Richardson retired from the Board on 3 June 2024 and was Chair of People, Environment and Governance Committee from October 2023 to May 2024.

<sup>7</sup> Simon Robertson retired from the Board as Chair and Independent Director on 20 October 2023.

<sup>8</sup> Tao Zhang was appointed to the Board on 26 February 2024.

## 05. DIRECTOR HOLDINGS

This table sets out the relevant interests held by Directors during the period in securities issued by Synlait:

Directors	Securities held (legally or beneficially) as at 31 July 2024	Securities held (legally or beneficially) as at 31 July 2023
George Adams <sup>1</sup>	0	0
Leon Fung <sup>2</sup>	0	0
Dr. John Penno <sup>3</sup>	5,109,803 ordinary shares	5,109,803 ordinary shares
Paul McGilvary <sup>4</sup>	3,500 ordinary shares	3,500 ordinary shares
Paul Washer	0	0
Ruibing Liu (Ryan) <sup>5</sup>	0	0
Hon. Ruth Richardson <sup>6</sup>	66,025 ordinary shares	66,025 ordinary shares
Sihang Yang (Edward)	0	0
Simon Roberston <sup>7</sup>	13,324 ordinary shares	13,324 ordinary shares
Tao Zhang <sup>8</sup>	0	0
Yi Zhu (Julia)	0	0

<sup>1</sup> George Adams was appointed to the Board on 21 March 2024.

<sup>2</sup> Leon Fung was appointed to the Board on 3 June 2024.

<sup>3</sup> Dr John Penno retired from the Board on 30 April 2024.

<sup>4</sup> Paul McGilvary has owned 3,500 shares in Synlait Milk Limited since prior to joining the Board of Synlait.

<sup>5</sup> Ruibing Liu (Ryan) retired from the Board on 9 February 2024.

<sup>6</sup> Hon. Ruth Richardson retired from the Board on 3 June 2024.

<sup>7</sup> Simon Robertson retired from the Board as Chair and Independent Director on 20 October 2023.

<sup>8</sup> Tao Zhang was appointed to the Board on 26 February 2024.

## 06. EMPLOYEE REMUNERATION

During the year ended 31 July 2024, 560 employees (including former employees) of Synlait and its subsidiaries (not being Directors) received remuneration and other benefits, in their capacity as employees, of \$100,000 or more, information includes overtime and company contribution to KiwiSaver, as set out below:

Salary bracket (\$)	Number of employees
100,000 – 109,999	120
110,000 – 119,999	84
120,000 – 129,999	90
130,000 – 139,999	58
140,000 – 149,999	47
150,000 – 159,999	36
160,000 – 169,999	21
170,000 – 179,999	23
180,000 – 189,999	10
190,000 – 199,999	14
200,000 – 209,999	7
210,000 – 219,999	9
220,000 – 229,999	4
230,000 – 239,999	5
240,000 – 249,999	3
250,000 – 259,999	3
260,000 – 269,999	4
270,000 – 279,999	1
290,000 – 299,999	4
300,000 – 309,999	2
310,000 – 319,999	1
320,000 – 329,999	1
350,000 – 359,999	1
370,000 – 379,999	1
380,000 – 389,999	1
430,000 – 439,999	1
460,000 – 469,999	1
470,000 – 479,999	1
490,000 – 499,999	1
500,000 – 509,999	1
670,000 – 679,999	1
730,000 – 739,999	1
830,000 – 839,999	1
840,000 – 849,999	1
960,000 – 969,999	1
<b>Total</b>	<b>560</b>

Synlait's Strategic Remuneration policy is approved by Synlait's People, Environment and Governance Committee. That Committee also reviews and recommends to the Board the remuneration of the Chief Executive Officer and the Executive Leadership Team.

### Chief Executive Officer Remuneration

The table below sets out remuneration paid to Synlait's Chief Executive Officer in the year to 31 July 2024:

Remuneration	
Salary	\$936,000.00
KiwiSaver	\$28,080.00
Medical	\$942.12
LTI	0
STI	0
<b>Total</b>	<b>\$965,022.12</b>

## 07. DONATIONS

Dairyworks Limited, a wholly owned subsidiary of Synlait, made cheese donations to a value of \$20,006 in the year to 31 July 2024. These were the only donations made by the Synlait Group in the financial year.

## 08. AUDITORS

In the year to 31 July 2024, Synlait's total payments to its auditors PricewaterhouseCoopers were as follows:

PwC service included in administration and operating expenses	
Statutory audit fee	\$620,000
Half year accounts review	\$169,000
Other assurance services	\$352,000
Consulting	\$10,000
<b>Total</b>	<b>\$1,151,000</b>

## 09. STOCK EXCHANGE LISTINGS

Synlait's ordinary shares have been listed on the NZX Main Board since 23 July 2013 (ticker code: SML).

On 24 November 2016 Synlait completed a compliance listing on the ASX as a foreign exempt issuer (ticker code: SM1). As an ASX foreign exempt issuer, Synlait complies with the NZX Listing Rules (other than as waived by NZX Regulation) and is exempt from complying with most of the ASX Listing Rules, as set out in ASX Listing Rule 1.15.

In December 2019, Synlait issued \$180 million of unsecured, subordinated, fixed rate bonds with an interest rate of 3.83% per annum. These securities are quoted and trade on the NZX Debt Market (ticker code: SML010).

In November 2020, Synlait successfully completed a \$200 million equity raising to complete the investment phase of its strategy and strengthen its balance sheet. The equity raise comprised a \$180 million underwritten placement at a fixed price of NZ\$5.10 per share and a \$20 million underwritten share purchase plan at the same share price.

Post the balance date Synlait announced and completed a recapitalisation, which included aggregate new equity of \$217.8 million, with its two largest shareholders. The recapitalisation required a Special Shareholders' Meeting which was held on Wednesday 18 September 2024. Shareholders approved by way of ordinary resolutions the issuance of approximately \$217.8 million of new equity capital by way of:

- A \$185 million issue of shares to Bright Dairy Holding Limited (Bright Dairy) at an issue price of \$0.60 (a 100% premium to the closing price of Synlait's shares on the NZX Main Board on 15 August 2024 (which was the last undisturbed share price prior to announcement of the settlement with The a2 Milk Company and its support of Synlait's equity raise, and a 40% premium to the issue price of \$0.43 for the a2MC placement)), which increased its shareholding in Synlait from 39.01% to 65.25% (Bright Dairy placement); and
- A \$32.8 million issue of shares to The a2 Milk Company (a2MC) at an issue price of \$0.43 (a 43% premium to the closing price of Synlait's shares on the NZX Main Board on 15 August 2024 (which was the last undisturbed share price prior to announcement of the settlement with a2MC and its support of Synlait's equity raise), which resulted in its holding of 19.83% being retained (a2MC placement). The settlement with a2MC and a2 Infant Nutrition Limited announced on 16 August 2024 was conditional on a number of matters including the Bright Dairy placement and a2MC placement and accordingly has been included in the resolution to approve the a2MC placement.

The shares are expected to be issued to Bright Dairy and The a2 Milk Company on Tuesday 1 October 2024, which is after the date of the publication of this Annual Report.

## 10. TOP 20 SECURITY HOLDERS AND SUBSTANTIAL SECURITY HOLDERS

Synlait had the following securities on issue as at 31 July 2024:

- 218,581,661 ordinary shares
- 180,000,000 subordinated bonds

Set out below are Synlait's 20 largest shareholders as at 31 July 2024:

	Number of shares held	Percentage of ordinary shares on issue
01. Bright Dairy Holding Limited	85,266,605	39.0%
02. The a2 Milk Company Limited	43,352,509	19.8%
03. Chester Asset Management Pty Ltd.	9,520,000	4.4%
04. Accident Compensation Corporation	6,139,875	2.8%
05. John Penno	5,109,803	2.3%
06. XSTAR Fund Management	3,980,000	1.8%
07. New Zealand Funds Management Ltd.	2,155,587	1.0%
08. L S Keeper	1,975,000	0.9%
09. Paul & Bronwyn Lancaster	1,055,623	0.5%
10. First NZ Capital Custodians Limited (Various Private Investors)	923,178	0.4%
11. Therese Roche	900,000	0.4%
12. The Vanguard Group, Inc.	878,014	0.4%
13. Philip Lennon	800,000	0.4%
14. Clarity Funds Management Limited	700,000	0.3%
15. Octagon Asset Management Limited	670,226	0.3%
16. New Hope Dairy (HongKong) Trading Co Ltd	655,395	0.3%
17. Hieu Nguyen	600,000	0.3%
18. Horo Holdings Limited	530,000	0.2%
19. Rangatira Trust	513,038	0.2%
20. Rita Dressler	500,000	0.2%
<b>Total</b>	<b>166,224,853</b>	<b>75.9%</b>

According to notices given under section 280(1)(b) of the Financial Markets Conduct Act 2013, the following are Synlait's substantial product holders as at 31 July 2024. The number of shares owned is as advised by the shareholder in their last Substantial Security Holder Notice.

Substantial product holder	Number of ordinary shares in which relevant interest is held	Percentage of total ordinary shares on issue
Bright Dairy Holding Limited	85,266,605	39.0%
The a2 Milk Company Limited	43,352,509	19.8%
<b>Total</b>	<b>128,619,114</b>	<b>58.8%</b>

## 10. TOP 20 SECURITY HOLDERS AND SUBSTANTIAL SECURITY HOLDERS (CONTINUED)

Set out below are Synlait's largest bondholders as at 31 July 2024:

	Number of bonds held	Percentage of total bonds on issue
01. Custodial Services Limited	33,693,000	18.71%
02. Tea Custodians Limited	27,872,000	15.48%
03. Forsyth Barr Custodians Limited	27,319,000	15.17%
04. FNZ Custodians Limited	21,356,000	11.86%
05. Citibank Nominees (New Zealand) Limited	7,153,000	3.97%
06. RGTKMT Investments Limited	3,275,000	1.81%
07. Sierra Investments Limited	2,945,000	1.63%
08. BNP Paribas Nominees (NZ) Limited	2,908,000	1.61%
09. NZX WT Nominees Limited	2,654,000	1.47%
10. Forsyth Barr Custodians Limited	2,211,000	1.22%
11. JB Were (NZ) Nominees Limited	1,938,000	1.07%
12. HSBC Nominees (New Zealand) Limited	1,440,000	0.80%
13. FNZ Custodians Limited	1,414,000	0.78%
14. Investment Custodial Services Limited	1,225,000	0.68%
15. Seajay Securities Limited	1,150,000	0.63%
16. Masfen Securities Limited	981,000	0.54%
17. Brown Thoroughbreds Limited	870,000	0.48%
18. Forsyth Barr Custodians Limited	838,000	0.46%
19. Francis Horton Tuck	800,000	0.44%
20. FNZ Custodians Limited	646,000	0.35%
<b>Total</b>	<b>142,688,000</b>	<b>79.16%</b>

## 11. SPREAD OF PRODUCT HOLDERS

The spread of Synlait's ordinary shareholders as at 31 July 2024 is as follows:

Size of holding	Number of investors	Percentage of investors	Total number of shares	Percentage issued
1 – 1,000	2,473	40.99%	1,091,155	0.50%
1,001 – 5,000	2,141	35.49%	5,627,900	2.57%
5,001 – 10,000	645	10.69%	4,875,712	2.23%
10,001 – 50,000	618	10.25%	13,092,519	5.99%
50,001 – 1,000,000	145	2.40%	22,095,689	10.11%
1,000,001 and over	11	0.18%	171,798,686	78.60%
<b>Total</b>	<b>6,033</b>	<b>100.00%</b>	<b>218,581,661</b>	<b>100.00%</b>

The spread of Synlait's bondholders as at 31 July 2024 is as follows:

Size of holding	Number of holders	Percentage of holders	Total number of bonds	Percentage issued
1,001 – 5,000	63	6.60%	312,000	0.17%
5,001 – 10,000	172	18.03%	1,640,000	0.91%
10,001 – 50,000	558	58.49%	15,306,000	8.50%
50,001 – 1,000,000	146	15.31%	24,189,000	13.44%
1,000,001 and over	15	1.57%	138,553,000	76.98%
<b>Total</b>	<b>954</b>	<b>100.00%</b>	<b>180,000,000</b>	<b>100.00%</b>

## 12. CREDIT RATING

Synlait does not have a credit rating.

## 13. NZX WAIVERS

### Governance Arrangements

Synlait continues to rely on redocumented waivers granted by the predecessor to NZX Regulation Limited (“NZ RegCo”) on 27 November 2019, as amended on 27 October 2023, from various NZX Listing Rules, allowing our Constitution and Board composition to reflect our non-standard governance arrangements, as described below.

Synlait listed on the NZX on the basis that Bright Dairy and Food Co Limited would be able to continue to consolidate Synlait into its group financial statements (that are prepared under China GAAP). At the time, Bright Dairy agreed with Synlait that for so long as Bright Dairy continued to hold between the Initial Percentage (being 39.119%) and 50% (inclusive) of the shares in Synlait in each case calculated in accordance with clause 22.5 of the Constitution (so as to exclude shares issued under employee share schemes or director remuneration), the following governance arrangements will apply to Synlait.

The Board comprises eight directors, made up of the following:

- Four directors appointed by Bright Dairy (the Bright Dairy Directors):
  - None of whom (i) are required to retire from rotation under the NZX Listing Rules, or (ii) are subject to removal by ordinary resolution of shareholders;
  - One of whom must be an ordinary resident in New Zealand and be a director of such standing and with such commercial and governance experience in New Zealand as is appropriate for a director of a NZX listed company – the Hon. Ruth Richardson filled this role prior to her retirement on 4 June 2024. She was replaced by Leon Fung who now fills this role. Leon has over 20 years’ experience in multi-national companies in the dairy and food segment; and
  - All of whom are required to have appropriate skills and experience to ensure that Synlait has a suitable mix of skills and experience on the Board.
- Three directors who are not appointed by Bright Dairy and who must be Independent Directors; and
- The NZX Listing Rules prevent the imposing of conditions on who may be appointed as a Director, except as specifically contemplated by the Rules. A waiver has been granted so that Synlait is permitted to require that persons who may be appointed to the three non-Bright Dairy Director positions must be independent.

These waivers are subject to the conditions that:

- Bright Dairy continues to hold no less than 39.119% of Synlait’s shares, calculated in accordance with Synlait’s Constitution.
- The Governance Arrangements are contained in Synlait’s Constitution and will cease to apply when Bright Dairy ceases to own between 39.119% and 50% (inclusive) of the shares in Synlait, calculated in accordance with Synlait’s Constitution.
- Full and accurate disclosure of all material aspects of the Governance Arrangements and Synlait’s reliance on these waivers is made in any offer document, and in every annual report while these waivers are being relied on.

- Synlait continues to bear a non-standard designation to notify the market of its unique governance arrangements.
- The quorum for a Board meeting must include two Independent Directors, and Synlait must have three Independent Directors (compared to the two Independent Directors required by the NZX Listing Rules). Synlait may temporarily have two Independent Directors where the number of Independent Directors reduces from three Independent Directors to two Independent Directors pending the appointment of a third Independent Director in accordance with the requirements of Synlait’s Constitution.
- One Managing Director, or, if a Managing Director is not appointed, a Board Appointed Director, who will be appointed by the Board. The current Managing Director or Board Appointed Director, and any Director proposed to fill that role, cannot vote on the appointment or replacement of the Managing Director or Board Appointed Director (as applicable). Consequently, Bright Dairy controls the composition of the majority of the Board as it has four out of seven votes on this appointment. Synlait does not currently have a Managing Director or Board Appointed Director (together, these are the Governance Arrangements).

A summary of the waivers permitting these Governance Arrangements is set out below:

- The NZX Listing Rules allow Bright Dairy to appoint representatives to the Board so long as the proportion of the Board made up by their representatives is not greater than the proportion of the total shares in Synlait that they own. A waiver was required to permit Bright Dairy to appoint four Directors, or 50% of the Board, as Bright Dairy owns less than 50% of the shares in Synlait.
- The NZX Listing Rules prevent Directors from appointing alternates to act for in their place if they cannot attend Board meetings unless a majority of their co-Directors agree. A waiver has been granted to permit Synlait’s Constitution to:
  - Allow a Bright Dairy Director to appoint another Bright Dairy Director to exercise their voting rights at a Board meeting they are unable to attend; and
  - Prohibit the non-Bright Dairy Directors from appointing alternate Directors. Synlait considers that it is important that Directors are encouraged to attend all meetings.
- The NZX Listing Rules require that Synlait’s constitution permit a Director to vote on a decision in which they are interested, where that matter is one in respect of which Directors are required by the Companies Act 1993 to sign a certificate or relates to an indemnity contemplated by section 162 of the Companies Act. A waiver has been granted to allow Synlait’s Constitution to prohibit the Managing Director (if it has one, which it doesn’t currently) from voting or being part of the quorum on matters relating to his/her remuneration under any circumstances.
- As soon as Bright Dairy holds less than 39.119% of the shares in Synlait, Synlait complies with the provisions in its Constitution requiring that some of the Bright Dairy Directors must resign to keep the proportion of Bright Dairy Directors on the Board consistent with the proportion of the total shares in Synlait owned by Bright Dairy.
- Bright Dairy Directors must retire by rotation at the next annual meeting following the drop in shareholding below that threshold, irrespective of whether they have been the longest in office.

### 13. NZX WAIVERS (CONTINUED)

These waivers permitting the Governance Arrangements will cease to apply upon completion of the placement of shares by Synlait to Bright Dairy Holding Limited as approved at the special shareholders' meeting held on 18 September 2024. This placement is expected to complete 1 October 2024. From that point Synlait's Constitution will revert to governance arrangements in accordance with the Companies Act 1993 and the NZX Listing Rules. Special constitutional rights for Bright Dairy will cease to apply. For further information, refer to Synlait's notice of meeting issued on 20 August 2024.

#### Major transactions

On 29 May 2024 Synlait was granted waivers by NZX RegCo from NZX Listing Rule 5.1.1(b), to the extent required to allow Synlait to enter into certain "Relevant Contracts" during a period from 12-months from the date of the waiver and perform the Relevant Contracts without needing to obtain shareholder approval ("Major Transaction Waiver"). A condition of the Major Transaction Waiver was that it and its conditions and implications were disclosed in our Annual Report for the financial year ended 31 July 2024.

The Major Transaction Waiver provides a waiver from NZX Listing Rules 5.1.1(b) as set out below (with the conditions):

**Waiver from Rule 5.1.1(b)** to the extent required to allow Synlait to enter into Relevant Contracts during a period from 12-months from the date of the Major Transaction Waiver and perform the Relevant Contracts without needing to obtain shareholder approval by ordinary resolution.

**Conditions:** The Major Transaction Waiver is subject to the conditions that:

- Synlait's Non-Interested Directors certify to NZX that the granting of the waiver is in the best interest of each of (i) Synlait, and (ii) Synlait's shareholders as a whole;
- Synlait's Non-Interested Directors certify to NZX that the Relevant Contracts will (i) not significantly change the nature of Synlait's business, and (ii) be in the ordinary course of Synlait's business;
- Synlait's Non-Interested Directors certify to NZX that the Relevant Contracts are in the best interest of each of (i) Synlait, and (ii) Synlait's shareholders as a whole;
- Synlait's Non-Interested Directors include in the certificate a summary of the core grounds for the certifications given under each limb of the three conditions described above;
- Synlait's Non-Interested Directors certify to NZX that entry into and performance of one or more Relevant Contracts is not, and will not be, a major transaction requiring shareholder approval of Synlait's shareholders for the purposes of the Companies Act 1993; and
- the waiver and its conditions and implications are disclosed in Synlait's annual report for the financial year ending 31 July 2024.

**Implications:** The Major Transaction Waiver notes that the policy behind NZX Listing Rule 5.1.1(b) is to regulate those transactions which have a value that represents a majority of the equity that investors hold in the issuer and, as a result, are deemed to be so significant to the issuer, and therefore so likely to impact shareholders' interests, that shareholders should have an opportunity to consider the transaction and exercise their right to vote before the transaction can take

effect. Major transactions significantly change the nature of an Issuer's business or represent a majority of the equity that investors hold in the Issuer, and are therefore significant. The Major Transaction Waiver was sought because the application of NZX Listing Rule 5.1.1(b) in respect of entry into and performance of the Relevant Contracts would otherwise impose an unreasonable and disproportionate restriction on Synlait's ability to enter into long term and multi-year arrangements where it would receive payment or pay for procurement undertaking business as usual activities. This was primarily due to Synlait's share price falling to the point where business as usual activities would otherwise be subject to the need for shareholder approval. The Major Transaction Waiver allows Synlait to enter into Relevant Contracts without the need for shareholder approval, meaning a shareholder meeting will not need to be called and shareholders will not have the opportunity to vote on whether Relevant Contracts are entered into by Synlait.

