



# SYNLAIT MILK LIMITED

## NOTICE OF SPECIAL SHAREHOLDERS' MEETING

You are invited to Synlait Milk Limited's (Synlait) Special Shareholders' Meeting on Thursday, 11 July 2024 at 2.00pm (NZST).

The Special Shareholders' Meeting will be held in person at Synlait's Dunsandel facility, located at 1028 Heslerton Road, RD13 Rakaia, Canterbury, New Zealand, and online

via the Computershare meeting platform at: [www.meetnow.global/nz](http://www.meetnow.global/nz)

Further details about joining the meeting in person and online can be found on page 21 and in the accompanying Virtual Meeting Guide released with this Notice of Meeting.

### IMPORTANT DATES AND TIMES (NZST)

Voting/Proxy Forms to be received by:  
2.00pm on Tuesday, 9 July 2024

Record date for voting:  
5.00pm on Tuesday, 9 July 2024

Special Shareholders' Meeting:  
2.00pm on Thursday, 11 July 2024

### RESOLUTION

To consider and, if thought fit, pass the following resolution:

*That the Shareholder Loan, as described in the Notice of Meeting dated 25 June 2024, be approved under and for the purposes of NZX Listing Rules 5.1.1(b) and 5.2.1.*

This is an important document and requires your immediate attention. You should carefully read it in its entirety (including the Independent Report from Northington Partners Limited that accompanies this Notice of Meeting as the Appendix) before deciding whether or not to vote in favour of the resolution. If you are in any doubt about what you should do, you should seek advice from your broker or your financial, taxation or legal adviser immediately.

# IMPORTANT INFORMATION

## Purpose of this Notice of Meeting

The purpose of this Notice of Meeting is to:

- inform you about the proposed transaction requiring Synlait Milk Limited (Synlait) shareholder approval;
- make you aware of the Special Shareholders' Meeting to be held at Synlait's Dunsandel facility, located at 1028 Heselton Road, RD13 Rakaia, Canterbury, New Zealand, and online via the Computershare meeting platform at: [www.meetnow.global/nz](http://www.meetnow.global/nz) to vote on the resolution;
- enable you to appraise the implications of the proposed transaction; and
- help you decide whether to vote for or against the resolution. If you choose not to vote you should be aware that whether the resolution is passed or not will be determined solely by reference to the number of votes cast by shareholders who do vote.

## Voting/Proxy Form

Accompanying this Notice of Meeting is a Voting/Proxy Form to enable you to vote on the resolution by:

- attending the Special Shareholders' Meeting, whether in person or online; or
- appointing a proxy to attend and vote on your behalf at the Special Shareholders' Meeting.

You are urged to complete and return the Voting/Proxy Form as soon as possible if you do not plan to attend the Special Shareholders' Meeting.

## Sold your shares?

If you have sold your shares, please immediately hand this document and the accompanying Voting/Proxy Form to the purchaser or the agent through whom the sale was made, to be passed to the purchaser.

## Your decision

This Notice of Meeting does not consider your individual investment objectives, financial situation, or needs. You must make your own decisions and seek your own advice in this regard.

The information and recommendations contained in this Notice of Meeting do not constitute, and should not be taken as constituting, financial advice.

If you are in any doubt as to what you should do, you should seek advice from your financial, taxation or legal adviser before making any decision regarding the proposed transaction.

## Forward looking statements

This Notice of Meeting contains certain forward looking statements. You should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Synlait to be materially different from the future conduct, market conditions, results, performance or achievements expressed or implied by such statements or that could cause future conduct to be materially different from historical conduct. Deviations as to future conduct, market conditions, results, performance and achievements are both normal and to be expected.

Forward looking statements generally may be identified by the use of forward looking words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'foresee', 'future', 'intend', 'likely', 'may', 'planned', 'potential', 'should', or other similar words.

Neither Synlait nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Notice of Meeting will actually occur. You are cautioned against relying on any such forward looking statements.

## Additional information available under Synlait's continuous disclosure obligations

Synlait is subject to continuous disclosure obligations under the NZX Listing Rules which require it to notify certain material information to NZX. The ASX Listing Rules also require that Synlait immediately provides to ASX all the information which it provides to NZX that is, or is to be, made public. Market announcements by Synlait are available at [www.nzx.com](http://www.nzx.com) under the ticker code "SML" and at [www.asx.com.au](http://www.asx.com.au) under the ticker code "SM1". In particular, Synlait recommends that you read the Market Update announcement dated 4 June 2024.