Relevant Contracts are contracts entered into and performed by Synlait or any of its subsidiaries as part of business as usual transactions and which are principally:

- for the purchase and payment for dairy products or non-dairy nutritional products;
- for the purchase and payment for products, raw materials or services involved in the manufacture and sale of dairy products and non-dairy nutritional products; or
- with a customer for the supply by a Synlait group member of dairy products or non-dairy nutritional products derived from, or manufactured using, dairy products or non-dairy nutritional products or raw materials supplied to a Synlait group member,

to the extent that such Relevant Contract:

- is entered into in the 12-month period after the date of the waiver;
- has a Gross Value of more than 50% of Synlait's Average Market Capitalisation;
- and is a transaction or series of related transactions falling within, or in connection with, the transactions described above.

The full board of Synlait, being all non-interested directors in respect of the Major Transaction Waiver, has certified to NZ RegCo that:

- the granting of the waiver is in the best interest of each of Synlait and Synlait's shareholders as a whole;
- the Relevant Contracts will not significantly change the nature of Synlait's business and will be in the ordinary course of Synlait's business;
- the Relevant Contracts are in the best interest of each of Synlait and Synlait's shareholders as a whole; and
- the entry into and performance of one or more Relevant Contracts is not, and will not be, a major transaction requiring shareholder approval of Synlait's shareholders for the purposes of the Companies Act 1993.

A copy of these waivers, and other waivers Synlait has obtained, or relied on can be found in the investor centre of Synlait's website. They are also available at [nzx.com](http://nzx.com) and [asx.com.au](http://asx.com.au) under the ticker code "SML" and "SM1", respectively).

## 14. NZX CORPORATE GOVERNANCE CODE

Synlait's statement on the extent to which Synlait has followed the recommendation in the NZX Code during the year to 31 July 2024 can be found at: [synlait.com/investors/corporate-governance](https://synlait.com/investors/corporate-governance)

Synlait's operating subsidiaries operate largely independently from Synlait. Synlait does not require them to comply with the recommendations in the NZX Code.

## 15. GENDER COMPOSITION

This table sets out the gender composition of Synlait's Directors and Officers (CEO and direct reports to the CEO) as at 31 July 2024. The prior year's comparison is in brackets.

Group	Female	Male	Total
Board	1 (2)	6 (6)	7 (8)
Officer	2 (3)	5 (8)	7 (11)
<b>Total</b>	<b>3</b>	<b>11</b>	<b>14</b>

## 16. PERFORMANCE AGAINST DIVERSITY POLICY

Synlait's Diversity and Inclusion Policy promotes a culture of diversity and inclusiveness, putting in place appropriate strategies and measurable objectives. We aim to achieve three main goals:

- Workforce diversity – employ, develop and retain more women and Māori.
- Diversity through leadership – empower and equip our people leaders to recruit, develop and retain a diverse and competent workforce.
- Workforce inclusion – foster a culture that encourages flexibility and fairness, to enable all employees to realise their potential, and thereby increase employee retention.

To help us meet these goals we have our Mātua (Parental Leave) Policy and our Tāwariwari (Flexible Working) Policy, and report to the Board on candidate diversity. Our success will be measured against the following as at the end of 2024. The prior year's comparison is in brackets.

Measure	Progress at as 31 July 2024
Reduction of the gender pay gap to ≤ 5%	11% (13%)
40-50% of leadership positions (people leaders, supervisors, specialist roles and senior leadership) held by women	43% (40%)
No regretted losses of high potential female employees	4 (4)

## 17. BOARD SKILLS MATRIX

Capability	Description	Number of Directors (Total 7)	
		High	Medium
Consumer Products	Experience as a senior executive in, or as a professional advisor to, consumer products businesses, including sales and marketing, product innovation and supply chain.	● ● ●	● ● ●
Data and Technology	Experience in the implementation of digital transformation or new digital product development, including digital marketing and commerce and leveraging data and technology in a consumer products business.	● ●	● ● ●
Financial Acumen	Understanding of financial statements and reporting, key drivers of financial performance, corporate finance and internal controls.	● ● ● ● ●	● ●
Food and Manufacturing Safety and Quality	Technical or managerial experience relating to food, food product development and development and/or implementation and management of safe practices for the sourcing, production, transport and distribution of foods.	● ● ● ●	● ● ● ● ●
Governance	Experience in and commitment to the highest standards of corporate governance, including as a non-executive director of a listed company, large or complex organisation or government body, or through former C-suite executive experience in a large organisation.	● ● ● ● ●	● ●
International Business Experience	Experience as a senior executive in, or as a profession adviser to, international businesses and exposure to global markets and a range of different political, regulatory and business environments.	● ● ● ● ●	● ●
Leadership	Experience in a senior management position in a listed company, large or complex organisation or government body, including experience in leading strategy development and execution.	● ● ● ● ●	●
Health and Safety	Experience in development of health, safety and wellbeing frameworks and risk-management tools at large organisations, or experience in health & safety leadership positions.	● ●	●
People and Culture	Leadership experience in the oversight, development and implementation of people and culture programmes at large organisations, people management, development and succession planning, setting remuneration frameworks and promoting diversity and inclusion.	● ● ● ●	●
Risk Management	Experience in identification, assessment, monitoring and management of material financial and non-financial risks and understanding, implementation and oversight of risk management frameworks and controls.	● ● ● ●	● ●
Strategy	Experience in strategic oversight, including the development and implementation of strategic plans for organisations of similar scale and complexity.	● ● ● ● ● ●	●
Sustainability	Knowledge, understanding or experience in sustainable practices to manage the impact of business operations on the environment and community and the impact of climate change on business operations.	● ●	●
Industry Involvement and Advocacy	Experience in being a leading voice within the food or consumer goods industry.	● ● ● ●	●

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Tanker bay at Synlait Dunsandel

## FINANCE REVIEW

Below is a detailed summary of Synlait's financial result for the 12 months ended 31 July 2024. In this finance review Synlait's performance is detailed under our four business units which are:

### ADVANCED NUTRITION

Formulated powders in bulk or consumer-ready format and specialty nutritional ingredients that Synlait customers sell to consumers.

### FOODSERVICE

Functional UHT cream is sold to customers who turn it into finished products for out-of-home consumption at bakeries, cafés, beverage chains etc.

### INGREDIENTS

Bulk milk powder and other bulk products sold to manufacturers who use them in a range of applications.

### CONSUMER

A range of fresh milk, cream and cheese products produced and sold under the Dairyworks, Rolling Meadow and Alpine brands.



## FINANCIAL PERFORMANCE

### Impairment of assets

During the year, we recorded a total impairment charge of \$114.6m against our long-term assets primarily because of continued underutilisation of our North Island assets and a more conservative view of the rate at which we will onboard new demand. Refer to note 1 of the financial statements for further information on the impairment.

### Sales and gross profit performance

Total revenues of \$1,637 million were up \$33 million or 2% driven by higher sales volumes. This was partially offset by lower overall commodity prices, unfavourable market pricing and adverse FX conditions. Total sales volumes of 221,240 MT were 11% higher than FY23 due to the commissioning of recent upgrades at Synlait's North Island operations, higher ingredients production enabled by lower production of Advanced Nutrition base powders, significant traction gained in the UHT cream market, and strong execution by Dairyworks on its export strategy. Accordingly, net production was up 6% to 213,603 MT.

#### Gross profit by business unit\*

	Ingredients	Advanced Nutrition	Consumer	Foodservice	Total	
FY24						
	Sales Volume (MT)	120,714	34,316	61,524	4,686	221,240
	Gross Profit (\$ millions)	(13.5)	67.5	30.6	(5.4)	79.2
	Gross Profit/MT	(112)	1,968	497	(1,158)	358
FY23**						
	Sales Volume (MT)	108,856	31,971	56,999	757	198,583
	Gross Profit (\$ millions)	26.4	80.8	27.6	(4.3)	130.5
	Gross Profit/MT	243	2,523	483	(5,665)	656
% Change						
	Sales Volume (MT)	11%	7%	8%	519%	11%
	Gross Profit (\$ millions)	(151%)	(16%)	11%	26%	(39%)
	Gross Profit/MT	(146%)	(22%)	3%	80%	(46%)

\* Gross profit not attributable to business units is not included.

\*\* To improve comparability of financial information, FY23 and FY24 amounts have been adjusted to be presented as if the change in product costing methodology had been applied retrospectively.

### Advanced Nutrition

Advanced Nutrition sales volumes were up 7% to 34,316 MT, and revenues were up 11% to \$488 million, driven by the commissioning of recent upgrades at our North Island facilities. Advanced Nutrition gross profit per MT decreased 22% to \$1,968/MT due to softer lactoferrin pricing, lower production of base powders driving lower recoveries of manufacturing overhead costs, and continued high levels of inventory write-downs as we continue to bed in new systems and processes. Net production was down 22% to 30,516 MT due to FY23 seeing a stockbuild in advance of gaining approval for the SAMR registration, rebalancing base powder inventories, and focusing on improving working capital management.

### Ingredients

Ingredients sales volumes returned to normal after ERP plant reliability challenges in FY23, increasing by 11% to 120,714 MT. Revenue, however, was down 4% to \$634 million, impacted by lower and relative commodity prices which was partially offset by a higher USD/NZD spot and hedge rates on higher sales volumes. Gross margin per MT was down 146% to (\$112/MT) due to a reduced lead bucket advantage, highly unfavourable FX performance, and the impact of lagged contracts. Net production was up 12% to 120,643 MT due to a 3% increase in the volume of milk processed and lower Advanced Nutrition base powder production, which provided higher capacity for ingredient powder production.

### Consumer Foods

Sales volumes increased 8% to 61,524 MT, with revenues up 2% to \$337 million due to strong execution by Dairyworks on its export strategy while adjusting to consumer needs in the challenging NZ market. Gross margin on a per MT basis, increased by only 3% to \$497/MT primarily due to the impact of lag pricing on the fresh milk and cream business. Production volumes were up 4,270 MT to 58,023 MT because of Dairyworks' higher export sales and slightly higher demand for fresh milk and cream.

### Foodservice (UHT cream)

Sales volumes and revenues were up over 500% to 4,686 MT or \$24 million, thanks to strong traction in the China market and initial sales into South East Asia. Disappointingly, gross profit per MT improved but was still negative at (\$1,158/MT) as a consequence of production teething issues early in the season, higher than anticipated product write-offs during initial production runs, and unfavourable fat pricing. Production volumes were up in response to demand, with a 192% increase to 4,421 MT.

### Milk price and milk supply

Raw milk remains our most significant component of cost of goods sold.

Our final base milk price for the 2023/24 season is \$7.83 per kgMS, compared to the 2022/23 base milk price of \$8.22 per kgMS. We paid an additional \$0.28 per kgMS in incentive and premium payments through a2, Lead With Pride™, and winter milk payments, increasing the average total milk price to \$8.11 per kgMS, compared with \$8.49 per kgMS in 2022/23. Our contracted suppliers received a total of \$24.0 million in additional value-added premiums in the 2023/24 season, compared to \$22.9 million in 2022/23.

We received 84.5 million kgMS from our contracted suppliers, 0.6 million kgMS more than FY23. Despite having five fewer farms in the South Island and four fewer in the North Island, the increase in the milk pool is due to more favourable climate conditions impacting positive yields. Improved plant reliability resulted in less net milk sold: FY24 5.9 million kgMS, FY23: 7.9 million kgMS. Overall, net milk processed increased by 3%, or 2.6 million kgMS, in FY24 to 78.6 million kgMS (FY23: 76.0 million kgMS).

The base milk price in 2023/24 was \$7.83/kgMS, down from \$8.22/kgMS in 2022/23. Driving the decline was the 8% drop in reference commodity prices, partially offset by a lower hedged FX rate. The 2023/24 season began with a negative tone. In August 2023, Whole Milk Prices (WMP) prices plunged to their lowest level in seven years due to a sharp decline in Chinese demand. While low Chinese demand for dairy imports was a constant theme through the season, global milk production contracted in response to tight profit margins on-farm, and as a result, commodity prices improved through the 2023/24 season. Shortages and strong demand for cream commodities saw AMF and butter prices increase steadily and break all-time highs late in FY24.

## FINANCIAL PERFORMANCE (CONTINUED)

### Operating expenditure

Selling, general, and administrative (SG&A) expenses, including Dairyworks, increased by \$4.7 million to \$134.0 million. Drivers of the increase were supply chain disruptions, employee and contractor costs, and higher costs at Dairyworks, partially offset by cost savings in other areas.

During FY24, supply chain disruptions occurred which increased distribution expenses and associated costs. Increases in employee and contractor costs were driven by inflationary wage increases to support higher North Island production and Dairyworks was impacted by an across-the-board increase in costs and costs associated with the progression of their export strategy. Cost savings in consultancy, legal and transaction costs relate to the one-off costs associated with the ERP implementation in FY23; however, overall consultancy costs were still high due to a customer related dispute and Synlait's recapitalisation activities.

### EBITDA

Earnings before interest, tax, depreciation, and amortisation (EBITDA) decreased \$94.8 million to (\$4.1 million).

\$ million (including Dairyworks)	FY24	FY23
(Loss) / profit before tax	(237.8)	(7.3)
Add back: net financing costs	55.0	38.3
<b>EBIT</b>	<b>(182.7)</b>	<b>31.0</b>
Add back: depreciation and impairment	178.6	59.7
<b>EBITDA</b>	<b>(4.1)</b>	<b>90.7</b>

### Net financing costs

Net financing costs increased \$16.7 million or 44% to \$55.0 million, primarily due to a significant increase in wholesale interest rates and high debt levels.

Capitalised interest is \$6.4 million lower than the prior year after the completion of the Pōkeno facility upgrades. The loss on derecognition of financial assets, and the financing cost associated with our receivables financing programme also increased due to an increase in wholesale interest rates. Further, interest on lease liabilities increased \$1.7 million due to a new warehouse lease in Auckland.

\$ million	FY24	FY23	Change
Gross term debt interest*	(24.1)	(19.1)	(5.0)
Less capitalised interest	0.2	6.6	(6.4)
<b>Net term funding interest</b>	<b>(23.9)</b>	<b>(12.5)</b>	<b>(11.4)</b>
Working capital and revolving credit interest	(19.8)	(17.1)	(2.7)
Interest received	0.6	0.3	0.3
Loss on derecognition of financial assets	(7.9)	(6.7)	(1.2)
<b>Net short-term funding interest</b>	<b>(27.1)</b>	<b>(23.5)</b>	<b>(3.6)</b>
Interest on lease liabilities	(4.0)	(2.3)	(1.7)
<b>Net finance costs</b>	<b>(55.0)</b>	<b>(38.3)</b>	<b>(16.7)</b>

\* Gross term debt interest includes revolving credit facilities and retail bond, with some of which are classified as current debt in the financial statements.

### Foreign exchange

Management of foreign exchange exposure is one of Synlait's key risks. Many product sales are to overseas markets, creating a primarily USD exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average New Zealand Dollar (NZD)/USD exchange rate for the year. In FY24, we achieved a net annual average NZD/USD export exchange rate of 0.6268 (FY23: 0.6446).

### Earnings per share and return on capital employed

Our reported basic and diluted earnings per share (EPS) were both (83.31) cents, against both basic EPS and diluted EPS of (1.96) cents in FY23. The dilutive shares are contingently issuable shares in accordance with the Employee Share Scheme. Synlait generated a pre-tax loss on average capital employed of (15.5%) in FY24 compared with a 2.7% return in FY23.

## FINANCIAL POSITION

### Overview

Net debt increased \$138.1 million, because of poor trading performance and working capital movements resulting in negative operating cashflows, as well as higher interest costs due to high debt levels and related interest rates.

Our reported net profit after tax loss of (\$182.1 million) has decreased total retained earnings to \$145.7 million from \$327.8 million. Total shareholders' equity decreased (\$185.6 million) to \$604.8 million due to the loss for the year and adverse movement in the hedging reserves.

We will complete the refinance of our banking facilities on 1 October 2024 and welcome three new banks into the syndicate. The refinance gives Synlait access to a broader range of services and optimised pricing to minimise financing costs. We appreciate the continued support of our banking syndicate.

### Working capital

At \$144.9 million, trade and other receivables increased by \$62.0 million. The increase was driven by the reclassification of \$9.8 million of receivables classified as held for sale in the prior year, fewer assigned receivables, amounts in relation to The a2 Milk Company settlement (which will be received on 1 October 2024), and general timing differences in recognition of revenue and receipts of customer payments. During the year, Rabobank replaced BNZ in our receivables assignment program following BNZ's exit from the banking syndicate in October 2023. Trade and other payables at \$257.9 million were down \$23.1 million, driven primarily by reduced capital expenditure, changes in product mix, and timing differences which have been offset by the reclassification of \$42.7 million from held for sale liabilities.

Total inventory holdings decreased 16% to \$209.7 million driven by a \$59.5 million (4,474 MT) decrease in work in progress inventories due to a rebalancing of infant base powder inventories and an increased focus on working capital management, partially offset by the reclassification of inventories of \$52.2 million that had been classified as held for sale in the prior year. The recent change in product costing methodology had a significant impact on the value of Advanced Nutrition base powders on hand due to less overhead costs being attributed to each metric tonne of production. The change has resulted in a \$17.1 million adverse impact to FY24 gross profit. Refer to the "Material events and other significant items" section of the notes to the financial statements for further information.

	FY24		FY23	
	\$ million	MT	\$ million	MT
Synlait Milk Limited	163.1	25,567	250.3	36,026
Dairyworks Limited	46.6	5,489	52.2	6,705
<b>Total</b>	<b>209.7</b>	<b>31,056</b>	<b>302.5</b>	<b>42,731</b>

We also incurred a significant cost of \$30.1 million in relation to inventory write-downs and provisions for manufacturing and quality issues – a disappointing result for FY24. We consider this level of write-downs to be unacceptable and are fully committed to reducing these costs in FY25.

### Property, plant and equipment

Property, plant, and equipment, at \$908.4 million, is down \$84.6 million. The decrease is a consequence of total capital expenditure of \$29.8 million, depreciation of \$47.6 million, impairment of \$92.0 million, net disposals of \$0.1 million, and \$24.3 million transferred from held-for-sale assets. The capital expenditure of \$29.8 million primarily relates to routine operational CAPEX and the commissioning of the flexible packaging line at our Pokeno site.

### Equity placement

On 18 September 2024, Synlait held a special shareholders' meeting to gain approval for an equity placement of 384,616,437 shares to Bright Dairy Holding Limited and The a2 Milk Company for total proceeds of \$217.8 million. As a result of the placement, Bright Dairy's shareholding in the company will increase to 65.25%, with The a2 Milk Company to retain its 19.83% shareholding. The proceeds will be used to repay debt which falls due on 1 October 2024, ensure sufficient cash is available to repay the Group's subordinated bond, which may be repaid early if bondholders elect to do so. The placement will also have the beneficial impact of significantly reducing interest costs in FY25.

### Operating cash flows and total net debt

Operating cash flows were at (\$47.2 million), down \$86.2 million from the prior year. The decrease in cash flow is attributed to a decline in profitability year-on-year and working capital balance movements due to timing differences. Total net debt (excluding lease liabilities) at year-end, including current and term debt facilities less cash on hand, was \$551.6 million, an increase of \$138.1 million.

\$ million	FY24	FY23
Current debt	369.7	243.7
Term debt (carrying amount)	191.3	179.0
Transaction costs	0.9	1.1
Cash on hand	(10.3)	(10.3)
<b>Total net debt (excluding lease liabilities)</b>	<b>551.6</b>	<b>413.5</b>

Cash outflow from investing activities totalled \$29.6 million, a decrease of \$32.3 million. The reduction in spending directly correlates to the reduced spending on capital projects as final upgrades to Pokeno were completed at the beginning of FY24 and the implementation of the ERP system having occurred in FY23. Interest paid and repayment of lease liabilities totalled \$60.4 million, up \$12.6 million on prior year due to higher interest rates and debt levels held throughout the year.

## FINANCIAL POSITION (CONTINUED)

### Derivatives

At 31 July 2024 the Group held USD \$527.7 million (net) in foreign exchange contracts as detailed in note 20 of the Financial Statements. These have been placed across a 24-month future period in accordance with our Treasury Policy. Additionally, the Group held AUD \$10.8 million in export contracts.

Due to the NZD/USD exchange rate depreciation across the last 24 months, we have mark to market unrealised losses associated with these contracts at year-end of \$6.3 million after tax, a movement of (\$2.9 million) after tax. As our foreign exchange contracts hedge against future USD receipts and payments, this unrealised loss is recognised in other reserves in equity rather than through the income statement. The impact of these foreign exchange contracts will play out in the periods in which they mature, forming part of our annual average NZD/USD exchange rate in those periods.

We also have in place a nominal balance of \$50.0 million of interest rate swap agreements at year-end (FY23: \$30.0 million) at various weighted average interest rates. The agreements have unrealised mark-to-market loss of (\$0.5 million) after tax, a negative movement of (\$1.0 million) after tax on FY23.

We continue to use dairy commodity derivatives to support the management of the risk of movement in dairy commodity prices. However, we had no dairy commodity derivatives on hand at balance date (FY23: nil).

Most unrealised gains and losses on derivatives detailed above are deferred to the cash flow hedge reserve. Year-on-year, there was a (\$3.9 million) movement in the reserve, with a closing balance of (\$2.9 million) in FY23 to (\$6.8 million) in FY24.

### Funding facilities and covenants

The Group has largely completed the refinancing of its syndicated banking facilities, introducing three new banks into the syndicate. The refinance will be fully executed upon completion of the equity placement and settlement of the existing disputes subject to arbitration with The a2 Milk Company. The new funding arrangements are summarised as follows:

1. A working capital facility peaking at \$160 million, together with a \$10 million on-demand bilateral facility.
2. A revolving credit facilities of \$205 million.
3. A term loan facility of \$75 million.

All facilities, other than the on-demand bilateral facility, are seasonally adjusted with step-downs and step-ups over the course of the facilities. The new facilities, other than the on-demand bilateral facility, mature 12 months from the closing date of the refinancing (expected to be 1 October 2024).

The lenders of Synlait's new banking syndicate are ANZ Bank, Bank of China, Bank of Communications, China Construction Bank, HSBC, Industrial and Commercial Bank of China, Kiwibank and Rabobank.

Synlait has four key bank covenants in place within our new syndicated bank facility agreement. For FY25, these are:

1. Total shareholder funds of no less than NZD \$500.0 million at all times.
2. Working capital ratio of no less than 1.2x at all times for the period from 1 August 2024 to 31 March 2025 and no less than 1.5x at all times from 1 April 2025 to 31 July 2025.
3. Interest coverage ratio of no less than 2.5x.
4. Senior leverage ratio of no greater than 2.5x.

### Shareholder loan

During the period, Synlait obtained a \$130 million shareholder loan from its largest shareholder, Bright Dairy. The loan was advanced to ensure that Synlait would meet a mandatory debt prepayment obligation of \$130 million which fell due on 15 July 2024.

### Retail bond

Synlait currently has \$180 million of five-year unsecured subordinated fixed rate bonds which were listed on the NZX Debt Market in December 2019, and mature on 17 December 2024.

Repayment is scheduled to occur on 17 December 2024, however, may occur earlier if bondholders elect to exercise their right for early repayment upon change of control as a result of the equity placement.

## FINANCIAL AND PERFORMANCE METRICS

Key Financial Metrics <sup>1</sup>	FY20	FY21	FY22	FY23	FY24
Currency as stated (in millions)					
<b>Income statement</b>					
Revenue	1,302.0	1,367.3	1,660.6	1,603.6	1,636.9
Gross profit	203.7	67.3	146.8	144.0	56.0
EBITDA <sup>2</sup>	169.6	37.3	131.5	90.7	(4.1)
EBIT <sup>2</sup>	122.0	(17.7)	65.1	31.0	(182.7)
<b>NPAT</b>	<b>74.3</b>	<b>(28.5)</b>	<b>38.5</b>	<b>(4.3)</b>	<b>(182.1)</b>
Revenue (USD per MT)	4,435	4,162	4,951	5,205	4,637
Gross profit per MT (NZD)	1,043	308	650	725	253
EBIT per MT sold (NZD)	625	(81)	288	156	(823)
<b>Net cash from / (used in) operating activities</b>	<b>103.8</b>	<b>15.9</b>	<b>232.9</b>	<b>39.0</b>	<b>(47.2)</b>
<b>Balance sheet</b>					
Capital employed	1,128.2	1,244.0	1,090.3	1,203.9	1,156.4
Net operating assets <sup>3</sup>	1,040.5	1,152.3	995.2	1,205.3	1,125.2
Return on net operating assets	14.6%	(1.6%)	6.1%	2.8%	(15.7%)
Net return on capital employed (pre-tax)	12.5%	(1.5%)	5.6%	2.7%	(15.5%)
Debt / debt + equity (excl. derivatives)	47.2%	38.7%	30.0%	34.3%	47.5%
Net debt / EBITDA <sup>5</sup>	3.1	12.9	2.6	4.6	(132.9)
<b>Earnings per share</b>	<b>41.45</b>	<b>(13.77)</b>	<b>17.62</b>	<b>(1.96)</b>	<b>(83.31)</b>
<b>Average FX conversion rate (NZD:USD)</b>	<b>0.6651</b>	<b>0.6659</b>	<b>0.6732</b>	<b>0.6446</b>	<b>0.6268</b>
Base milk price	7.05	7.55	9.30	8.22	7.83
<b>Total milk price (kgMs)<sup>4</sup></b>	<b>7.30</b>	<b>7.82</b>	<b>9.59</b>	<b>8.49</b>	<b>8.11</b>
<b>Key operational metrics</b>					
<b>Sales (MT)</b>					
Ingredients	97,561	125,914	132,481	108,856	120,714
Nutritionals	52,871	34,362	33,506	31,971	34,316
Consumer	44,818	58,483	59,786	56,999	61,524
Foodservice	-	-	-	757	4,686
<b>Total sales (MT)</b>	<b>195,250</b>	<b>218,759</b>	<b>225,773</b>	<b>198,583</b>	<b>221,240</b>
<b>Production (net production) (MT)</b>					
Ingredients	94,188	138,971	122,330	108,010	120,643
Nutritionals	63,857	20,990	31,016	39,159	30,516
Consumer foods	44,744	55,088	52,894	53,753	58,023
Foodservice - UHT	-	-	-	1,514	4,421
<b>Total production (MT)</b>	<b>202,788</b>	<b>215,049</b>	<b>206,240</b>	<b>202,436</b>	<b>213,603</b>
<b>Milk purchases ('000 kg MS)</b>					
Milk purchased from contracted supply	76,551	86,814	82,978	83,929	84,499
Milk purchased from other suppliers	(6,079)	(4,077)	(4,044)	(7,922)	(5,919)
<b>Total milk purchases ('000 kg MS)</b>	<b>70,472</b>	<b>82,737</b>	<b>78,934</b>	<b>76,007</b>	<b>78,580</b>

<sup>1</sup> The group uses several non-GAAP measures when discussing financial performance. Management believes these measures provide useful insight on the performance of the business, to analyse trends and to assist stakeholders in making informed decisions.

<sup>2</sup> EBIT is calculated by excluding financing costs and income tax, with EBITDA also excluding depreciation, amortisation, and non-cash impairment accordingly. A reconciliation of EBIT and EBITDA is provided in the Finance Review on page 53.

<sup>3</sup> Net operating assets includes current assets, property, plant, and equipment, right-of-use assets, and intangible assets. It deducts trade payables and excludes capital work in progress, derivative balances, loans and borrowings, goodwill, and tax balances.

<sup>4</sup> Total milk price for Synlait Milk suppliers on standard milk supply contract, includes value and seasonal premiums. This is a milk season reflective payment that runs 1 June to 31 May.

<sup>5</sup> Net debt calculation excludes lease liabilities.

## MILK PRICE

This table shows how Synlait takes the milk supplied by our contracted farmer suppliers, values milk components, and makes a pay-out via the average base milk price.

The 2023/24 milk price has not fully been paid out at the time of annual report release, figures represent what has been paid and is accrued to be paid.

It also highlights the incentive payments made to our farmer suppliers in addition to the average base milk price.

This information represents payments made in the milk season which runs 1 June to 31 May as opposed to Synlait's financial year.

For the recently completed 2023/2024 milk season we paid out an average base milk price of \$7.83 per kgMS with an average additional incentive payment of \$0.28 per kgMS.

	2019/20	2020/21	2021/22	2022/23	2023/24
kgMS collected	76,550,913	86,812,624	82,865,662	83,996,987	84,500,593
Average fat % <sup>1</sup>	4.90	4.90	4.93	4.98	5.06
Average protein %	3.98	3.97	3.98	4.00	4.05
Average lactose %	4.99	4.98	4.97	4.95	4.96
Volume of components collected (kg)					
Fat	42,252,084	47,954,515	45,849,217	46,548,849	46,913,618
Protein	34,298,829	38,858,109	37,016,444	37,448,139	37,586,975
Lactose	42,977,611	48,760,985	46,179,993	46,348,501	46,009,015
Component value (\$/kg) <sup>1</sup>					
Fat	\$8.44	\$8.73	\$9.43	\$7.27	\$7.06
Protein	\$4.20	\$5.02	\$7.31	\$8.30	\$7.30
Lactose	\$1.67	\$1.68	\$2.32	\$1.87	\$2.20
Component value ratio					
Fat	1	1	1	1	1
Protein	0.497	0.575	0.775	1.142	1.035
Lactose	0.198	0.193	0.246	0.257	0.312
Total paid per component (\$'000)					
Fat	\$356,689	\$418,541	\$432,333	\$338,487	\$330,999
Protein	\$143,911	\$194,875	\$270,615	\$310,926	\$274,495
Lactose	\$71,819	\$82,137	\$107,204	\$86,698	\$101,273
Volume charge	(\$32,747)	(\$40,118)	(\$39,501)	(\$45,656)	(\$45,550)
<b>Average base milk price (\$/kgMS)<sup>2</sup></b>	<b>\$7.05</b>	<b>\$7.55</b>	<b>\$9.30</b>	<b>\$8.22</b>	<b>\$7.83</b>
<b>Total incentive payment (\$'000)</b>	<b>\$19,250</b>	<b>\$23,518</b>	<b>\$23,802</b>	<b>\$22,929</b>	<b>\$24,029</b>
<b>Average incentive payment (\$/kgMS)<sup>3</sup></b>	<b>\$0.25</b>	<b>\$0.27</b>	<b>\$0.29</b>	<b>\$0.27</b>	<b>\$0.28</b>
<b>Total average Synlait payment (\$/kgMS)<sup>4</sup></b>	<b>\$7.30</b>	<b>\$7.82</b>	<b>\$9.59</b>	<b>\$8.49</b>	<b>\$8.11</b>

<sup>1</sup> Rounded to two decimal places.

<sup>2</sup> Amount paid for components + volume charge/kgMS collected = base milk price.

<sup>3</sup> Includes incentives and winter milk premiums.

<sup>4</sup> Base milk price + average incentive payment.

**Synlait Milk Limited**  
**Financial Statements**  
**for the year ended 31 July 2024**

**CONTENTS**

	Page
Directors' responsibility statement	63
Financial statements	
Income statement	64
Statement of comprehensive income	65
Statement of changes in equity	66
Statement of financial position	67
Statement of cash flows	68
Notes to the Financial Statements	69
Performance	75
1 Impairment of assets	76
2 Discontinued operation	79
3 Revenue recognition	80
4 Segment reporting	81
5 Expenses	83
6 Reconciliation of loss after income tax to net cash outflow from operating activities	84
Working capital	85
7 Trade and other receivables	86
8 Inventories	88
9 Trade and other payables	90
Long term assets	91
10 Property, plant and equipment	92
11 Biological assets	94
12 Intangible assets	95
13 Leases	97
Debt and equity	100
14 Finance income and expenses	101
15 Loans and borrowings	102
16 Other non-current liabilities	104
17 Share capital	104
18 Share based payments	105
19 Reserves and retained earnings	106
Financial risk management	108
20 Financial risk management	109
21 Financial instruments	115
Other	119
22 Income tax	120
23 Other investments	123
24 Related party transactions	123
25 Contingencies	126
26 Commitments	126
27 Events occurring after the reporting period	126
28 Other accounting policies	126
Auditor's report	127



## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the 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 64-126 for the year ended 31 July 2024.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2024 and the financial performance and cash flows for the year ended on that date.

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

For and on behalf of the Board.



George Adams  
Chair

30 September 2024



Paul Washer  
Independent Director

30 September 2024

## INCOME STATEMENT

For the year ended 31 July 2024

	Notes	2024 \$'000	2023 \$'000
Revenue	3	1,636,858	1,603,580
Cost of sales	5	(1,580,844)	(1,459,588)
<b>Gross profit</b>		<b>56,014</b>	<b>143,992</b>
Other income	3	9,828	16,333
Sales and distribution expenses	5	(58,025)	(48,316)
Administrative and operating expenses	5	(75,985)	(74,195)
One-off ERP implementation costs	5	-	(6,794)
Impairment of non-current assets	1	(114,564)	-
<b>(Loss) / earnings before net finance costs and income tax</b>		<b>(182,732)</b>	<b>31,020</b>
Finance expenses	14	(47,689)	(31,844)
Finance income	14	585	310
Loss on derecognition of financial assets	14,7	(7,916)	(6,743)
<b>Net finance costs</b>		<b>(55,020)</b>	<b>(38,277)</b>
<b>(Loss) / profit before income tax for the year</b>		<b>(237,752)</b>	<b>(7,257)</b>
Income tax benefit / (expense)	22	55,641	2,965
<b>(Loss) / profit after tax for the year</b>		<b>(182,111)</b>	<b>(4,292)</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	17	(83.31)	(1.96)
Diluted earnings per share (cents)	17	(83.31)	(1.96)

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

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2024

	Notes	2024 \$'000	2023 \$'000
<b>(Loss) / profit for the period</b>		<b>(182,111)</b>	(4,292)
<b>Items that may be reclassified subsequently to profit and loss</b>			
Effective portion of changes in fair value of cash flow hedges	20	(5,401)	64,405
Exchange differences on translation of foreign operations		40	(19)
Income tax benefit / (expense) on other comprehensive income	22	1,511	(18,033)
Total items that may be reclassified subsequently to profit and loss		<u>(3,850)</u>	<u>46,353</u>
<b>Other comprehensive income for the year, net of tax</b>		<b>(3,850)</b>	46,353
<b>Total comprehensive income for the year</b>		<b>(185,961)</b>	42,061

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2024

Group	Notes	Share capital \$'000	Employee Benefits Reserve \$'000	Hedging reserves \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Equity as at 1 August 2022</b>		464,774	818	(49,296)	22	332,078	748,396
<b>(Loss) / profit for the year</b>		-	-	-	-	(4,292)	(4,292)
<b>Other comprehensive income</b>							
Effective portion of changes in fair value of cash flow hedges	20	-	-	64,405	-	-	64,405
Exchange differences on translation of foreign operations		-	-	-	(19)	-	(19)
Income tax on other comprehensive income	20,22	-	-	(18,033)	-	-	(18,033)
<b>Total other comprehensive income</b>		-	-	<u>46,372</u>	<u>(19)</u>	-	<u>46,353</u>
Employee benefits reserve	17,18	-	(83)	-	-	-	(83)
<b>Total contributions by and distributions to owners</b>		-	<u>(83)</u>	-	-	-	<u>(83)</u>
<b>Equity as at 31 July 2023</b>		<u>464,774</u>	<u>735</u>	<u>(2,924)</u>	<u>3</u>	<u>327,786</u>	<u>790,374</u>
<b>Equity as at 1 August 2023</b>		464,774	735	(2,924)	3	327,786	790,374
<b>(Loss) / profit for the year</b>		-	-	-	-	(182,111)	(182,111)
<b>Other comprehensive income</b>							
Effective portion of changes in fair value of cash flow hedges	20	-	-	(5,401)	-	-	(5,401)
Exchange differences on translation of foreign operations		-	-	-	40	-	40
Income tax on other comprehensive income	20,22	-	-	1,511	-	-	1,511
<b>Total other comprehensive income</b>		-	-	<u>(3,890)</u>	<u>40</u>	-	<u>(3,850)</u>
Employee benefits reserve	17,18	-	385	-	-	-	385
<b>Total contributions by and distributions to owners</b>		-	<u>385</u>	-	-	-	<u>385</u>
<b>Equity as at 31 July 2024</b>		<u>464,774</u>	<u>1,120</u>	<u>(6,814)</u>	<u>43</u>	<u>145,675</u>	<u>604,798</u>

**STATEMENT OF FINANCIAL POSITION**

As at 31 July 2024

	Notes	2024 \$'000	2023 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		10,273	9,290
Trade and other receivables	7	144,922	82,941
Intangible assets	12	5,149	2,805
Goods and services tax refundable		298	2,711
Prepayments		27,775	9,879
Inventories	8	209,702	250,252
Derivative financial instruments	20,21	3,389	16,339
Current tax asset		5,233	3,271
Assets classified as held for sale	2	-	177,881
<b>Total current assets</b>		<b>406,741</b>	<b>555,369</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	908,443	992,996
Biological assets	11	3,597	3,906
Intangible assets	12	75,834	77,747
Goodwill	12	58,163	6,026
Other investments	23	1,860	935
Derivative financial instruments	20,21	39	6,427
Right-of-use assets	13	39,338	42,204
<b>Total non-current assets</b>		<b>1,087,274</b>	<b>1,130,241</b>
<b>Total assets</b>		<b>1,494,015</b>	<b>1,685,610</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	257,896	280,954
Loans and borrowings	15	369,701	243,727
Derivative financial instruments	20,21	8,385	26,862
Lease liabilities	13	6,327	5,200
Liabilities classified as held for sale	2	-	60,611
<b>Total current liabilities</b>		<b>642,309</b>	<b>617,354</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	191,255	178,998
Deferred tax liabilities	22	187	54,685
Derivative financial instruments	20,21	4,453	-
Lease liabilities	13	47,752	41,693
Other non-current liabilities	16	3,261	2,506
<b>Total non-current liabilities</b>		<b>246,908</b>	<b>277,882</b>
<b>Total liabilities</b>		<b>889,217</b>	<b>895,236</b>
<b>Net assets</b>		<b>604,798</b>	<b>790,374</b>
<b>Equity</b>			
Share capital	17	464,774	464,774
Reserves	19	(5,651)	(2,186)
Retained earnings	19	145,675	327,786
		<b>604,798</b>	<b>790,374</b>
<b>Total equity attributable to equity holders of the Group</b>		<b>604,798</b>	<b>790,374</b>
<b>Total liabilities and equity</b>		<b>1,494,015</b>	<b>1,685,610</b>

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

**STATEMENT OF CASH FLOWS**

For the year ended 31 July 2024

	Notes	2024 \$'000	2023 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,576,411	1,608,110
Cash paid for milk purchased		(788,435)	(720,926)
Cash paid to other creditors and employees		(833,132)	(851,255)
Net movement in goods and services tax		865	4,486
Income tax (refunds) / payments		(2,900)	(1,378)
<b>Net cash (outflow) / inflow from operating activities</b>	6	<b>(47,191)</b>	<b>39,037</b>
<b>Cash flows from investing activities</b>			
Interest received		585	311
Acquisition of property, plant and equipment		(28,539)	(48,821)
Proceeds from sale of property, plant, and equipment		753	584
Acquisition of intangible assets		(2,363)	(16,074)
Proceeds from sale of New Zealand Units		-	3,072
Livestock trading		855	(197)
Acquisition of interest in joint venture		(925)	(825)
<b>Net cash outflow from investing activities</b>		<b>(29,634)</b>	<b>(61,950)</b>
<b>Cash flows from financing activities</b>			
Receipt of shareholder loan	15	130,000	-
Receipt of borrowings		35,646	15,777
Net movement in working capital facility		(27,572)	51,589
Interest paid		(55,385)	(44,306)
Repayment of lease liabilities		(5,916)	(4,400)
<b>Net cash inflow from financing activities</b>		<b>76,773</b>	<b>18,660</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(52)</b>	<b>(4,253)</b>
Cash and cash equivalents at the beginning of the financial year		9,290	14,493
Cash and cash equivalents reclassified from held for sale assets		981	-
Effects of exchange rate changes on cash and cash equivalents		54	31
Cash included in assets held for sale		-	(981)
<b>Cash and cash equivalents at end of year</b>		<b>10,273</b>	<b>9,290</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### Reporting entity

The consolidated financial statements ("financial statements") presented are those 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 and its subsidiaries are primarily involved in the manufacture and sale of dairy products.

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

### Basis of preparation

The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS').

Certain comparative figures have been reclassified during the year for consistency with the current year presentation. These classifications had no effect on the reported results of operations. In addition, comparative period information has been represented to include amounts previously relating to discontinued operations (refer to note 2 for further information).

The financial statements were authorised for issue by the Directors on 30 September 2024.

### Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain items as identified in specific accounting policies.

### Functional and presentation currency

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

### Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

### Use of accounting estimates and judgements

The preparation of these financial statements in conformity with NZ IFRS requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty and key judgements relate to derecognition of financial assets (note 7), the assessment of impairment of inventory (note 8), the assessment of impairment of property plant and equipment (note 1), and the assessment of impairment for goodwill and any other intangible assets (note 1). The individual notes in the financial statements provide additional information.

### Material events and other significant items

#### Impairment

An impairment charge of \$50.3m was recorded at 31 January 2024 as a consequence of a revised view of margins and volumes expected to be achieved over the forecast period on which goodwill impairment testing was based, as well as continued underutilisation of the Group's North Island facilities. Refer to note 1 for further information.

Synlait's financial performance and continued underutilisation of Synlait's North Island assets has resulted in a further impairment charge of \$64.2m as at 31 July 2024, resulting in total impairment of \$114.6m in the 2024 financial year.