Synlait may make additional releases to NZX and ASX prior to the Special Shareholders' Meeting. Shareholders should carefully monitor Synlait's market announcements prior to that meeting.

**NZ RegCo**

NZ RegCo has provided written confirmation that it does not object to this Notice of Meeting pursuant to NZX Listing Rule 7.1.1. However, NZ RegCo accepts no responsibility for any statement in this Notice of Meeting.

**Effect of rounding**

Several figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Notice of Meeting are subject to the effect of rounding. Accordingly, actual calculations may differ from amounts set out in this Notice of Meeting.

**Defined terms**

Capitalised terms set out in this Notice of Meeting have the meanings given to them in the Glossary.

**Currency**

In this Notice of Meeting, a reference to \$ is to New Zealand dollars, unless otherwise stated.

**Date of this Notice of Meeting**

This Notice of Meeting is given on Tuesday, 25 June 2024.

**QUERIES:**

If you have any queries in relation to this Notice of Meeting, please contact one of the following:

**Synlait** on: +64 (0)21 252 8990

**Computershare** on: 0800 650 034 / +64 9 488 8777

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## 1. KEY DATES

Indicative date and time (NZST)	Event
Tuesday, 25 June 2024	<b>Notice of Meeting</b> – date this Notice of Meeting was distributed.
Tuesday, 9 July 2024 at 2.00pm	<b>Closing</b> time and date for Voting/Proxy Forms for the Special Shareholders' Meeting to be submitted.
Tuesday, 9 July 2024 at 5.00pm	<b>Voting eligibility time</b> for determining eligibility to vote at the Special Shareholders' Meeting.
Thursday, 11 July 2024 at 2.00pm	<b>Special Shareholders' Meeting</b> to be held in person at Synlait's Dunsandel facility, located at 1028 Heselton Road, RD13 Rakaia, Canterbury, New Zealand, and online via the Computershare meeting platform at: <a href="http://www.meetnow.global/nz">www.meetnow.global/nz</a>
<b>If the resolution is approved by shareholders</b>	
On or before 15 July 2024	<b>Drawing of Shareholder Loan</b> – estimated time for funds to be drawn under the Shareholder Loan (assuming all conditions have been satisfied) to meet the \$130 million payment due to Synlait's banks.

All dates in the table above are indicative only. In particular, the timing of completion of the proposed transaction will depend on the timing of the satisfaction of its various conditions, as described in this Notice of Meeting. Any material updates to the timetable will be announced via the announcement platforms of NZX and ASX and notified at: [www.synlait.com](http://www.synlait.com)

All references to time in this Notice of Meeting are references to New Zealand Standard Time (NZST), unless otherwise stated. Any obligation to do an act by a specified time in NZST must be done at the corresponding time in any other jurisdiction.

## 2. LETTER FROM THE CHAIR



25 June 2024

Dear shareholders

On behalf of the Synlait board, I am pleased to enclose this Notice of Meeting, which outlines important information regarding the proposed entry into a \$130 million loan facility with Bright Dairy International Investment Limited, a related company of Synlait's largest shareholder, Bright Dairy Holding Limited.

### Importance of the resolution to the future of the company

Shareholders will be given the opportunity to vote on the resolution to approve the Shareholder Loan at the Special Shareholders' Meeting on Thursday 11 July 2024. If the resolution is approved by shareholders (and all conditions under the Shareholder Loan have been satisfied), Synlait will draw down the loan in full to meet the \$130 million payment due to its banks on 15 July 2024. **Synlait will not be able to meet that payment obligation to its banks if the Shareholder Loan is not approved. If that payment is not made and the banks do not agree to alternative arrangements, the Board's view is that Synlait will need to cease trading or initiate a formal insolvency process.**

### Key terms of the Shareholder Loan

The Shareholder Loan has been offered to Synlait by Bright to ensure that the \$130 million payment due to the banks can be met on time and in full. Synlait is in the process of seeking approval to the Shareholder Loan from its banks. The banks' agent has confirmed that each of the banks have received the credit approvals required to consent to the Shareholder Loan. Synlait and the banks are in the process of negotiating the documentation to give effect to the consent and satisfying any applicable conditions. The Shareholder Loan will rank in priority of payment behind those banks and ahead of Synlait's listed bonds.

The Shareholder Loan is fully documented, comprising a loan facility of \$130 million. The loan facility is initially for a twelve-month term but can be extended at Synlait's option for a further twelve months subject to certain conditions set out in section three (*Shareholder Loan*) below. The extension option can be exercised once for a total term of two years.