#### Strategic review of North Island assets

On 2 April 2024, the Group announced it was undertaking a strategic review of its North Island assets to determine whether it would continue with or dispose of the operations. On 9 September 2024 the Group announced it had completed the strategic review with a decision made to refocus the North Island operations to produce Advanced Nutrition products which do not require raw milk.

The cessation of processing raw milk will not result in any material one-off expenditure in the 2025 financial year and has been considered within the impairment test for the Synlait North Island CGU.

#### Dairyworks sale

At 31 January 2024, the Group recognised a \$31.1m loss on measurement to fair value less costs of disposal in respect of the Dairyworks business which was classified as held for sale. In the fourth quarter of 2024, the Group decided to exit the sales process due to offers not being at an acceptable level. Consequently, the \$31.1m loss on measurement was reversed less any depreciation which would have otherwise accumulated during the period in which Dairyworks was classified as held for sale. This reversal was recorded as it was determined that the recoverable value (value in use) of the net assets was higher than their carrying value at initial classification to held for sale assets, adjusted for depreciation which otherwise would have been recorded during the period in which the net assets were classified for sale.

#### 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, 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 (\$17.1m reduction in gross profit) due to a significantly higher level of overhead costs attributed to opening work-in-progress inventories of Advanced Nutrition base powders.

#### Arbitration and disputes with The a2 Milk Company

During the period the Group was in arbitration with The a2 Milk Company over a number of matters. On 16 August 2024, the Group reached a conditional settlement with The a2 Milk Company. Key details of the settlement include:

- The a2 Milk Company will make a one-off payment to the Group in the order of \$24.75 million. This payment includes amounts that had been withheld from payment and were waiting for resolution of matters in dispute.
- The Group will make an additional SAMR slot at Dunsandel available to The a2 Milk Company for a potential new China label registered product. The a2 Milk Company and the Group will work together to develop the new product, prepare the SAMR registration dossier and seek registration from SAMR by December 2029.
- The Group has agreed the exclusivity it has under the Nutritional Powders Manufacturing and Supply Agreement (NPMISA) for a2 Platinum® and other nutritional products will cease to apply from 1 January 2025.
- The Group acknowledges that The a2 Milk Company is developing manufacturing capability and could move volumes away from the Group when it has the capability to do so. The exception to this is China Infant Formula products which must be produced in the Group's Dunsandel facility through the SAMR registration the Group continues to hold (this is due to expire in September 2027).
- The settlement is conditional on the Group completing an equity placement and refinancing our existing banking facilities.

## Material events and other significant items (continued)

### Refinancing of debt facilities and shareholder loan

The Group has substantially completed the refinancing of its debt facilities with a revised banking syndicate which sees Kiwibank, Bank of Communications, and Industrial and Commercial Bank of China added to the syndicate. The facilities are expected to become available on 1 October 2024 pending completion of the equity placement and the settlement of the dispute and other matters with The a2 Milk Company.

During the year, the Group also received a \$130m shareholder loan from Bright Dairy, its largest shareholder, to ensure the Group would meet its mandatory \$130m debt prepayment obligation which fell due on 15 July 2024. Refer to note 15 for further information on the updated facilities and shareholder loan.

### Equity placement

On 18 September 2024 the Group held a special shareholders' meeting to gain approval for an equity placement of 384,616,437 common shares for \$217.8m to Bright Dairy and The a2 Milk Company. Approval was gained, which will result in Bright Dairy and The a2 Milk Company holding 65.25% and 19.83% of the Group's common shares, respectively, and triggering a change of control under the NZX Takeovers Code. The proceeds will be used to repay debt which falls due on 1 October 2024 and to secure the new banking facilities which will ensure sufficient cash is available to repay the subordinated bond that falls due on 17 December 2024, some of which may be repaid early if bondholders exercise their right to demand early repayment upon change of control.

### Climate risk

The Group's operations may 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, and impairment of intangible assets (NZUs). No significant impacts were noted during the period.

## Going concern

At 31 July 2024, the Group recorded an after-tax loss for the year of (\$182.1m), operating cash flows of (\$47.2m), current liabilities exceeding current assets by (\$235.6m), with loans and borrowings of \$369.7m due for repayment within 12 months. This includes syndicated senior debt of \$189.7m and unsecured retail bonds of \$180m.

In preparing these financial statements, the Directors have conducted a comprehensive assessment of certain events, conditions, and related uncertainties.

The Group has previously communicated a number of uncertainties, some of which were material, which arose primarily because of:

### A slow recovery in business performance which impacted short-term cash flows

During the year, the Group announced downgrades to previous guidance. The downgrades were because of lower-than-forecast sales volumes of Advanced Nutrition and UHT cream products, margin compression, inventory management issues, high financing costs incurred, and higher than forecast manufacturing costs due to low utilisation of the North Island plants and cost pressures. Also impacting performance were unfavourable effective foreign exchange rates, the one-off impact of a change in product costing methodology, and a supply chain disruption which resulted in significant one-off cost. The Group also recognised an impairment charge of \$114.6m, driven primarily by the North Island business's underutilisation and loss making Ingredients unit.

The Directors and management have been engaged in an urgent process to improve trading performance and financial position. Measures include a restructuring of the Group's leadership team, initiating a cost-out programme, and a significant focus on operational and sales performance. Significant effort has also been put into addressing operational delays which 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 remained committed to deleveraging, with recapitalisation imminent which will significantly reduce net debt and financing costs. The one-off supply chain disruption which occurred is considered an unusual event and is not forecast to repeat. The Group also continues to focus heavily on business development and onboarding new Advanced Nutrition customers.

## Going concern (continued)

The Group has completed its North Island strategic review, which should improve earnings performance through the cessation of dairy ingredients manufacturing operations in the North Island, enabling increased focus on execution of new plant-based manufacturing capabilities, and development and launch of products for new customers.

Trading performance is expected to improve significantly over the remainder of calendar year 2024 however will remain at below historical levels over the coming 24 months as new demand materialises at a more modest rate than previously forecast. The Directors consider that the Group's forecasts for the 2025 and 2026 financial years have been formed on a reasonable basis and sufficiently stress tested for unexpected degradation of performance.

While significant effort is being put into ensuring there isn't a recurrence of poor financial performance as seen in recent years, the Directors acknowledge that a level of inherent uncertainty will continue to exist until the Group can demonstrate a marked improvement in trading performance. When considered in conjunction with the Group's ability to refinance on acceptable terms in the future, this represents a material uncertainty, as further described in the following paragraphs.

### Retention of milk supply

During the second half of the 2024 financial year the Group received a significant number of milk supplier cessation notices ("ceases") from its farmer suppliers. The ceases represent the majority of the Group's milk pool, with most ceases set to take effect for the 2027 financial year (2026/2027 milk season).

The Directors are highly appreciative of the position that its farmers have been in, and fully acknowledge the implied risk that Synlait's recent performance and financial position have presented to their businesses and believe that the farmers have not acted unreasonably by submitting cessation notices.

The Directors believe that the recapitalisation of the business as detailed below and forecast improvement in performance will provide the Group's farmer suppliers with confidence that Synlait will continue to make good on its payment obligations to the farmers. In addition, the Group has announced a farmer retention payment which will become payable to all existing and new South Island farmers who are not under cease at 31 May 2025 totalling 20 cents per kilogram of milk solids, with the payment to be made in August 2025. The Directors consider that this proposed payment combined with a highly competitive milk price, a deleveraged balance sheet, and improved financial performance will encourage a significant majority of farmers currently under cease to revoke their ceases. The Group will investigate launching a farmer loyalty program which will aim to avoid cease notices at scale in the future.

The Directors acknowledge that despite plans to ensure sufficient future milk supply, the previously communicated level of ceases will instil a degree of uncertainty in the Group's stakeholders. In a scenario where all current ceases materialise, it is likely that the Group would be required to record a significant impairment against its South Island assets. The viability of the Group's South Island operations would also be threatened. However, the Directors consider that a material uncertainty in respect of future milk supply does not yet exist due to most current ceases not materialising until June 2026 which affords the Group adequate time to demonstrate to suppliers that the Group is a viable and highly competitive long-term purchaser of milk.

### Significant levels of debt due for repayment in the short-term which would not be possible to repay without additional support from shareholders or from other sources of capital

The Directors previously communicated the Group's ability to continue trading as a going concern would also continue to be subject to a material level of uncertainty without a significant capital injection – either through an equity raise, a restructuring of the Group's debt facilities, or a combination of both.

After extensive consultation over the second half of the year, the Directors formed a view that raising equity, through a placement to the Group's two largest shareholders, Bright Dairy and The a2 Milk Company, would result in the greatest certainty over reducing the Group's debt in the shortest timeframe and at the most favourable price compared to alternative structures.

The equity placement gained a high level of support at a Special Shareholders meeting held on 18 September 2024, with proceeds of approximately \$217.8m to be received on 1 October 2024. The proceeds will be used to immediately repay facilities which fall due on 1 October 2024 and to provide certainty to bondholders whose bonds, which have a redemption value of \$180m, will mature on 17 December 2024. The equity placement will also result in a change of control which will trigger an option at the discretion of bondholders for early repayment of the bonds.

Participation in the equity placement by The a2 Milk Company, refinancing of the Group's syndicated banking facilities, and the settlement of the dispute and other matters with The a2 Milk Company are all inter-conditional, meaning that if one does not succeed, all would fail. On the date of issue of these financial statements, the Directors are not aware of any conditions, events, or circumstances which would threaten the imminent completion of deleveraging, refinancing, and settlement of the dispute with The a2 Milk Company.

## Going concern (continued)

Further information on the new banking facilities is included in note 15 to the financial statements. The facilities have been executed and will become unconditionally available on 1 October 2024. Sensitivity testing has been performed in respect of proposed covenants and the Directors are satisfied that there is sufficient headroom in the covenants to insulate from any reasonable or likely degradation in trading performance.

However, the Director's note that to ensure the facilities, which mature on 1 October 2025, can be refinanced for the 2026 financial year, the Group will need to deliver against financial forecasts through an improvement in trading performance and ensure that a sufficient level of milk supply ceases are removed to ensure that the Group's South Island operations remain financially viable.

Poor trading performance or a lack of progress in obtaining removals of farmer supplier cessation notices may preclude a successful future refinance of the Group's banking facilities on acceptable terms. An inability to refinance may result in the Group having to consider securing further debt or equity financing through alternative means or initiating a formal insolvency process. Until such time the Group demonstrates a marked improvement in trading and security over future milk supply, material uncertainty will continue to exist over the Group's ability to remain a going concern.

### Dispute with The a2 Milk Company

The Directors have expressed uncertainty over the outcome of a previously communicated dispute with The a2 Milk Company over its notice of cancellation of exclusivity and other matters. During the period, the Group settled with The a2 Milk Company with the key outcomes being a confirmed participation by The a2 Milk Company in an equity placement, but with a loss of exclusivity for the production and supply of a2 Platinum® and other nutritional products, taking effect from 1 January 2025. The Group expects to continue to manufacture all China label product for The a2 Milk Company and also reserve a second SAMR slot.

The Group has reflected the potential impact of the loss of exclusivity in its cashflow forecasts for both liquidity and impairment testing purposes. While the loss of exclusivity will adversely impact future cashflows, the Directors remain confident that the impact of any lost volumes will be offset with new business development and continued volume growth of the Group's UHT cream and plant-based nutritional products.

### A protracted Dairyworks sale process

The Group has previously communicated there was a material uncertainty around the timing and outcome of the proposed sale of Dairyworks and the impact it would have on the Group's ability to make good on an obligation to repay a mandatory \$130m debt repayment.

On 11 July 2024, the Group obtained approval for a shareholder loan from the Group's largest shareholder, Bright Dairy. The shareholder loan was used to repay the \$130m prepayment obligation after Dairyworks was removed from sale. Further information on the terms of the loan can be found in note 15 to the financial statements. The Directors consider that there is no longer a material uncertainty in respect of this specific matter.

### Conclusion

The Directors are satisfied that for the 12 months following the release of these financial statements, the Group will generate sufficient cashflows and have sufficient headroom in banking facilities to make good on its obligations to all creditors, including its banking syndicate, bond holders, and farmer suppliers - including in a situation where trading performance declines moderately below current forecasts.

While the future will always be uncertain, the imminent recapitalisation of the business, increased level of support from the Group's majority shareholders, Bright Dairy, business development opportunities which are progressing, and a significant focus on retaining milk supply have provided the basis necessary for the Directors to conclude that it is appropriate to prepare the Group's financial statements on a going concern basis.

However, the recovery in business performance will not occur at rates previously expected, and the Group will continue to be subject to uncertainty with respect to access to capital until such time there is marked improvement in trading performance and a significant reversal of milk supply cessations, which remains uncertain. These matters constitute material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. If improvements in financial performance and future milk supply are not achieved, the Group 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.

## Basis of consolidation

The Group's financial statements consolidate the financial statements of Synlait Milk Limited and its subsidiaries, accounted for using the acquisition method, and the results of its associates, accounted for using the equity method. Intercompany transactions and balances between group companies are eliminated upon consolidation.

## Material accounting policies

Accounting policies, accounting estimates and judgements that summarise the measurement basis used and are material to the understanding of the financial statements are provided throughout the accompanying notes and are designated by a shaded area.

### Standards, amendments and interpretations adopted during the period

#### *Amendments to NZ IAS 1 and IFRS Practice Statement 2 - Disclosure of Material Accounting Policies*

The Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and NZ IFRS Practice Statement 2) effective 1 August 2023. The amendments require disclosure of material accounting policy information, instead of significant accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, as well as the disclosure of entity-specific accounting policy information that is more relevant for the users' understanding of financial statements than generic boilerplate disclosures. The amendments did not result in any significant changes to the accounting policies disclosed within these financial statements.

#### *Amendments to IAS 12 - International Tax Reform Pillar Two Model Rules*

The Group adopted the International Tax Reform Pillar Two Model Rules (amendments to IAS 12) effective 1 August 2023. The amendments provide a temporary and mandatory exemption from deferred tax accounting, which applies retrospectively and require new disclosures in the financial statements in relation to the implementation of Pillar Two Model Rules published by the Organisation for Economic Co-Operation and Development (OECD). The Group has applied the exemption with immediate effect. Further information on the position of the Group as at 31 July 2024 is provided in note 22.

### Standards, amendments and interpretations to existing standards that are not yet effective

#### *IFRS 18 - Presentation and Disclosure in Financial Statements*

In April 2024, the IASB issued IFRS 18 - Presentation and Disclosure in Financial Statements to improve reporting of financial performance. IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1 unchanged and introduces increased disclosure of management defined performance measures as well as new principles for aggregation and disaggregation of information included in the consolidated income statement. IFRS 18 is applicable to the Group beginning on 1 August 2027. The Group is currently evaluating the impact of the adoption of IFRS 18 on its consolidated financial statements.

#### *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 will release its first climate-related disclosure (CRD) on its website (synlait.com) prior to 30th November 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.

## PERFORMANCE

This section covers the Group's financial performance and includes the following notes:

	<b>Page</b>
1 Impairment of assets	76
2 Discontinued operation	79
3 Revenue recognition	80
4 Segment reporting	81
5 Expenses	83
6 Reconciliation of loss after income tax to net cash outflow from operating activities	84

## 01. IMPAIRMENT OF ASSETS

### Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount.

A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any other assets in the unit (or group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. An impairment loss in relation to goodwill is not reversed.

### Summary of impairment charges

Total impairment of \$114.6m has been recognised in the 2024 financial year. This comprises of \$50.3m recognised at 31 January 2024 and \$64.2m recognised at 31 July 2024. The impairment charges have been driven primarily by continued underutilisation of the Group's North Island assets. The impairment charges have given rise to a deferred tax asset (and increase in tax benefit) of \$28.4m.

### Goodwill impairment test at 31 January 2024

The Group recognised a \$50.3m impairment charge as a result of the Synlait goodwill impairment test at 31 January 2024.

<b>Balance sheet line item</b>	<b>Impairment at 31 January 2024 (Unaudited) \$'000</b>
Net working capital	-
Goodwill	(6,026)
Property, plant, and equipment	(35,682)
Biological assets	-
Intangible assets	(5,607)
Right-of-use assets	(3,028)
<b>Total</b>	<b><u>(50,343)</u></b>

The majority of this impairment charge was allocated to North Island assets because of underutilisation.

## 01. IMPAIRMENT OF ASSETS (CONTINUED)

### Impairment tests of assets as at 31 July 2024

As at 31 July 2024, the South Island and North Island Synlait CGUs have been tested for asset impairment because of a significant divergence between the Group's market capitalisation and net asset value and multiple profit downgrades which occurred during the year constituting indicators of impairment. The Dairyworks CGU has been tested for impairment because goodwill is allocated to the CGU.

#### (a) Synlait North Island CGU

The North Island CGU has been impairment tested by an independent valuer. The value-in-use was modelled using an 8 year cashflow forecast determined by the independent valuer and subjected to a discount rate which was 200 basis points higher than the South Island CGU's discount rate to take into account asset specific risk factors. A terminal growth rate of 2.5% has been applied to reflect the North Island CGU's exposure to the high growth Adult Nutritional and Southeast Asia markets. The value-in-use was determined to be higher than the fair value less costs of disposal.

Key assumption	31 July 2024
Methodology adopted	Value in use
Annual revenue growth rates within forecast operating cashflow	3.5% - 30.9%
Allowance for increase in expenses within forecast operating cash flow	3.6% - 24.9%
Post tax discount rate	10.9%
Pre tax discount rate	14.4%
Terminal growth rate	2.5%

#### Calculation of North Island CGU impairment:

The North Island impairment charge has been calculated as follows:

	31 July 2024 \$'000
Carrying amount	421,283
Recoverable value based on value in use	357,062
<b>Impairment</b>	<b>64,221</b>

#### Allocation of North Island CGU impairment:

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

Balance sheet line item	Carrying amount at 31 July 2024 prior to impairment \$'000	Impairment at 31 July 2024 \$'000	Carrying amount at 31 July 2024 \$'000
Net working capital	38,159	-	38,159
Goodwill	-	-	-
Property, plant, and equipment	339,417	(56,870)	282,547
Intangible assets	12,173	(2,039)	10,134
Right of use assets	31,534	(5,312)	26,222
<b>Total</b>	<b>421,283</b>	<b>(64,221)</b>	<b>357,062</b>

The impairment charge of \$64.2m is in addition to the \$50.3m impairment charge recognised in the Group's interim 2024 financial statements.

## 01. IMPAIRMENT OF ASSETS (CONTINUED)

The impairment charge has given rise to a deferred tax asset of \$16.0m and has increased the income tax benefit for the period by a corresponding amount. This is in addition to the \$12.4m deferred tax asset (and income tax benefit) which was recognised in the Group's interim financial statements, of which \$11.2m related to the impairment charge allocated to the North Island CGU. In total, a deferred tax benefit of \$27.2m has been recognised in the 2024 financial year in respect of impairment charges allocated to the North Island CGU.

#### Sensitivity analysis:

The recoverable amount is highly sensitive to small movements within the key assumptions. The following table demonstrates the sensitivities at 31 July 2024:

Change in key assumption	Impact on estimated recoverable amount Increase/(decrease) \$'000
50 basis point increase in discount rate	(21,435)
50 basis point decrease in discount rate	24,141
50 basis point decrease in terminal growth rate	(13,146)
50 basis point increase in terminal growth rate	14,810
5% decrease within forecast cash flows	(21,538)
5% increase within forecast cashflows	21,596

#### (b) Synlait South Island CGU

The impairment test for the South Island CGU is based on a value-in-use (VIU) calculation which uses 5 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 value-in-use model assumes that milk supply for the South Island CGU will decrease to 60m KgMS in the 2027 financial year, and then increase to, and remain at, 65m KgMS for the 2028 financial year onwards. The discounted cash flow was modelled using the following key assumptions:

Key assumption	31 July 2024
Methodology adopted	Value in use
Annual revenue growth rates within forecast operating cashflow	(8.1%) - 6.1%
Allowance for increase in expenses within forecast operating cash flow	(7.0%) - 7.0%
Post tax discount rate	8.9%
Pre tax discount rate	11.4%
Terminal growth rate	2.5%

There was no further impairment charge recognised at 31 July 2024.

#### (c) Dairyworks CGU

The impairment test for the Dairyworks CGU is based on a value-in-use (VIU) calculation which uses 5 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:

Key assumption	31 July 2024	31 July 2023
Methodology adopted	Value in use	Value in use
Annual revenue growth rates within forecast operating cashflow	2.5% - 9.5%	3.7% - 7.9%
Allowance for increase in expenses within forecast operating cash flow	2.4% - 9.7%	0.7% - 8.1%
Post tax discount rate	8.7%	8.6%
Pre tax discount rate	11.5%	11.5%
Terminal growth rate	2.5%	2.0%



## 01. IMPAIRMENT OF ASSETS (CONTINUED)

There is no impairment of the Dairyworks CGU at 31 July 2024. The Dairyworks CGU impairment did not indicate any impairment from likely or reasonable movements in key assumptions.

### (d) Dairyworks Indefinite Life Intangibles

Indefinite life intangibles, which is comprised entirely of brands, have been tested using the relief from royalty method. Brand royalty rates for the year ended 31 July 2024 are based on a percentage of revenue. The impairment testing was modelled using the following key assumptions:

Key assumption	31 July 2024	31 July 2023
Methodology adopted	Relief from royalty	Relief from royalty
Annual revenue growth rates	(32.4%) - 14.2%	5.1% - 12.6%
Allowance for increase in expenses	2% - 4%	2% - 4%
Royalty rate	3.75% - 4.25%	3.75% - 4.25%
Pre-tax discount rate	13.4%	13.5%
Terminal growth rate	2.5%	2.5%

There is no impairment of Dairyworks indefinite life intangibles at 31 July 2024.

## 02. DISCONTINUED OPERATION

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Key judgement is applied in determining whether a sale is highly probable.

Non-current assets (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell. A key estimate is applied in determining fair value less costs of disposal.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Non-current assets and liabilities classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the statement of profit or loss.

On 2 June 2023 the Group announced its intention to divest its subsidiary, Dairyworks Limited, which specialises in the production and sale of consumer-packaged cheese and butter products. The divestment decision was made in connection with the Group's recently completed strategy review which resulted in an increased focus on the Group's Advanced Nutrition and Foodservice (UHT cream) business units. As a consequence the associated assets and liabilities of Dairyworks Limited comprised a disposal group at 31 July 2023, with the results of Dairyworks presented as profit / (loss) from discontinued operations.

During the period, a decision was made to remove Dairyworks from sale due to a lack of acceptable offers. Consequently, the net assets of Dairyworks have been reclassified from assets and liabilities held for sale to their respective balance sheet line items in the current period only, while results of operations have been re-presented as results of continuing operations, in line with the requirements of NZ IFRS 5. This has resulted in net profit after tax relating to the previously discontinued operation of \$7.8m (2023: \$9.9m) being included in net profit (loss) after tax from continuing operations.

## 02. DISCONTINUED OPERATION (CONTINUED)

### (a) Disaggregation of assets and liabilities held for sale:

The following assets and liabilities were previously classified as held for sale in the Group's 2023 financial statements.

	2024 \$'000	2023 \$'000
<b>Assets of disposal group classified as held for sale</b>		
Cash and cash equivalents	-	981
Trade, other receivables, and other current assets	-	9,865
Inventories	-	52,253
Property, plant, and equipment	-	25,594
Intangible assets	-	17,093
Goodwill	-	58,163
Right of use assets	-	13,932
<b>Total</b>	<b>-</b>	<b>177,811</b>
<b>Liabilities of disposal group classified as held for sale</b>		
Trade and other payables and other current liabilities	-	(42,680)
Current tax liabilities	-	(2,990)
Lease liabilities	-	(14,337)
Deferred tax liabilities	-	(604)
<b>Total</b>	<b>-</b>	<b>(60,611)</b>

## 03. REVENUE RECOGNITION

### Sales of goods

The Group manufactures and sells a range of milk powder, milk powder related products, fresh milk, UHT milk and cream, cheese, and butter to customers. Revenue from contracts with customers is recognised when the control of the goods has been transferred to customers, being at the point when the goods are delivered. Delivery of goods is completed (i.e. the performance obligation is fulfilled) when the goods have been delivered pursuant to the terms of the specific contract agreed with the customer and the risks associated with ownership have been transferred to the customer.

Revenue is measured according to the contracted price agreed with customers, which represents expected consideration received or receivable, net of returns, discounts, and allowances. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The payment terms vary depending on the individual contracts. No deemed financing components are present as there are no significant timing differences between the payment terms and revenue recognition.

	2024 \$'000	2023 \$'000
Dairy products	1,636,858	1,603,580
Other income	9,828	16,333
<b>Total income</b>	<b>1,646,686</b>	<b>1,619,913</b>

The decrease in other income is due to the comparative period including one-off legal settlement income and grant income of which the most significant component is Inland Revenue's Research & Development Tax Incentive.

## 04. SEGMENT REPORTING

**(a) Reportable segments**

NZ IFRS 8 Operating Segments requires disclosure of information about operating segments, products and services, geographical areas of operation, and major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

The Group has identified the following segments:

- Synlait: manufacture and sale of milk and plant based products (nutritionals, ingredients, fresh milk, and ultra heat treatment ('UHT') milk and cream products). The Synlait segment is an aggregation of the Group's Synlait North Island and Synlait South Island CGUs which have similar production processes, composition of fixed assets, organisational structures, product margins, classes of customers, and long term growth rates. While the Directors do not currently receive separate historical financial reports for the North Island and South Island CGUs, a workstream is underway to develop and implement routine reporting of financial performance and position at a North Island and South Island level.

- 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.

**(b) Segment revenues and results**

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

	31 July 2024			
	Synlait \$'000	Dairyworks \$'000	Eliminations \$'000	Total \$'000
External revenue	1,344,081	292,777	-	1,636,858
Inter-segment revenue from sale of goods	2,559	-	(2,559)	-
Revenue from sale of goods	<u>1,346,640</u>	<u>292,777</u>	<u>(2,559)</u>	<u>1,636,858</u>
Net (loss) / profit after tax for the period	(189,918)	7,807	-	(182,111)
Finance income	585	-	-	585
Finance expenses	(43,415)	(4,274)	-	(47,689)
Depreciation and amortisation	(57,596)	(6,128)	-	(63,724)
Impairment of non-current assets	(114,564)	-	-	(114,654)
Income tax benefit / (expense)	59,515	(3,874)	-	55,641
Total assets	1,370,538	123,477	-	1,494,015
Total liabilities	<u>(819,582)</u>	<u>(69,635)</u>	-	<u>(889,217)</u>
Net assets	<u>550,956</u>	<u>53,842</u>	-	<u>604,798</u>

## 04. SEGMENT REPORTING (CONTINUED)

	31 July 2023			
	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	2,363	-	(2,363)	-
Revenue from sale of goods	<u>1,323,121</u>	<u>282,822</u>	<u>(2,363)</u>	<u>1,603,580</u>
Net (loss) / profit after tax for the period	(14,144)	9,852	-	(4,292)
Finance income	281	29	-	310
Finance expenses	(29,331)	(2,513)	-	(31,844)
Depreciation and amortisation	(55,403)	(4,286)	-	(59,689)
Income tax (expense) / benefit	6,124	(3,159)	-	2,965
Total assets	1,507,729	177,881	-	1,685,610
Total liabilities	<u>(834,625)</u>	<u>(60,611)</u>	-	<u>(895,236)</u>
Net assets	<u>673,104</u>	<u>117,270</u>	-	<u>790,374</u>

**(c) Sales by geographical area**

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 for continuing operations by geographical area is summarised below:

	Year ended	
	31 July 2024	31 July 2023
China	8 %	11 %
Rest of Asia	19 %	21 %
Middle East and Africa	4 %	4 %
New Zealand	54 %	57 %
Australia	7 %	5 %
Rest of World	8 %	2 %
Total	<u>100 %</u>	<u>100 %</u>

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

**(d) Major customers**

Revenues of 44% (2023: 46%) are derived from the top three external customers.

## 05. EXPENSES

	2024 \$'000	2023 \$'000
<i>The following items of expenditure are included in cost of sales:</i>		
Depreciation and amortisation	46,290	43,634
Employee and contractor costs	103,410	96,044
Energy costs	28,818	26,064
Freight	20,071	24,461
Milk transport	28,365	26,980
Repairs and maintenance	16,596	20,205
Inventory provisions and write-downs	30,134	22,299
<i>Provision movements included in inventory variances, provisions, and write-downs:</i>		
Increase in inventory provision	3,498	5,900
(Decrease) / increase in onerous contract provision	(1,111)	2,001
<i>The following items of expenditure are included in sales and distribution expense:</i>		
Depreciation and amortisation	9,174	6,835
Employee and contractor costs	26,107	20,722
Insurance	1,614	1,619
Freight	9,285	5,427
Consultancy, legal, and transaction costs	1,147	2,029
Rent and storage	1,953	1,341
<i>The following items of are included in administrative and operating expenses:</i>		
Depreciation and amortisation	8,260	9,220
Employee and contractor costs	33,746	36,038
Director fees	764	827
Share based payments expense	399	1
Consultancy, legal, and transaction costs	12,852	7,290
Information services and subscriptions	10,525	12,523
<i>The following items are included in ERP implementation expense:</i>		
Consultancy	-	5,415
Employee and contractor costs	-	1,127
Information services and subscriptions	-	252
<i>PwC services included in administrative and operating expenses</i>		
Statutory audit fee	620	410
Half year accounts review	169	74
Other assurance services	352	220
Consulting	10	52
	<u>1,151</u>	<u>756</u>

\*2024 payments to PwC reflect \$352k paid to PwC New Zealand for audit services performed on behalf of the Group's largest shareholder, Bright Dairy, and \$10k for consulting fees incurred in connection with a logistics review. 2023 payments to PwC reflect \$220k paid to PwC New Zealand for audit services performed on behalf of the Group's largest shareholder, Bright Dairy Holding Limited, and \$52k for consulting fees incurred in connection with a logistics review.

Comparative numbers have been represented to include Dairyworks. Refer to the statement of accounting policies for further information.

## 06. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2024 \$'000	2023 \$'000
<b>(Loss) / profit for the year</b>	<b>(182,111)</b>	<b>(4,292)</b>
<b>Non-cash and non-operating items:</b>		
Depreciation and amortisation of non-current assets	55,905	54,205
Depreciation of right-of-use assets	7,819	5,484
Gain on disposal of property, plant and equipment	(381)	(154)
Gain on derecognition of lease	(286)	-
Impairment of assets	114,564	165
New Zealand Units surrendered	2,785	1,177
Gain on sale of New Zealand Units	-	(1,769)
Non-cash share based payments expense / (recovery)	385	(83)
Interest costs classified as financing cash flow	47,690	31,846
Interest received classified as investing cash flow	(585)	(311)
Loss on derecognition of financial assets	7,916	6,743
Deferred tax movement	(53,589)	(4,610)
(Gain) / loss on derivative financial instruments	(54)	143
Unrealised foreign exchange gain	(56)	(31)
Livestock trading	(854)	183
Gain on revaluation of biological assets	(445)	-
<b>Movements in working capital:</b>		
(Increase) / decrease in trade and other receivables	(52,601)	(1,227)
(Decrease) / increase in prepayments	(16,038)	4,900
Decrease / (increase) in inventories	92,804	(69,565)
Decrease in goods and services tax refundable and other current assets	865	4,486
(Decrease) / increase in trade and other payables	(65,972)	11,474
(Decrease) / increase in current tax assets	(4,952)	273
<b>Net cash inflow from operating activities</b>	<b>(47,191)</b>	<b>39,037</b>

## WORKING CAPITAL

The working capital section gives information about the short-term assets and liabilities of the Group. This section includes the following notes:

	<b>Page</b>
7 Trade and other receivables	86
8 Inventories	88
9 Trade and other payables	90

## 07. TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

### *Impairment*

The Group recognises a loss allowance for expected credit losses (“ECL”) on trade and other receivables. The Group measures the provision for ECL using the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group’s credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The model is based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no reasonable and realistic prospect of recovery.

Furthermore, other impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument-by-instrument basis. All individual instruments that are considered significant are subject to this approach.

### *Credit Risk Management*

The Group activities expose it to credit risk which refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade and other receivables are potentially subject to credit risk. The Group performs credit evaluations on trade customers. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers, nor has there been historical non-performance of these customers. The Group also maintains strict controls for any credit reviews such as credit increases.

The receivables assignment processes ensure that the Group’s trade receivables are materially managed in an efficient and effective manner.

The carrying amount of financial assets recorded in the financial statements represents the Group’s maximum exposure to credit risk.

Included in trade receivables are debtors which are past due at balance date, as payment was not received within 30 days, and for which no provision has been made as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. No collateral is held over these balances and trade credit insurance cover was not obtained in respect of these receivables. Interest is not charged on overdue debtors.

In the past eight financial years, the Group has not written off any bad debts, although it has recognised provisions for debts when collection was considered doubtful. The historical analysis of bad debts on a customer basis assists in the determination of any increases in credit risk since initial recognition. There are no significant credit risk concentrations as at 31 July 2024. Three customers represent 67% of the overdue receivables. There were no other forward-looking indicators to indicate increases in credit risk.

For cash and cash equivalents the Group has determined that all bank balances have low credit risk at each reporting period as they are held by reputable international banking institutions.

The Group has not changed its overall strategy regarding the management of risk from 2023.

## 07. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2024 \$'000	2023 \$'000
Trade receivables	101,141	78,021
Provision for doubtful and impaired receivables	<u>(2,815)</u>	<u>(2,588)</u>
<b>Net trade receivables</b>	<b><u>98,326</u></b>	<b><u>75,433</u></b>
Other receivables	<u>46,596</u>	<u>7,508</u>
<b>Total receivables</b>	<b><u>144,922</u></b>	<b><u>82,941</u></b>

The increase in other receivables is predominantly due to amounts receivable in relation to customer disputes which are expected to be settled in October 2024.

**(a) Impaired receivables**

As at 31 July 2024, trade receivables of \$20.3m were overdue (2023: \$7.9m). These relate to several independent customers for whom there is no recent history of default. The majority has since been collected except for \$11.9m which remains unpaid and is expected to be collected in the 2025 financial year.

The aging analysis of these overdue trade receivables is as follows:

	2024 \$'000	2023 \$'000
<b>Overdue by</b>		
0 to 30 days	10,026	3,638
30 to 60 days	338	10
Over 60 days	<u>9,891</u>	<u>4,228</u>
<b>Total overdue trade receivables</b>	<b><u>20,255</u></b>	<b><u>7,876</u></b>

**(b) Allowance for bad and doubtful receivables**

The Group has recognised no losses in relation to provisions raised for potentially unrecoverable trade receivables during the year (2023: \$0.7m). The Group has also recognised a loss of \$0.2m for estimated receivables impairment under NZ IFRS 9 Financial Instruments (2023: \$0.4m).

**(c) Trade and other receivables**

Accounts receivable are amounts incurred in the normal course of business.

Receivables denominated in currencies other than the functional currency comprise NZ\$77.9m (2023: \$58.7m) of USD, RMB, and AUD denominated trade receivables.

## 07. TRADE AND OTHER RECEIVABLES (CONTINUED)

**(d) Derecognised financial assets**

The Group has derecognised trade receivables that have been sold to two banks (ANZ and Rabobank) under the terms of underlying receivables purchase agreements. The Group routinely assess the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the banks. Receivables selected for assignment are with customers with strong credit ratings and good payment histories. This results in immaterial volatility in the present value of future cash flows in relation to assigned receivables under the various scenarios detailed in the terms of the four agreements. An evaluation of external evidence of credit risk has also been performed for each customer. The Group has \$139.2m of receivables assigned as at 31 July 2024 (2023: \$144.2m).

The Group has assessed its continuing involvement in the assigned receivables and determined that the fair value of continuing involvement is immaterial. The Group reassesses the facility for qualification for derecognition at each reporting date, when the terms of the facility are amended, and assesses each new customer at the initial assignment of a receivable.

The loss on derecognition for the period of \$7.9m (2023: \$6.7m) arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

## 08. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated based on normal operating capacity. Cost is determined on a weighted average basis and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Key judgement is applied in assessing inventory impairment, and therefore net realisable value of inventory. Impairment is tested in three ways, stock provision, onerous contracts provision, and inventory impairment. The stock provision considers the condition of inventory and therefore requires a high level of judgement, whereas the onerous contracts and impairment calculations are largely formulaic.

The stock provision tests for the physical impairment of both raw materials and finished goods. Physical impairment can be for a variety of reasons, including damage, expiry, or obsolescence. Judgement is required as often indicators of impairment can be mitigated through further investigation or rework meaning that no write down to net realisable value is required. The Group consider historical rework process results and future rework plans in making that judgement.

Estimates are required in relation to net realisable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Net realisable value is determined by reference to historic achieved market prices, future contracted sales and Global Dairy Trade auction results. Reviewing the net realisable values is carried out by the Group on a monthly basis, using judgement in determining expected future proceeds based on current indicators of the condition of inventory.

A key estimation in determining inventory cost is the Monthly Milk Price which is derived from a forecast milk price for the year. The Monthly Milk Price forms a key component of the product cost through the year.

**08. INVENTORIES (CONTINUED)**

	2024 \$'000	2023 \$'000
<i>Raw materials</i>		
Raw materials at cost	94,262	79,497
Raw materials at net realisable value	<u>189</u>	<u>-</u>
	<b>94,451</b>	<b>79,497</b>
<i>Work in progress</i>		
Work in progress at cost	41,638	111,528
Work in progress at net realisable value	<u>5,767</u>	<u>1,062</u>
	<b>47,405</b>	<b>112,590</b>
<i>Finished goods</i>		
Finished goods at cost	63,825	52,725
Finished goods at net realisable value	<u>4,021</u>	<u>5,440</u>
	<b>67,846</b>	<b>58,165</b>
<b>Total inventories</b>	<b><u>209,702</u></b>	<b><u>250,252</u></b>

Raw material inventories at \$94.5m (10,851 MT) have increased from the prior year (2023: \$79.5m, 12,245 MT) primarily due to the reclassification of Dairyworks raw materials inventory from assets held for sale and higher holdings of raw materials for use in the production of Advanced Nutrition products.

Work in progress inventories at \$47.4m (10,190 MT) have decreased (2023: \$112.6m, 14,664 MT) due to a rebalancing of infant base powder inventories, a decrease in the amount of overheads allocated to each unit of production due to a recent change in inventory costing estimation methodology, and an increased focus on working capital management.

Finished goods have increased to \$67.8m (10,015 MT), (2023: \$58.2m, 9,117 MT). The increase is driven by the reclassification of Dairyworks inventories from held from sale assets.

The cost of inventories recognised as an expense during the year was \$1,514.7m (2023: \$1,403.3m). The cost of inventories recognised as an expense includes \$30.1m (2023: \$22.3m) in respect of write downs of inventory to net realisable value.

The total inventory provision as at reporting date was \$16.5m, of which \$5.0m related to finished goods, \$6.8m related to work in progress and \$4.7m related to raw materials (2023: \$9.6m, \$5.9m related to finished goods, \$1.3m related to work in progress and \$2.4m related to raw materials).

The onerous contracts provision as at reporting date was \$0.9m (2023: \$2.0m) relating to future shipments of downgrade product.

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 the "Material events and other significant items" section of these financial statements for further information.

**09. TRADE AND OTHER PAYABLES**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less otherwise, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Payables that are settled within a short duration are not discounted.

	2024 \$'000	2023 \$'000
Trade payables	100,072	143,307
Accrued expenses	139,188	123,940
Employee entitlements	<u>18,636</u>	<u>13,707</u>
<b>Total trade and other payables</b>	<b><u>257,896</u></b>	<b><u>280,954</u></b>

Payables denominated in currencies other than the functional currency comprise NZD \$11.4m (2023: NZD \$39.4m) of USD, EUR, GBP, RMB, SGD, and AUD denominated trade payables and accruals.

## LONG TERM ASSETS

The assets section provides information about the long-term investments made by the Group to operate the business and generate returns to shareholders. This section includes the following notes:

	<b>Page</b>
10 Property, plant and equipment	92
11 Biological assets	94
12 Intangible assets	95
13 Leases	97

## 10. PROPERTY, PLANT AND EQUIPMENT

### Recognition and measurement

Property, plant and equipment are initially measured at cost less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located where the Group has an obligation to remove and restore.

When a self-constructed asset meets the definition of a qualifying asset under NZ IAS 23 Borrowing Costs, borrowing costs directly attributable to the construction of the asset are capitalised until such a time as the asset is substantially ready for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### Depreciation

Depreciation of property, plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then depreciated.

Estimation and judgement is also required in the selection and application of useful lives. It is the Group's best estimate that the useful lives adopted adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of property, plant, and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings	10 - 60 years
- Plant and equipment	3 - 35 years
- Fixtures and fittings	2 - 25 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

### Impairment

Estimation and judgement is required in the impairment of property, plant, and equipment. The Group estimates or exercises judgement in assessing indicators of impairment, forecasting future cash flows, and determining other key assumptions used for assessing fair values (less costs of disposal) or value in use.