For the first twelve months of the Shareholder Loan, interest is payable quarterly at 8% per annum. If the extension option is exercised, the interest rate resets and will be equal to quarterly BKBM + 1.60% per annum (payable quarterly). In certain circumstances (where an "Interest Deferral Event" exists), Synlait has the right for interest to be capitalised rather than paid in cash (see further details in section three (*Shareholder Loan*) below).

The proceeds of the Shareholder Loan will be applied towards the \$130 million payment which is due to Synlait's banks on 15 July 2024. While it will also constitute debt, the Shareholder Loan is intended to be used as a bridge to a broader recapitalisation plan for Synlait.

#### **Synlait is required to reduce its bank debt**

Our banks, while supportive of Synlait, introduced a requirement in September 2023 that the amount of debt owed to them be reduced by \$130 million by 31 March 2024. That date was subsequently extended by agreement of the banks to 15 July 2024. Synlait is now required to make that repayment of \$130 million on 15 July 2024, without a further extension of time. The Shareholder Loan would replace \$130 million of debt owed to the banks with \$130 million of debt owed to Bright Dairy International.

The Board is extremely aware that Synlait needs to significantly progress with reducing its debt, reporting outstanding loans and borrowings of \$585 million as at 31 May 2024 including \$180 million of Bonds. Our banks require that the amount of debt be reduced with an expectation that Synlait will need to deliver covenant ratios appropriate for this phase of the economic cycle.

Synlait is now progressing at pace a series of structural initiatives to address the scale of challenges we face today. It has altered its strategy to focus on its core B2B Advanced Nutrition and Foodservice channels, where it believes it has a clear right to win. The Board and management have spent considerable time aligning on Synlait's business recovery plan for this financial year and next, which has three areas of focus – reducing debt, accelerating volume growth, and optimising costs and operational performance.

As announced on 2 April 2024 at the half year result, our banks agreed to short-term covenant relaxation in our existing facility to provide us time to reduce debt. Since that date Synlait has requested waivers in respect of both its leverage ratios and interest coverage ratio and a deferral of the maturity/limit step downs of relevant facilities through to the end of July 2024. The banks' agent has confirmed that each of the banks have received credit approval to the covenant waivers and the deferral of the relevant maturity/limit step downs in June and July until such time that Synlait's planned equity capital raising is completed (as to which, see below). The approval is subject to the addition of a covenant to achieve minimum adjusted EBITDA for FY2024 of \$45 million. Synlait and the banks are in the process of negotiating the documentation for these waivers and satisfying any applicable conditions. If documentation for the deferral of the step down of

relevant facility limits and extension of relevant maturity dates due to occur on 27 June 2024 or 31 July 2024 is not able to be agreed, Synlait's drawn debt may exceed its permitted levels and therefore be in default under the Bank Facilities on 27 June 2024 and/or 31 July 2024. If documentation of the ratio waivers is not agreed prior to 31 July 2024, Synlait will likely be in default under the Bank Facilities on that date.

Even if these waivers are granted, the banks still require that \$130 million is paid on or before 15 July 2024. It is the Board's view that Synlait will not be in a position to do that without the Shareholder Loan. For further information see section three (*Shareholder Loan*) under the heading "Bank Facilities and Bonds".

#### **Proposed equity capital raising to help reset Synlait's balance sheet**

To ensure that Synlait's balance sheet is reset, Synlait is planning to undertake an equity capital raising. Bright Dairy has indicated it fully supports Synlait raising equity capital, subject to terms being finalised, and all necessary approvals being received, to more substantially re-set the company's equity and debt position to provide a platform to return to sustainable growth for Synlait farmer suppliers and all shareholders. The Synlait Board and its advisers are continuing to progress the structure, terms and conditions of a proposed equity raising and will further update shareholders by the end of August, possibly earlier, by market announcement.

In connection with the proposed equity raising, Synlait is also proposing to concurrently refinance its Bank Facilities. As part of that refinancing Synlait will be seeking amended facilities that, upon the completion of the equity raising, will be available to be drawn to meet Synlait's expected working capital and other corporate requirements as well as allowing for the repayment of the Bonds. Further information will be provided about the refinancing once arrangements have been agreed with the banks.