## 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Fixtures and fittings \$'000	Capital work in progress \$'000	Total \$'000
<b>Cost</b>						
<b>Balance as at 1 August 2022</b>	<b>56,765</b>	<b>315,516</b>	<b>776,801</b>	<b>28,940</b>	<b>102,292</b>	<b>1,280,314</b>
Additions	-	-	-	-	48,144	48,144
Reclassification / transfer	-	14,994	77,680	3,175	(95,849)	-
Impairment	-	-	(164)	-	-	(164)
Disposals	-	(4)	(5,464)	(3,488)	-	(8,956)
Transfer to assets held for sale	(1,350)	(4,614)	(21,186)	(3,965)	(2,170)	(33,285)
<b>Balance as at 31 July 2023</b>	<b>55,415</b>	<b>325,892</b>	<b>827,667</b>	<b>24,662</b>	<b>52,417</b>	<b>1,286,053</b>
<b>Balance as at 1 August 2023</b>	<b>55,415</b>	<b>325,892</b>	<b>827,667</b>	<b>24,662</b>	<b>52,417</b>	<b>1,286,053</b>
Additions	-	-	-	-	29,836	29,836
Reclassification / transfer	-	7,712	41,021	4,087	(52,820)	-
Disposals	-	(193)	(2,527)	(663)	-	(3,383)
Impairment (note 1)	(5,523)	(28,770)	(56,102)	(1,645)	-	(92,040)
Transfer from assets held for sale	1,350	4,614	21,186	3,965	2,170	33,285
<b>Balance as at 31 July 2024</b>	<b>51,242</b>	<b>309,255</b>	<b>831,245</b>	<b>30,406</b>	<b>31,603</b>	<b>1,253,751</b>
<b>Accumulated depreciation</b>						
<b>Balance as at 1 August 2022</b>	<b>-</b>	<b>43,450</b>	<b>205,688</b>	<b>15,316</b>	<b>-</b>	<b>264,454</b>
Depreciation (note 5)	-	7,094	35,217	3,767	-	46,078
Disposals	-	(4)	(5,104)	(3,413)	-	(8,521)
Transfer to assets held for sale	-	(1,079)	(6,851)	(1,024)	-	(8,954)
<b>Balance as at 31 July 2023</b>	<b>-</b>	<b>49,461</b>	<b>228,950</b>	<b>14,646</b>	<b>-</b>	<b>293,057</b>
<b>Balance as at 1 August 2023</b>	<b>-</b>	<b>49,461</b>	<b>228,950</b>	<b>14,646</b>	<b>-</b>	<b>293,057</b>
Depreciation (note 5)	-	7,514	37,268	2,860	-	47,642
Disposals	-	(190)	(2,889)	(1,266)	-	(4,345)
Transfer from assets held for sale	-	1,079	6,851	1,024	-	8,954
<b>Balance as at 31 July 2024</b>	<b>-</b>	<b>57,864</b>	<b>270,180</b>	<b>17,264</b>	<b>-</b>	<b>345,308</b>
<b>Carrying amounts</b>						
<b>As at 31 July 2023</b>	<b>55,415</b>	<b>276,431</b>	<b>598,717</b>	<b>10,016</b>	<b>52,417</b>	<b>992,996</b>
<b>As at 31 July 2024</b>	<b>51,242</b>	<b>251,391</b>	<b>561,065</b>	<b>13,142</b>	<b>31,603</b>	<b>908,443</b>

## (a) Impairment

During the period, property, plant, and equipment was examined for impairment. A \$92.0m (2023: \$0.2m) impairment charge has been recognised to reflect the write-down of select assets to the higher of their fair value less costs of disposal (FVLCO) and value-in-use through the Group's CGU impairment testing process. Refer to note 1 for further information.

## (b) Capital work in progress

Capital work in progress includes capital expenditure projects until they are commissioned and transferred to property, plant and equipment. Capital work in progress of \$31.6m is lower than 2023 (\$52.4m) due primarily to the completion of the Pokeno flexible packaging line project. Work in progress comprises of routine operational capital expenditure.

## 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## (c) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to \$0.2m (2023: \$6.6m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset. In the year, borrowing costs were capitalised at a significantly lower rate due to no major capital projects during the period.

## 11. BIOLOGICAL ASSETS

Biological assets comprise livestock (dairy cows) and are measured at fair value less costs to sell at both initial recognition and at the end of each reporting period. Changes in the fair value of biological assets are recognised in profit or loss. The fair value of biological assets is determined by an independent valuer with reference to local area market prices at the end of each reporting period. The fair value measurement of livestock is facilitated by grouping livestock by age and type. All of the Group's biological livestock assets are classified as bearer biological assets.

	2024 \$'000	2023 \$'000
<b>Balance as at 1 August</b>	<b>3,906</b>	<b>3,892</b>
Purchases	41	929
Births, deaths, and other movements	100	85
Sales	(896)	(816)
Gain / (loss) arising from changes in fair value less selling costs	446	(184)
<b>Balance as at 31 July</b>	<b>3,597</b>	<b>3,906</b>

As at 31 July 2024 there were 2,323 dairy cows on hand (2023: 2,372). The dairy cows are used for the purposes of producing milk to be consumed in the Group's milk processing operations.



## 12. INTANGIBLE ASSETS (CONTINUED)

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the cost of the acquisition over the net of the fair values of the assets and liabilities of the subsidiaries acquired. Goodwill is tested for impairment annually and is carried at cost as established at the date of acquisition of the subsidiary, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGU) that are expected to benefit from the business combination in which the goodwill arose. The recoverable amount of CGUs is the higher of fair value less costs to sell and value in use. If this recoverable amount is less than the carrying amount of the CGU an impairment loss is recognised immediately in the profit and loss, and it is not subsequently reversed.

**Brands**

Purchased brands have been assessed as indefinite life intangible assets, after considering factors such as the expected use of the assets, the period of legal control, the typical product life cycle of these assets, the industry in which the assets are operating, and the level of maintenance expenditure required. Purchased brands are initially recognised at fair value if acquired as part of a business combination, and are tested for impairment annually, or more frequently if there are any indicators of impairment, on the same basis as goodwill.

**Patents, trademarks and other rights**

Separately acquired patents, trademarks, and other rights are shown at historical cost. Patents, trademarks, and other rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents, trademarks, and other rights over their estimated useful lives of 4 to 20 years.

**Computer software**

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, testing, and implementation of identifiable and unique software products controlled by the Group are recognised as intangible assets. Amortisation is calculated using the straight-line method to allocate the cost of computer software over an estimated useful life of 1 year to 12 years.

**New Zealand Units (NZU)**

New Zealand Units are purchased to offset carbon emissions under the New Zealand Emissions Trading Scheme. The units are measured at cost and expensed on a first-in first-out basis. Units are surrendered during the year to meet our obligations under the New Zealand Emissions Trading Scheme.

**Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any other assets in the unit (or group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. An impairment loss in relation to goodwill is not reversed.

## 12. INTANGIBLE ASSETS (CONTINUED)

	Goodwill \$'000	Brands \$'000	Patents, trademarks and other intangibles \$'000	Computer software \$'000	Intangibles in progress \$'000	New Zealand Units \$'000	Total \$'000
<b>Cost</b>							
<b>Balance as at 1 August 2022</b>	<u>64,189</u>	<u>16,569</u>	<u>2,278</u>	<u>15,416</u>	<u>61,919</u>	<u>15,182</u>	<u>175,553</u>
Additions	-	-	-	-	12,877	-	12,877
Reclassification/transfer	-	-	6,427	67,791	(74,164)	-	54
Disposals	-	-	-	(4,787)	(39)	(1,302)	(6,128)
Surrenders	-	-	-	-	-	(2,979)	(2,979)
Transfer to assets held for sale	(58,163)	(16,569)	(91)	(1,359)	-	-	(76,182)
<b>Balance 31 July 2023</b>	<u>6,026</u>	<u>-</u>	<u>8,614</u>	<u>77,061</u>	<u>593</u>	<u>10,901</u>	<u>103,195</u>
<b>Balance as at 1 August 2023</b>	<b>6,026</b>	<b>-</b>	<b>8,614</b>	<b>77,061</b>	<b>593</b>	<b>10,901</b>	<b>103,195</b>
Additions	-	-	-	-	2,362	-	2,362
Reclassification/transfer	-	-	108	184	(292)	-	-
Disposals	-	-	-	(1,045)	-	-	(1,045)
Surrenders	-	-	-	-	-	(2,785)	(2,785)
Transfer from assets held for sale	58,163	16,569	92	1,363	-	-	76,187
Impairment (note 1)	(6,026)	-	(41)	(7,886)	-	-	(13,953)
Subsidiary sold	-	-	-	-	-	-	-
<b>Balance 31 July 2024</b>	<u>58,163</u>	<u>16,569</u>	<u>8,773</u>	<u>69,677</u>	<u>2,663</u>	<u>8,116</u>	<u>163,961</u>
<b>Accumulated amortisation</b>							
<b>Balance as at 1 August 2022</b>	<u>-</u>	<u>-</u>	<u>1,438</u>	<u>12,767</u>	<u>-</u>	<u>-</u>	<u>14,205</u>
Amortisation (note 5)	-	-	416	7,711	-	-	8,127
Disposals	-	-	-	(4,785)	-	-	(4,785)
Transfer to assets held for sale	-	-	(47)	(883)	-	-	(930)
<b>Balance as at 31 July 2023</b>	<u>-</u>	<u>-</u>	<u>1,807</u>	<u>14,810</u>	<u>-</u>	<u>-</u>	<u>16,617</u>
<b>Balance as at 1 August 2023</b>	<b>-</b>	<b>-</b>	<b>1,807</b>	<b>14,810</b>	<b>-</b>	<b>-</b>	<b>16,617</b>
Amortisation (note 5)	-	-	1,678	6,585	-	-	8,263
Disposals	-	-	-	(995)	-	-	(995)
Transfer from assets held for sale	-	-	47	883	-	-	930
<b>Balance as at 31 July 2024</b>	<u>-</u>	<u>-</u>	<u>3,532</u>	<u>21,283</u>	<u>-</u>	<u>-</u>	<u>24,815</u>
<b>Carrying amounts</b>							
<b>Year ended 31 July 2023</b>							
Current	-	-	-	-	-	2,805	2,805
Non-current	6,026	-	6,807	62,251	593	8,096	83,773
<b>Closing net book value</b>	<u>6,026</u>	<u>-</u>	<u>6,807</u>	<u>62,251</u>	<u>593</u>	<u>10,901</u>	<u>86,578</u>
<b>Year ended 31 July 2024</b>							
Current	-	-	-	-	-	5,149	5,149
Non-current	58,163	16,569	5,241	48,394	2,663	2,967	133,997
<b>Closing net book value</b>	<u>58,163</u>	<u>16,569</u>	<u>5,241</u>	<u>48,394</u>	<u>2,663</u>	<u>8,116</u>	<u>139,146</u>

## 12. INTANGIBLE ASSETS (CONTINUED)

During the period, total impairment of \$14.0m was allocated to intangible assets, including \$6.0m charged against goodwill. Refer to note 1 for further information.

## 13. LEASES

### Measurement of right-of-use assets and lease obligations

Right-of-use assets are initially measured equal to the corresponding present value of the remaining lease liability. Subsequent additions are measured at the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently depreciated on a straight-line basis over the shorter of the term of the lease, or the useful life of the asset determined on the same basis as the Group's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

### Measurement of lease obligations

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Group is reasonably certain to exercise.

The lease obligation is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group exercises a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

The Group does not recognise ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognised as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated income statement. The Group has also elected to apply a single discount rate to portfolios of leases with reasonably similar characteristics.

## 13. LEASES (CONTINUED)

Right-of-use assets	Buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>Cost</b>			
Balance as at 1 August 2022	32,503	1,232	33,735
Additions and acquisitions	34,422	2,258	36,680
Sale and leaseback adjustment	(167)	-	(167)
Disposals	-	(276)	(276)
Foreign exchange differences	(38)	-	(38)
Transfer to assets held for sale	(16,952)	(1,440)	(18,392)
<b>Balance as at 31 July 2023</b>	<b>49,768</b>	<b>1,774</b>	<b>51,542</b>
Balance as at 1 August 2023	49,768	1,774	51,542
Additions and acquisitions	601	430	1,031
Disposals	(5,981)	(182)	(6,163)
Impairment (note 1)	(8,571)	-	(8,571)
Transfer from assets held for sale	16,952	1,440	18,392
<b>Balance as at 31 July 2024</b>	<b>52,769</b>	<b>3,462</b>	<b>56,231</b>
<b>Accumulated Depreciation</b>			
Balance as at 1 August 2022	7,956	574	8,530
Sale and leaseback adjustment	(519)	-	(519)
Disposals	-	(183)	(183)
Depreciation (note 5)	5,358	645	6,003
Foreign exchange differences	(33)	-	(33)
Transfer to assets held for sale	(3,961)	(499)	(4,460)
<b>Balance as at 31 July 2023</b>	<b>8,801</b>	<b>537</b>	<b>9,338</b>
Balance as at 1 August 2023	8,801	537	9,338
Disposals	(4,552)	(172)	(4,724)
Depreciation (note 5)	7,056	763	7,819
Transfer from assets held for sale	3,961	499	4,460
<b>Balance as at 31 July 2024</b>	<b>15,266</b>	<b>1,627</b>	<b>16,893</b>
<b>Carrying amounts</b>			
Balance as at 31 July 2023	<b>40,967</b>	<b>1,237</b>	<b>42,204</b>
Balance as at 31 July 2024	<b>37,503</b>	<b>1,835</b>	<b>39,338</b>

### 13. LEASES (CONTINUED)

Lease obligations	2024 \$'000	2023 \$'000
Contractual, undiscounted cash flows associated with the Group's lease obligations are as follows:		
Within one year	10,755	8,254
Between one and five years	36,830	27,817
Beyond five years	29,745	26,315
<b>Total undiscounted lease obligations</b>	<b><u>77,330</u></b>	<b><u>62,386</u></b>
Discounted lease obligations recognised on the Group's consolidated balance sheet are as follows:		
Current	6,327	5,200
Non-current	47,752	41,693
<b>Total discounted lease obligations</b>	<b><u>54,079</u></b>	<b><u>46,893</u></b>

Interest expense on lease obligations for the year ended 31 July 2024 was \$3.8m (2023: \$3.1m) and is included in finance expense. Operating lease expense relating to short-term and low-value leases not included in the measurement of lease obligations for the year ended 31 July 2024 is \$2.0m (2023: \$1.3m). The Group's weighted average cost of borrowing at 31 July 2024 was 6.81% (2023: 6.00%)

### DEBT AND EQUITY

The debt and equity section gives information about the Group's capital structure and financing costs related to this structure. This section includes the following notes:

	Page
14 Finance income and expenses	101
15 Loans and borrowings	102
16 Other non-current liabilities	104
17 Share capital	104
18 Share based payments	105
19 Reserves and retained earnings	106

## 14. FINANCE INCOME AND EXPENSES

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Interest expense on borrowings, bank and facility fees and transaction costs are recognised in the income statement over the period of the borrowings, using the effective interest rate method, unless such costs relate to funding capital work in progress. Interest expense on lease obligations are also recognised in the income statement in accordance with NZ IFRS 16.

	2024 \$'000	2023 \$'000
Interest income on loans and deposits	<u>585</u>	<u>310</u>
<b>Total finance income</b>	<b>585</b>	<b>310</b>
Interest and facility fees	<u>(43,926)</u>	<u>(36,242)</u>
Capitalised borrowing cost	<u>247</u>	<u>6,649</u>
Interest on leases	<u>(4,010)</u>	<u>(2,251)</u>
<b>Total finance costs</b>	<b>(47,689)</b>	<b>(31,844)</b>
Loss on derecognition of financial assets	<u>(7,916)</u>	<u>(6,743)</u>
<b>Net finance costs</b>	<b>(55,020)</b>	<b>(38,277)</b>

## 15. LOANS AND BORROWINGS

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the statement of comprehensive income over the period of the borrowings using the effective interest method.

	2024			2023		
	Drawn facility amount \$'000	Transaction costs \$'000	Carrying amount \$'000	Drawn facility amount \$'000	Transaction costs \$'000	Carrying amount \$'000
Working capital facility NZD	26,237	-	26,237	46,071	-	46,071
Working capital facility USD	56,664	-	56,664	64,403	-	64,403
Revolving credit facility	107,265	(185)	107,080	133,333	(80)	133,253
Retail bonds	<u>180,000</u>	<u>(280)</u>	<u>179,720</u>	-	-	-
Current liabilities	<u>370,166</u>	<u>(465)</u>	<u>369,701</u>	<u>243,807</u>	<u>(80)</u>	<u>243,727</u>
Retail bonds	-	-	-	180,000	(1,002)	178,998
Revolving credit facility	<u>61,714</u>	<u>(106)</u>	<u>61,608</u>	-	-	-
Shareholder loan	<u>130,000</u>	<u>(353)</u>	<u>129,647</u>	-	-	-
Non-current liabilities	<u>191,714</u>	<u>(459)</u>	<u>191,255</u>	<u>180,000</u>	<u>(1,002)</u>	<u>178,998</u>
Total loans and borrowings	<u>561,880</u>	<u>(924)</u>	<u>560,956</u>	<u>423,807</u>	<u>(1,082)</u>	<u>422,725</u>

### (a) Terms of loans and borrowings

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 ("BOC"), China Construction Bank ("CCB"), HSBC, and Rabobank.

The Group facilities include:

- Secured revolving credit facilities of NZD \$169m. These facilities step down over time with maturity dates between 1 October 2024 and 1 October 2025.
- A secured working capital facility of NZD \$191m, 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.
- A \$130m shareholder loan from the Group's majority shareholder, Bright Dairy which was obtained on 15 July 2024. The loan has a maturity date 15 July 2025 with an optional extension option of 1 year which is likely to be exercised. As a consequence, the loan has been classified as non-current. Refer to note 24 for further information.

Subsequent to year end, the Group substantially refinanced its syndicated banking facilities with Kiwibank, Bank of Communications ("BOCOM"), and Industrial Commercial Bank of China ("ICBC") added to the banking syndicate with ANZ, BOC, CCB, HSBC, and Rabobank continuing as members. The terms of the facilities, which are due to become available, on 1 October 2024 (pending completion of the equity placement and settlement of the dispute with The a2 Milk Company), are as follows:

- A working capital facility peaking at \$160m (together with a \$10m on demand bilateral facility).
- A revolving credit facility of \$205m.
- A term loan facility of \$75m.

All facilities (other than the on demand bilateral facility) are seasonally adjusted with step-downs and step-ups over the course of the facilities. The new facilities (other than the on-demand bilateral facility) mature 12 months from the closing date of the refinancing (expected to be 1 October 2024).

## 15. LOANS AND BORROWINGS (CONTINUED)

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. Due to the timing of Synlait's deleveraging and further weakening in its financial performance, the Group obtained amendments to certain covenants in March 2024 and July 2024. These amendments are detailed in the following section. The Group met the amended and all other externally imposed capital requirements for the twelve months ended 31 July 2024.

The following summarises banking covenants which were in place for the year ended 31 July 2024:

1. Total shareholder funds of no less than \$400.0m (\$600.0m prior to the amendment) at all times.
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 (waived).
4. Leverage ratio of no greater than 3.5x for the 31 July 2024 reporting date (waived).
5. Senior leverage ratio of no greater than 2.25x for the 31 July 2024 reporting date (waived).
6. Adjusted EBITDA of no less than \$45.0m.

The covenants for the 2025 financial year under the substantially executed facilities agreement are:

1. Total shareholder funds of no less than NZD \$500m at all times.
2. Working capital ratio of no less than 1.2x for the period from 1 August 2024 to 31 March 2025, increasing to no less than 1.5x for the period from 1 April 2025 to 31 July 2025.
3. Interest coverage ratio of no less than 2.5x for the 31 July 2025 reporting date.
4. Senior leverage ratio of no greater than 2.5x for the 31 July 2025 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 July 2024, the retail bond had a fair value of \$73.7m (2023: \$158.8m), based on NZX Debt Market valuation.

The completion of the equity placement will result in a change of control which will entitle bondholders to early repayment of the subordinated bonds. This may result in payment of some or all the bonds prior to 17 December 2024.

### Nominal interest rates

	Nominal interest rate %	Financial year of maturity	Carrying amount 2024	Carrying amount 2023
Secured revolving credit facility (Facility A) - CCB	6.63 %	2025	33,796	33,333
Secured revolving credit facility (Facility B) - BOC	6.51 %	2025	73,469	50,000
Secured revolving credit facility (Facility C) - ANZ	7.36 %	2026	22,041	50,000
Secured revolving credit facility (Facility E) - CCB	6.69 %	2026	39,673	-
Secured working capital facility - ANZ / HSBC / Rabobank - USD	6.94 %	2025	56,664	64,403
Secured working capital facility - ANZ / HSBC / Rabobank - NZD	7.20 %	2025	26,237	46,071
Subordinated retail bonds	3.83 %	2025	180,000	180,000
Shareholder Loan	8.00 %	2026	130,000	-

The secured syndicated banking facilities will be extinguished and replaced with new facilities on 1 October 2024.

The nominal interest rate is calculated by adding the BKBM rate for NZD facilities, US SOFR rate for USD facilities and the applicable margin rate. It excludes line fees and swap costs. Nominal interest rate for the subordinated retail bonds and shareholder loan excludes transaction costs.

## 16. OTHER NON-CURRENT LIABILITIES

The Group records liabilities for make-good obligations, such as those which arise upon the end of a building lease, in the period a reasonable estimate can be made. The liability is determined using estimated future costs and discounted using an appropriate discount rate. On initial recognition, the carrying value of the liability is added to the carrying amount of the associated asset and depreciated over its useful life or expensed when there is no related asset. The liability is accreted over time through charges to finance expense and reduced by actual costs of settlement. Make-good liabilities are reviewed annually and changes to estimates result in an adjustment of the carrying amount of the associated asset or, where there is no asset, they are credited or charged to profit or loss.

Make-good liabilities are discounted at the risk-free rate at the balance date and accreted over time through periodic charges to profit or loss. The liabilities are reduced by actual costs of settlement.

	2024 \$'000	2023 \$'000
<b>Make-good liability</b>		
Balance as at 1 August	2,506	2,550
Liabilities recognised	601	-
Accretion	213	122
Change in estimates	(59)	(166)
<b>Balance as at 31 July</b>	<b>3,261</b>	<b>2,506</b>

The make-good liability relates to future costs to be incurred with respect to the lease of the Group's Auckland blending and canning and warehouse premises. The total undiscounted amount of the estimated cash flows required to satisfy the obligations is \$5.2m (31 July 2023: \$3.9m). The obligation has been discounted using an interest rate of 6.67% (31 July 2023: 5.74%).

## 17. SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

During the reporting period, no new ordinary shares were granted to participants of the Group's Long Term Incentive scheme as a result of share rights that were granted under the scheme vesting and being converted to ordinary shares (2023: \$nil). Refer to note 18 for further information.

No other shares were issued in the period, however subsequent to year end, the Group will issue 384,616,437 common shares in an equity placement to its two largest shareholders, Bright Dairy and The a2 Milk Company. Refer to the "Material events and other significant items" section of these notes for further information.

	2024 Shares	2023 Shares	2024 \$'000	2023 \$'000
On issue at beginning of period	218,581,661	218,581,661	464,774	464,774

None of the above shares are held by the Group or its subsidiaries.

### (a) Ordinary shares

All issued shares are fully paid and have no par value.

Ordinary shares are entitled to one vote per share at meetings of Synlait Milk Limited.

All ordinary shares rank equally with regard to Synlait Milk Limited's residual assets.

## 17. SHARE CAPITAL (CONTINUED)

### (b) Capital risk management

The Group's capital includes share capital, retained earnings and reserves.

The Group's policy is to maintain a sound capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is subject to various security ratios within the bank facilities agreement.

### (c) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

Total basic EPS for the 2024 financial period was (83.31) cents (2023: (1.96) cents). Diluted EPS for the 2024 financial period was (83.31) cents (2023: (1.96) cents). Weighted average shares outstanding for the 2024 financial period was 218,581,661 (2023: 218,581,661). Weighted average shares outstanding, adjusted for potentially dilutive shares for the 2024 financial period was 219,187,046 (2023: 219,251,184).

## 18. SHARE BASED PAYMENTS

### (a) LTI share scheme

Under the LTI share scheme, participants receive Performance Share Rights ("PSRs") which are settled in cash (PSRs issued during the 2023 financial year and prior: settled, and will continue to be settled, through conversion into ordinary shares) in three financial years' time provided performance hurdles have been met during the assessment period (the date of award of the PSRs plus three financial years). The number of PSRs granted to participants is set at one quarter of their base salary divided by Synlait Milk Limited's share price on the date of the award of the PSRs.

The PSRs consist of 50% Total Shareholder Return Rights ("TSR Rights") and 50% Earnings Per Share Rights ("EPS Rights"). The vesting for both TSR Rights and EPS Rights is determined in accordance with progressive vesting scales.

Synlait Milk Limited's TSR must be greater than or equal to the 50th percentile of the constituents of the TSR Peer Group over the assessment period for 50% of the TSR Rights to vest, scaled so that 100% of the TSR Rights vest if Synlait Milk Limited's TSR equals or exceeds the 75th percentile of the TSR Peer Group over the assessment period. The TSR Peer Group is determined as at the date of award of the PSRs.

If Synlait Milk Limited's EPS over the assessment period equals a Board approved EPS target, 50% of the EPS Rights vest, scaled so that 100% of the EPS Rights vest if Synlait Milk Limited's EPS over the assessment period equals the Board approved EPS target plus 10%.

For either performance hurdle to be met, Synlait Milk Limited's TSR must be positive over the assessment period. No exercise price is payable upon exercise of a PSR, Synlait Milk Limited's ordinary shares being delivered to a participant for nil consideration. The LTI share scheme is an annual scheme with PSRs granted to Board approved participants each year, noting however that the annual award is assessed over a three-year period.

## 18. SHARE BASED PAYMENTS (CONTINUED)

The following table sets out the movement in LTI share scheme PSR's during the year:

	2024	2023
Outstanding 1 August	637,247	521,602
Granted during the year	1,051,339	462,634
Forfeited during the year	(49,913)	(346,989)
Exercised during the year	-	-
Total	<u>1,638,673</u>	<u>637,247</u>

During the period, no new ordinary shares were granted to participants of the LTI scheme. See note 17 for further detail.

During the year the Group amended its LTI share scheme to be settled in cash for all rights granted from 1 August 2023 onwards. All rights granted to 31 July 2023 will continue to be settled through the issue of ordinary shares.

The fair value of the PSRs awarded at grant date has been determined by an independent third party valuer, using a Monte Carlo simulation to model the total share return for Synlait and the TSR peer group. The fair value of the PSRs awarded, along with key assumptions, are listed below:

	2024 PSRs	2023 PSRs
Risk free rate	4.80 %	3.48 %
Volatility	46.81 %	35.00 %
Share price at entitlement date (\$)	1.61	3.27
Share price at grant date (\$)	0.44	3.26
Total value of options granted at grant date (\$'000's)	16	962

The estimated value of the PSRs is amortised over the vesting period from grant date. Cash settled PSRs which have vested are remeasured at reporting date.

### (b) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2024 \$'000	2023 \$'000
Expenses / (recoveries) for equity settled share based payment transactions	384	1
Expenses / (recoveries) for cash settled share based payment transactions	<u>1</u>	<u>-</u>
Total	<u>385</u>	<u>1</u>

## 19. RESERVES AND RETAINED EARNINGS

### (a) Retained earnings

Movements in retained earnings were as follows:

	2024 \$'000	2023 \$'000
Balance 1 August	327,786	332,078
Net loss for the year	<u>(182,111)</u>	<u>(4,292)</u>
Balance 31 July	<u>145,675</u>	<u>327,786</u>

## 19. RESERVES AND RETAINED EARNINGS (CONTINUED)

### (b) Nature and purpose of reserves

#### (i) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments and the cost of cash flow hedging instruments. Cash flow hedging instruments relate to hedged transactions that have not yet occurred.

#### (ii) Employee benefits reserve

The current year movement in the employee benefits reserve of \$0.4m (2023: (\$0.1m)) is comprised of the cumulative share based payment expense for share options not yet vested of \$0.5m (2023: \$0.2m), vesting / lapsing of rights during the period of (\$0.1m) (2023: (\$0.2m)) and related movements in deferred tax balances of (\$nil) (2023: (\$0.1m)).

### (c) Dividends

No dividends were declared by the Group during the year.

## FINANCIAL RISK MANAGEMENT

The financial risk management section presents information about the Group's financial risk exposures and the financial instruments used to mitigate this. This section includes the following notes:

	<b>Page</b>
20 Financial risk management	109
21 Financial instruments	115

## 20. FINANCIAL RISK MANAGEMENT

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk, and commodity price risk including forward exchange contracts, interest rate swaps and commodity derivative contracts.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

### Market risk

#### Foreign exchange risk

The Group is exposed to foreign currency risk on its sales, which are predominantly denominated in US dollars. The Group is also exposed to foreign currency risk on the purchase of raw materials for production and capital equipment purchases from overseas. The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency risk. These instruments include forward exchange contracts, option collars and vanilla options. These instruments enable the Group to mitigate the risk the variable exchange rates present to future cash flows for sales receipts or purchases by fixing or limiting the exchange rate at which these cash receipts or payments are exchanged into NZ dollars.

In relation to foreign exchange contracts that are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally, the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates.

As at 31 July 2024, the Group has hedged 42% of its exposure to forecast foreign exchange risk on USD sales. As at 31 July 2024, the Group has hedged 14% of its exposure to forecast foreign exchange risk on USD purchases. As at 31 July 2024, the Group has hedged 58% of its exposure to forecast foreign exchange risk on AUD sales. The Group hedges foreign exchange risk over the following 2 years from balance date.

#### Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its bank overdrafts and borrowings.

The Group manages its interest rate risk by using interest rate swaps to convert a portion of its floating rate debt to fixed interest rates in relation to the benchmark interest rate element. As interest rate swaps are entered into based on forecast debt levels, variability in future cash flows and debt levels can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows.

The Group has a Board approved treasury policy that sets the parameters to the extent of the cover taken. The policy requires the Group to hedge 30% to 80% of its exposure to interest rate risk that matures within 3 years, 20% to 60% of the risk that matures between 3 and 5 years, and 0% to 40% of the risk that matures between 5 and 10 years.

#### Commodity Price Risk

Dairy commodity price risk is the risk of volatility in profit and loss from the movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on the Groups earnings and milk price by eroding selling prices and increasing input costs.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group primarily manages its dairy commodity price risk by:

- Determining the most appropriate mix of products to manufacture based on the milk supply curve and global demand for dairy products;
- Governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where appropriate, linked to Global Dairy Trade (GDT) prices; and
- Using commodity derivative contracts to manage sales price volatility caused by fluctuations in GDT prices.

The Group has a Board approved treasury policy that sets the parameters under which commodity cover is to be taken, including permitted derivative types and volume limits.

### Credit risk

The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. The Group has a credit policy in place under which each new customer is rigorously analysed for credit worthiness. Investments and derivatives are only entered into with reputable financial banks.

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains all the late payment risk in the derecognition of financial assets, as described in note 7.

Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.

### Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium-term facility requirements.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

### Market risk

#### (i) Foreign exchange risk

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2024				2023			
	USD \$'000	AUD \$'000	EUR \$'000	RMB \$'000	USD \$'000	AUD \$'000	EUR \$'000	RMB \$'000
Trade receivables	72,993	2,407	363	20,019	42,385	-	19	-
Trade payables	(1,669)	(453)	(173)	(790)	(4,432)	(269)	(860)	(471)
Working capital facility	(33,735)	-	-	-	(40,023)	-	-	-
Total	37,589	1,954	190	19,229	(2,070)	(269)	(841)	(471)



## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's exposure to foreign currency in the period ended 31 July 2024 is limited to its sales of dairy products, purchases of raw materials for production and capital equipment purchases. As at the reporting date, the Group had the following foreign exchange derivative instruments outstanding in respect of future foreign currency transactions:

	2024		2023	
	Weighted average exchange rate	Nominal balance \$'000	Weighted average exchange rate	Nominal balance \$'000
<b>USD</b>				
<b>Exports</b>				
Less than 1 year	0.6007	391,500	0.6301	538,000
1 to 2 years	0.6059	150,000	0.6007	132,000
<b>Imports</b>				
Less than 1 year	0.6094	(18,791)	0.6349	(35,260)
1 to 2 years	-	-	-	-
<b>Options</b>				
Less than 1 year	0.5915	5,000	-	-
1 to 2 years	-	-	-	-
<b>AUD</b>				
<b>Exports</b>				
Less than 1 year	0.9108	10,772	-	-
<b>EUR</b>				
<b>Imports</b>				
Less than 1 year	-	-	-	-

### (ii) Interest rate risk

As at the reporting date, the Group had the following interest rate swap contracts outstanding:

	2024		2023	
	Weighted average interest rate %	Nominal balance \$'000	Weighted average interest rate %	Nominal balance \$'000
Less than 1 year	4.37 %	50,000	4.20 %	30,000
1 to 2 years	4.47 %	45,000	3.54 %	15,000
2 to 3 years	4.73 %	35,000	3.56 %	10,000
3 to 4 years	4.70 %	20,000	- %	-

The above balances include forward start swap contracts for various periods and do not necessarily reflect the current active contracts held at any one point in time.

In managing interest rate risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, changes in interest rates will have an impact on profit.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (iii) Sensitivity analysis

The sensitivity analysis below has been determined based on the mark to market impact on financial instruments of changing interest and foreign exchange rates at balance date. The analysis is prepared assuming the amount of the financial instrument outstanding at the balance sheet date was outstanding for the whole year, and by adjusting one input whilst keeping the others constant.

	Post-tax impact on the income statement		Post-tax impact on cash flow hedge reserve (equity)	
	2024 \$'000	2023 \$'000	2024 \$'000	2023 \$'000
<b>Interest rates</b>				
100 basis point increase in interest rate	(3,803)	(3,431)	757	285
100 basis point decrease in interest rate	3,803	3,431	(782)	(290)
<b>Foreign exchange rates</b>				
5% increase in exchange rate	(2,403)	175	17,306	33,751
5% decrease in exchange rate	2,656	(194)	(18,958)	(37,288)

### (iv) Commodity derivatives

During the reporting period the Group entered into a small number of commodity derivative contracts to further support the Group's existing financial risk management strategy. The movement in the fair value of the commodity derivatives is included within the cash flow hedge reserve.

### Liquidity risk

The total repayments and associated maturity of financial liabilities as at balance date is reported below.

	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 31 July 2024</b>					
Working capital facility	82,901	-	-	-	82,901
Trade and other payables	257,896	-	-	-	257,896
Loans and borrowings	287,265	191,714	-	-	478,979
Derivative financial instruments	8,385	4,044	409	-	12,838
Lease liabilities	6,327	6,367	20,633	20,752	54,079
<b>Total</b>	<b>642,774</b>	<b>202,125</b>	<b>21,042</b>	<b>20,752</b>	<b>886,693</b>
<b>As at 31 July 2023</b>					
Working capital facility	110,474	-	-	-	110,474
Trade and other payables	280,954	-	-	-	280,954
Loans and borrowings	133,333	180,000	-	-	313,333
Derivative financial instruments	26,862	-	-	-	26,862
Lease liabilities	5,200	4,848	13,793	23,052	46,893
<b>Total</b>	<b>556,823</b>	<b>184,848</b>	<b>13,793</b>	<b>23,052</b>	<b>778,516</b>

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Cash flow hedges

The Group enters into cash flow hedges of highly probable forecast transactions and firm commitments, as described in accounting policy section of this note.

Hedging instruments used in cash flow hedges	Nominal amount \$'000	Carrying amount		Hedge accounted amounts in cash flow reserve Intrinsic value NZD'000	Total cash flow hedge reserve NZD'000
		Assets NZD'000	Liabilities NZD'000		
<b>31 July 2024</b>					
<b>Foreign exchange risk</b>					
Foreign exchange contracts (USD)	527,709	3,245	(11,922)	(8,677)	(8,677)
Foreign exchange contracts (AUD)	10,772	11	(61)	(50)	(50)
<b>Interest rate risk</b>					
Interest rate swaps (NZD)	50,000	172	(856)	(684)	(684)
<b>Commodity price risk</b>					
Dairy commodity futures	-	-	-	-	-
<b>Total</b>		<u>3,428</u>	<u>(12,839)</u>	<u>(9,411)</u>	<u>(9,411)</u>
<b>31 July 2023</b>					
<b>Foreign exchange risk</b>					
Foreign exchange contracts (USD)	634,710	22,110	(26,862)	(4,752)	(4,752)
<b>Interest rate risk</b>					
Interest rate swaps (NZD)	30,000	656	-	656	656
<b>Commodity price risk</b>					
Dairy commodity futures	-	-	-	-	-
<b>Total</b>		<u>22,766</u>	<u>(26,862)</u>	<u>(4,096)</u>	<u>(4,096)</u>

Hedging instruments are located within the derivative financial instruments line items in the statement of financial position, classified as assets or liabilities, current or non-current.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Effects of cash flow hedges on statement of comprehensive income	2024		2023	
	Hedging gains / (losses) recognised in other comprehensive income \$'000	Hedge ineffectiveness recognised in profit or loss \$'000	Hedging gains / (losses) recognised in other comprehensive income \$'000	Hedge ineffectiveness recognised in profit or loss \$'000
<b>Foreign exchange risk</b>				
Forward exchange contracts	(4,062)	-	64,001	-
<b>Interest rate risk</b>				
Interest rate swaps	(1,339)	-	1,014	-
<b>Commodity price risk</b>				
Dairy commodity futures	-	-	(603)	(7)
<b>Total</b>	<u>(5,401)</u>	<u>-</u>	<u>64,412</u>	<u>(7)</u>

Hedge ineffectiveness is included within the finance expenses line of the income statement.

## Impact to reserves in equity

The impact of the Group's hedge accounting policies on the reserves in equity is presented in the table below:

	2024 \$'000	2023 \$'000
<b>Hedge reserves</b>		
<b>Opening balance</b>	<u>(2,924)</u>	<u>(49,296)</u>
<i>Movements attributable to cashflow hedges:</i>		
Change in value of effective derivative hedging instruments	(33,694)	20,646
Reclassifications to the income statement as hedged transactions occurred	28,293	43,759
Tax (expense) / credit	1,511	(18,033)
<b>Total movement</b>	<u>(3,890)</u>	<u>46,372</u>
<b>Closing balance</b>	<u>(6,814)</u>	<u>(2,924)</u>

## 21. FINANCIAL INSTRUMENTS

### Classification

The Group classifies its financial assets in three categories: at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The classification of financial assets depends on the business model within which the financial asset is held and its contractual cash flow characteristics.

The Group classifies its financial liabilities in two categories: at amortised cost and at fair value through profit or loss.

#### (i) *Financial instruments at amortised cost*

Financial assets are classified as measured at amortised cost if the Group's intention is to hold the financial assets for collecting cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The Group currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable and other receivables as financial assets measured at amortised cost, except for receivables from customers who participate in the Group's receivables purchase agreements which are classified as financial assets measured at fair value through profit and loss (FVPL).

Financial liabilities are classified as measured at amortised cost using the effective interest method, with the exception of those classified at fair value.

The Group currently classifies its accounts payable, accrued liabilities (excluding derivatives) and term debt as financial liabilities measured at amortised cost.

#### (ii) *Financial instruments at fair value through other comprehensive income ("FVOCI")*

The Group has elected to designate certain investments in equity instruments that are not held for trading as FVOCI at initial recognition and to present gains and losses in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

#### (iii) *Financial instruments at fair value through profit or loss ("FVPL")*

Financial assets that do not meet the criteria for classification as measured at either amortised cost or FVOCI are classified as FVPL.

Derivative financial instruments that are not in an effective hedge relationship are classified as FVPL.

### Recognition and measurement

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not classified at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss.

Where financial assets are subsequently measured at amortised cost, interest revenue, credit losses and foreign exchange gains or losses are recognised in profit or loss. On derecognition, any gain or loss is recognised in profit or loss. Financial liabilities subsequently measured at amortised cost are measured using the effective interest method.

Where investments in equity instruments are designated as FVOCI, fair value gains and losses are recognised in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

Where financial assets are subsequently measured at FVPL, all gains and losses are recognised in profit or loss.

A key judgement is the assessment that substantially all the risks and rewards of ownership have been transferred in the derecognition of financial assets.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As the Group's financial instruments, with the exception of retail bonds, are not traded in active markets their fair value is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

All financial instruments held at fair value are included in level 2 of the valuation hierarchy as defined in NZ IFRS 13, with the exception of the retail bonds, which are included in level 1. The retail bonds are listed instruments on the NZDX and the Group is satisfied there is sufficient trading in these instruments to qualify as an active market.

The fair value of foreign currency forward contracts is determined using forward exchange rates at balance date. The fair value of foreign exchange option agreements is determined using forward exchange rates at balance date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date. The fair value of commodity derivatives is determined using NZX settlement prices.

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are master netting agreements in place for derivative financial instruments held, however these instruments have not been offset in the statement of financial position as they do not currently meet the criteria for offset.

### Impairment of financial assets

The Group has adopted the expected credit loss ("ECL") model. For further detail please refer to note 7. The Group assesses whether there is evidence that a financial asset or group of financial assets is impaired, with the exception of assets that are fair valued through profit or loss. A financial asset or a group of financial assets can be impaired and the impairment losses are recognised in accordance with IFRS 9. The Group continues to assess if historical and future objective evidence of impairment exists after the initial recognition of the asset.

### Derivative financial instruments - hedge accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk, and commodity price risk including forward exchange contracts, interest rate swaps, and commodity derivative contracts.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.

The full fair value of a hedging derivative is classified as a current asset or liability when the remaining term of the hedged item is 12 months or less from balance date, or when cash flows arising from the hedged item will occur within 12 months or less from balance date. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and no cash flows will occur within 12 months of balance date.

#### (i) *Hedge accounting*

The Group designates certain hedging instruments in respect of foreign currency risk and interest rate risk as cash flow hedges. Hedges of risk on firm commitments and highly probable transactions are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### (ii) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion and reclassification adjustments are recognised immediately in profit or loss, included in revenue for foreign exchange instruments and commodity price derivatives, and finance costs for interest rate swaps.

Amounts recognised in the hedging reserve are classified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is immediately recorded in profit or loss.

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

The Group separates the intrinsic value and time value of vanilla option and collar contracts, designating only the intrinsic value as the hedging instrument. The time value, including any gains or losses, is recognised in other comprehensive income until the hedged transaction occurs and is recognised in profit or loss.

*(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## (a) Financial instruments by category

## Financial assets

	At amortised cost \$'000	At fair value through other comprehensive income \$'000	At fair value through profit or loss \$'000	Total \$'000
<b>At 31 July 2024</b>				
Cash and cash equivalents	10,273	-	-	10,273
Derivative financial instruments	-	-	3,428	3,428
Trade and other receivables	117,047	-	27,875	144,922
Investments in equity	-	1,860	-	1,860
<b>Total</b>	<b>127,320</b>	<b>1,860</b>	<b>31,303</b>	<b>160,483</b>
<b>At 31 July 2023</b>				
Cash and cash equivalents	9,290	-	-	9,290
Derivative financial instruments	-	-	22,766	22,766
Trade and other receivables	63,175	-	19,766	82,941
Investments in equity	-	935	-	935
<b>Total</b>	<b>72,465</b>	<b>935</b>	<b>42,532</b>	<b>115,932</b>

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

## Financial liabilities

	At amortised cost \$'000	At fair value through profit or loss \$'000	Total \$'000
<b>At 31 July 2024</b>			
Derivative financial instruments	-	12,838	12,838
Working capital facility	82,901	-	82,901
Lease liabilities	54,079	-	54,079
Trade and other payables	257,896	-	257,896
Loans and borrowings	478,055	-	478,055
<b>Total</b>	<b>872,931</b>	<b>12,838</b>	<b>885,769</b>
<b>At 31 July 2023</b>			
Derivative financial instruments	-	26,862	26,862
Working capital facility	110,474	-	110,474
Lease liabilities	46,893	-	46,893
Trade and other payables	280,954	-	280,954
Loans and borrowings	312,251	-	312,251
<b>Total</b>	<b>750,572</b>	<b>26,862</b>	<b>777,434</b>

All derivative financial instruments are designated in effective hedge relationships.

For instruments held at amortised cost, carrying amount is considered a reasonable approximation for fair value, with exception to the Retail Bond (the fair value of the Retail Bond is shown at note 15).

## OTHER

This section contains additional information regarding the performance of the group during the financial year. This section includes the following notes:

	Page
22	120
23	123
24	123
25	126
26	126
27	126
28	126
Auditor's report	127

## 22. INCOME TAX

Tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss component of the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*New Zealand tax consolidated group*

Synlait Milk Limited and its wholly-owned New Zealand controlled entity, Synlait Milk Finance Limited and Synlait Milk (Dunsandel Farms) Limited, form a tax consolidated group. The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Dairyworks Limited and Synlait Milk (Holdings) No.1 Limited are not members of the tax consolidated group.

	2024 \$'000	2023 \$'000
<b>(a) Income tax (expense) / benefit</b>		
<b>Current tax expense:</b>		
Current tax on profit / (loss) for the year	(11)	(2,354)
Current tax on prior period adjustments	<u>2,062</u>	<u>703</u>
	<u>2,051</u>	<u>(1,651)</u>
<b>Deferred tax expense:</b>		
Temporary differences	61,589	5,063
Changes in tax rates and laws	(5,728)	-
Prior year adjustments	(2,271)	(447)
Change in estimate	-	-
<b>Total deferred tax</b>	<u>53,590</u>	<u>4,616</u>
<b>Income tax benefit / (expense)</b>	<u>55,641</u>	<u>2,965</u>
<b>(b) Reconciliation of effective tax rate</b>		
Profit / (loss) before income tax	(237,752)	(7,257)
Income tax using the Group's domestic tax rate - 28%	66,571	2,032
Tax exempt income	892	772
Non-deductible costs	<u>(6,191)</u>	<u>(112)</u>
	61,272	2,692
Prior year adjustments	(209)	256
Deferred tax credit relating to changes in tax rates and laws	(5,728)	-
Deferred tax credit relating to change in estimate	-	-
Other tax effects for reconciliation between accounting profit and tax expense	<u>306</u>	<u>17</u>
	<u>(5,631)</u>	<u>273</u>
<b>Income tax expense</b>	<u>55,641</u>	<u>2,965</u>

## 22. INCOME TAX (CONTINUED)

(c) Imputation credits	2024 \$'000	2023 \$'000
Imputation credits available directly and indirectly to the shareholders of the Group	<u>87,268</u>	<u>80,338</u>

## (d) Income tax recognised in other comprehensive income

The tax credit / (charge) relating to components of other comprehensive income is as follows:

	Before tax \$'000	Tax benefit / (expense) \$'000	After tax \$'000
<b>31 July 2024</b>			
Cash flow hedges	<u>(5,401)</u>	<u>1,511</u>	<u>(3,890)</u>
Other comprehensive income	<u>(5,401)</u>	<u>1,511</u>	<u>(3,890)</u>
<b>31 July 2023</b>			
Cash flow hedges	<u>64,405</u>	<u>(18,033)</u>	<u>46,372</u>
Other comprehensive income	<u>64,405</u>	<u>(18,033)</u>	<u>46,372</u>

## (e) Deferred taxation

	2024 \$'000	2023 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
<b>Assets</b>		
Tax losses carried forward	<u>66,248</u>	<u>18,860</u>
Other items	<u>4,421</u>	<u>4,217</u>
Derivatives	<u>2,650</u>	<u>1,147</u>
Lease liabilities	<u>15,485</u>	<u>13,381</u>
<b>Total deferred tax assets</b>	<u>88,804</u>	<u>37,605</u>
<b>Liabilities</b>		
Property, plant and equipment	<u>(63,207)</u>	<u>(74,702)</u>
Intangible assets	<u>(15,303)</u>	<u>(6,134)</u>
Right of use assets	<u>(10,481)</u>	<u>(11,454)</u>
<b>Total deferred tax liabilities</b>	<u>(88,991)</u>	<u>(92,290)</u>
<b>Total deferred tax</b>	<u>(187)</u>	<u>(54,685)</u>

## 22. INCOME TAX (CONTINUED)

	Balance 1 Aug 2022 \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Recognised directly in equity \$'000	Prior year adjustment \$'000	Movement relating to discontinued operation \$'000	Balance 31 July 2023 \$'000
Property, plant and equipment	(61,501)	(9,028)	-	-	(499)	(3,674)	(74,702)
Derivatives	19,170	-	(18,033)	-	-	10	1,147
Other items	3,990	775	-	(5)	104	(647)	4,217
Tax losses carried forward	-	18,860	-	-	-	-	18,860
Intangible assets	(5,254)	(5,498)	-	-	(22)	4,640	(6,134)
Right of use assets	(6,750)	(8,728)	-	-	-	4,024	(11,454)
Lease liabilities	<u>8,479</u>	<u>9,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,176)</u>	<u>13,381</u>
<b>Total</b>	<u>(41,866)</u>	<u>5,459</u>	<u>(18,033)</u>	<u>(5)</u>	<u>(417)</u>	<u>177</u>	<u>(54,685)</u>

	Balance 1 Aug 2023 \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Recognised directly in equity \$'000	Prior year adjustment \$'000	Movement relating to discontinued operation \$'000	Balance 31 July 2024 \$'000
Property, plant and equipment	(74,702)	8,427	-	-	(97)	3,165	(63,207)
Derivatives	1,147	-	1,511	-	-	(8)	2,650
Other items	4,217	346	-	-	(300)	158	4,421
Tax losses carried forward	18,860	49,689	-	-	(2,301)	-	66,248
Intangible assets	(6,134)	(5,433)	-	-	427	(4,163)	(15,303)
Right of use assets	(11,454)	4,485	-	-	-	(3,512)	(10,481)
Lease liabilities	<u>13,381</u>	<u>(1,654)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,758</u>	<u>15,485</u>
<b>Total</b>	<u>(54,685)</u>	<u>55,860</u>	<u>1,511</u>	<u>-</u>	<u>(2,271)</u>	<u>(602)</u>	<u>(187)</u>

## (f) Pillar II tax reform

The Organisation for Economic Co-operation and Development (OECD) has introduced GloBE Pillar Two model rules which aim to implement a global minimum tax rate of 15 per cent across all jurisdictions.

The New Zealand Government has enacted legislation to implement the OECD Pillar Two Rules which are effective for the Group from 1 August 2025. The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The Group has undertaken a high-level assessment to determine the Group's potential exposure to Pillar Two top-up taxes. Based on the assessment, it is expected that the Group will satisfy the relevant criteria to rely on the Pillar Two transitional safe harbour rules and is not expected to have exposure to Pillar Two top up taxes. The Group is continuing to monitor the developments of the Pillar Two legislation in countries that the Group operates in and assess the impact of Pillar Two legislation on its future financial performance.

## 23. OTHER INVESTMENTS

### Investments in associates

Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest, and has significant influence. Investments in associates are accounted for using the equity method and are measured in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets. Goodwill relating to associates is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

### Investments in joint ventures

The Group measures its interests in joint ventures where it does not hold significant influence over the ventures at either fair value through profit and loss (FTPL) or fair value through other comprehensive income (FVOCI). The determination of the measurement basis is made on an investment-by-investment basis. Investments where the Group holds significant influence are accounted for using the equity method and are measured in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets. Goodwill relating to joint ventures is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

	2024 \$'000	2023 \$'000
Equity securities	110	110
Interest in joint venture	1,750	825
<b>Total other investments</b>	<b>1,860</b>	<b>935</b>

During the period the Group invested a further \$0.9m (2023: \$0.8m) in AgriZero a public-private joint venture which has been established to undertake a portfolio of investments that will help accelerate delivery of biological emissions tools to all New Zealand farmers. The Group has committed to investing a further \$1.8m in the joint venture. The Group has made a one-time irrevocable election to measure its interest in the joint venture at FVOCI.

Synlait Milk Limited held, either directly or indirectly, interests in the following entities at the end of the reporting period:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2024 %	2023 %
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
The New Zealand Dairy Company Limited (Subsidiary)	New Zealand	Ordinary	100	100
Eighty Nine Richard Pearse Drive Limited (Subsidiary)	New Zealand	Ordinary	100	100
Sichuan New Hope Nutritional Foods Co. Ltd (Associate)	China	Ordinary	25	25
Synlait Business Consulting (Shanghai) Co., Ltd (Subsidiary)	China	Ordinary	100	100
Synlait Milk (Holdings) No.1 Limited (Subsidiary)	New Zealand	Ordinary	100	100
Dairyworks Limited (Subsidiary)	New Zealand	Ordinary	100	100
Synlait Milk (Dunsandel Farms) Limited (Subsidiary)	New Zealand	Ordinary	100	100
Primary Collaboration New Zealand Limited	New Zealand	Ordinary	17	17
Primary Collaboration New Zealand (Shanghai) Co., Ltd	China	Ordinary	100	100
Centre for Climate Action Joint Venture	New Zealand	Ordinary	2	2

## 24. RELATED PARTY TRANSACTIONS

### Parent entity

Bright Dairy Holding Limited hold 39.01% of the shares issued by Synlait Milk Limited (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 set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

## 24. RELATED PARTY TRANSACTIONS (CONTINUED)

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. Eighty Nine Richard Pearse Drive Limited owned the land and buildings at which the Auckland blending and canning which were sold in a sale and leaseback transaction in a previous period. Both The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited 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 August 2019, the Group acquired selected assets and liabilities of Talbot Forest Cheese Limited. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. The acquisition included a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products. On 31 December 2020, Synlait Foods (Talbot Forest) Limited was amalgamated into Dairyworks Limited.

On 1 April 2020, the Group acquired 100% of the share capital in Dairyworks Limited. Dairyworks Limited specialises in the processing, packaging, and marketing of dairy products, including cheese, butter, and milk powder.

On 3 August 2020 Synlait Milk (Holdings) No.1 Limited was incorporated for the purposes of holding newly acquired land located adjacent to the Group's Dunsandel Operations. Synlait Milk (Holdings) No.1 Limited was previously known as Synlait Milk (Dunsandel Farms) Limited.

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

### Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other benefits paid or due to executive leadership team members as at 31 July 2024. The total short-term benefits paid to the key management and personnel is set out below.

	2024 \$'000	2023 \$'000
Short term benefits	8,157	7,095
Share based payments expenses (note 18)	385	1

## 24. RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

#### (i) Loans to directors

There were no loans to directors issued during the period ended 31 July 2024 (2023: \$nil).

#### (ii) Other transactions and balances

Directors of Synlait Milk Limited own and control 0.0% of the voting shares of the company at balance date (2023: 2.4%).

#### (iii) Shareholder loan

On 14 July 2024, The Group obtained a loan from its majority shareholder, Bright Dairy, which was fully drawn as at 31 July 2024 of \$130m (2023: \$nil). The loan has been priced with interest payable at 8% per annum. The Group also has the option to extend the term of the loan by 1 year. The loan was obtained for the purposes of allowing the Group to make good on a \$130m mandatory prepayment of debt which was originally due on 15 March 2024 and extended to 15 July 2024. A total of \$0.6m of interest was accrued as payable at 31 July 2024.

### (b) Transactions with related parties

	2024 \$'000	2023 \$'000
<i>Purchase of goods and services</i>		
Bright Dairy and Food Co Ltd - Directors fees	263	267
New Hope Innovation (Hong Kong) Trading Company Limited - reimbursement of costs	-	-
<i>Sale of goods and services</i>		
Bright Dairy and Food Co Ltd - sale of dairy products	1,849	1,807
Sichuan New Hope Nutritional Food Co. Ltd - sale of milk powder products	-	-
New Hope Innovation (Hong Kong) Trading Company Limited - sale of milk powder products	-	-

### (c) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

	2024 \$'000	2023 \$'000
<i>Current receivables (payables)</i>		
Bright Dairy and Food Co Ltd - sale of milk powder products	-	609
Bright Dairy and Food Co Ltd - reimbursement of costs	(890)	(1,118)
Bright Dairy and Food Co Ltd - interest payable	(569)	-
Sichuan New Hope Nutritionals Ltd - sale of milk powder products	-	-
Sichuan New Hope Nutritionals Ltd - other costs	-	-

## 25. CONTINGENCIES

No significant contingent liabilities are outstanding at balance date (2023: \$nil).

## 26. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2024 \$'000	2023 \$'000
Pokeno modifications	-	745
Major operational capital expenditure	2,666	-

The above balances have been committed in relation to future expenditure on capital projects. Amounts already spent have been included as work in progress.

## 27. EVENTS OCCURRING AFTER THE REPORTING PERIOD

### *Settlement with The a2 Milk Company*

Refer to the "Material events and other significant items" section of these notes for further information.

### *Equity Placement*

Refer to the "Material events and other significant items" section of these notes for further information.

### *Refinancing*

Refer to the "Material events and other significant items" section of these notes for further information.

### *Completion of North Island strategic review*

Refer to the "Material events and other significant items" section of these notes for further information.

## 28. OTHER ACCOUNTING POLICIES

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

### Goods and Services Tax (GST)

The profit and loss components of the statement of comprehensive income have been prepared so that all components are stated exclusive of GST. All items in the financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.





## Independent auditor's report

To the shareholders of Synlait Milk Limited

### Our opinion

In our opinion, the accompanying financial statements of Synlait Milk Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2024, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards).

### What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 31 July 2024;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of a limited scope logistics benchmarking review. The provision of this other service has not impaired our independence as auditor of the Group.

### Material uncertainty related to going concern

We draw attention to the going concern note (pages 71 to 73) to the financial statements, which indicates that the Group incurred a loss after tax for the year of \$182.1m and operating cash outflows of \$47.2m and that its current liabilities exceed its current assets by \$235.6m as at that date. \$369.7m of borrowings are classified as current liabilities and are due for repayment or refinancing within twelve months from the date of these financial statements.

The ability of the Group to continue trading as a going concern is dependent on the completion of a planned recapitalisation of the business on 1 October 2024, which includes an equity placement, the successful execution of new banking facilities which mature on 1 October 2025, and the settlement of the dispute and other matters with The a2 Milk Company. All of these events are interdependent and need to occur contemporaneously. In addition, the Group's ability to continue to access capital is dependent on achieving the forecasted improvement in trading performance and a significant reversal of milk supply cessations. These events and conditions, along with the other matters set forth in the Going concern note, indicate that material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context



of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section above, we have determined the matter described below to be the key audit matter to be communicated in our report.

Description of the key audit matter	How our audit addressed the key audit matter
<p><b>Synlait impairment assessments</b></p> <p>As outlined in note 1, a goodwill impairment test was performed as at 31 January 2024 due to impairment indicators at that time which resulted in a \$50.3m impairment in the Group's half year financial statements. As a result, no Synlait goodwill remained on the statement of financial position.</p> <p>As at 31 July 2024 asset impairment indicators, including the market capitalisation, multiple profit downgrades and continued underutilisation of the North Island plant, were evident. Asset impairment testing was performed at both the Synlait South Island and Synlait North Island cash generating units (CGUs).</p> <p>For the Synlait South Island CGU management performed a value in use model, using a discounted cash flow model, which indicated sufficient headroom.</p> <p>An independent third party valuation was obtained for the Synlait North Island CGU which indicated the recoverable amount from the value in use model, on the basis of ceasing dairy processing and refocusing on advanced nutritional products which do not require raw milk (consistent with the outcome of the strategic asset review), was higher than the fair value less cost to sell. However, the recoverable amount from the value in use model was below the carrying value of the assets indicating a further \$64.2m impairment for the Synlait North Island CGU as at 31 July 2024.</p> <p>The total impairment recognised for the year ended 31 July 2024 therefore amounts to \$114.6m, the majority of this related to the Synlait North Island CGU.</p> <p>Given the materiality of the impairment recognised for the Synlait North Island CGU, impairment indicators for the Synlait South Island CGU, and the significant level of estimation and judgement applied in determining key assumptions used the Synlait impairment assessments is considered a key audit matter.</p>	<p>Our audit focused on assessing and challenging the key assumptions used by management in their impairment assessment.</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>• evaluated the appropriateness of the identification of the Synlait CGUs against the requirements of NZ IAS 36;</li> <li>• compared the cash flows included in management's impairment model to the board approved plans;</li> <li>• assessed the Group's forecasting accuracy by comparing historical forecasts to actual results;</li> <li>• discussed with management the basis for the cash flow forecasts and the key drivers of change in the forecasts, including internal and external factors;</li> <li>• engaged our valuation expert to assist us with: <ul style="list-style-type: none"> <li>◦ considering whether the valuation methodology applied was appropriate;</li> <li>◦ assessing whether the discount rates and long term growth rates used by management and their advisors was reasonable in the context of the forecasts</li> </ul> </li> <li>• tested the accuracy of the calculations in the impairment models, and considered whether the carrying amount of the CGU's net assets and allocation of corporate assets and costs were correctly included and allocated appropriately between the two CGUs in the respective impairment assessments based on cost drivers;</li> <li>• evaluated the reasonableness of management's assumptions underpinning the forecast cash flows including considerations around the impact of The A2 Milk Company settlement, cost of securing future milk supply and the outcome of the strategic asset review based on our understanding of the underlying contractual terms, the Group and the industry;</li> <li>• performed sensitivity analyses for the effect of reasonably possible changes in key assumptions on the impairment assessments; and</li> <li>• considered the appropriateness of disclosures in the financial statements against the requirements of NZ IFRS and IFRS.</li> </ul>



## Our audit approach

### Overview



Overall group materiality: \$8,100,000, which represents approximately 0.5% of total revenue.

We chose total revenue as the benchmark because, in our view, it is a more stable benchmark than loss before income tax and is a generally accepted benchmark.

Full scope audits were performed for two entities in the Group based on their financial significance being Synlait Milk Limited and Dairyworks Limited. Specified audit procedures and analytical review procedures were performed on the remaining entities.

As reported above, in addition to the matter described under the *Material uncertainty related to going concern section of our report*, we have one key audit matter, being:

- Synlait impairment assessments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

#### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

#### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report (but does not include the financial statements and our auditor's report thereon). The other information we obtained prior to the date of this auditor's report comprised the information included in the annual report, excluding the Sustainability Report 2024, which forms part of the Annual Report, but will be published at a later date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Sustainability Report 2024, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

#### Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

#### Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

Chartered Accountants

30 September 2024

Christchurch

## DIRECTORY

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## B CORP™ CERTIFIED

Synlait's commitment to elevating people and planet to the same level as profit was recognised in June 2020 when it became part of the B Corp™ community.

B Corp™ is a community of leaders driving a global movement of people using business as a force for good.

Certified B Corporations™ consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.

B Corp™ resonates strongly with Synlait's purpose of *Doing Milk Differently For A Healthier World*.