**The Independent Directors fully support the Shareholder Loan outlined in this Notice of Meeting and unanimously recommend that shareholders vote in favour of the resolution at the Special Shareholders' Meeting. The directors appointed by Bright have abstained from making a recommendation.**

The shareholder vote to approve the resolution will take place at the Special Shareholders' Meeting. In broad terms, the Shareholder Loan will require approval by way of an ordinary resolution (greater than 50% of those shares entitled to vote and voting) because the Shareholder Loan

is a major transaction for the purposes of NZX Listing Rule 5.1.1(b) and a Material Transaction with a Related Party for the purposes of NZX Listing Rule 5.2.1. All shareholders other than Bright Dairy Holding Limited (as a Related Party of Synlait and an Associated Person of the lender under the Shareholder Loan) can vote.

#### **Independent Report**

In accordance with the NZX Listing Rules, the Board has commissioned an independent appraisal report from Northington Partners (refer to the Independent Report in the Appendix) for the benefit of shareholders to support their consideration of the resolution to enter into the Shareholder Loan. Shareholders should carefully read the Independent Report in full. A summary of some of the key conclusions reached by Northington Partners is set out in section five (*Notice of Meeting*) under the heading "Conclusion from Independent Report".

#### **Voting intentions of major shareholders**

Bright Dairy Holding Limited is not able to vote in favour of the Shareholder Loan. This means the voting intentions of The a2 Milk Company Limited, as the holder of 19.8% of the shares (which equates to approximately 33% of the votes eligible to be cast on the resolution), will be influential in determining the outcome of the resolution to approve the Shareholder Loan.

Whilst as at the date of this Notice of Meeting Synlait and The a2 Milk Company Limited have engaged in

discussions, The a2 Milk Company Limited has not determined how it will vote on the resolution. If Synlait is advised of a change of status of The a2 Milk Company Limited's voting intentions, it will update shareholders by way of market announcement.

Your vote is important, regardless of how many shares you own. I strongly encourage you to exercise your right to vote on this important matter.

Please read this Notice of Meeting carefully. It contains important information which you should consider before you vote. You may also wish to seek independent legal, financial, taxation and other professional advice when considering your vote.

I would like to sincerely thank shareholders for their support as we determine Synlait's next chapter. We look forward to your participation in the upcoming Special Shareholders' Meeting on Thursday, 11 July 2024 at 2.00pm.

Yours sincerely



**George Adams**  
Chair



### 3. SHAREHOLDER LOAN

The proposed transaction involves the entry into a loan agreement with Bright Dairy International, with the proceeds to be used to pay the \$130 million due to the banks on or before 15 July 2024.

The Shareholder Loan is fully documented, comprising a loan facility of \$130 million. The loan facility is initially for a twelve-month term but can be extended at Synlait's option for a further twelve months, subject to certain conditions being satisfied (see the Extension Option section in the table below).

The extension option can be exercised once, for a total term of two years.

For the first twelve months of the Shareholder Loan, interest is payable quarterly at 8% per annum. If the extension option is exercised, the interest rate resets and will be equal to quarterly BKBM + 1.60% per annum (payable quarterly). The Shareholder Loan is subject to several conditions, including:

- obtaining Synlait Shareholder approval. This approval is being sought at the Special Shareholder Meeting;
- an internal resolution of Bright Dairy & Food Co., Ltd., approving the Shareholder Loan. As at the date of this Notice of Meeting, this approval remains outstanding;
- evidence that the Shareholder Loan has been approved by the State-owned Assets Supervision and Administration Commission of Shanghai (SASAC) or any institution authorised by it. As at the date of this Notice of Meeting, this approval remains outstanding;
- approval to the Shareholder Loan and Shareholder Loan documents from Synlait's banks; and
- other customary lending conditions – these are expected to be satisfied at or about the time that the Shareholder Loan is drawn upon.

The conditions must be in form and substance satisfactory to Bright Dairy International.

Bright Dairy International is responsible for seeking the approvals to the Shareholder Loan referred to in the list of conditions above from Bright Dairy & Food Co., Ltd. and SASAC, and must use reasonable endeavours to satisfy those conditions.

Each of the Synlait Guarantors will guarantee the obligations of Synlait in respect of the Shareholder Loan. In addition, the obligations of Synlait and the Synlait Guarantors in respect of the Shareholder Loan are to be secured on a second ranking basis with security over all of each of Synlait's and the Synlait Guarantors' present and after-acquired property. The Shareholder Loan is to be subordinated to Synlait's Senior Creditors. The Shareholder Loan will not be subordinated to the other creditors of Synlait and the Synlait Guarantors (in particular, Bondholders and trade creditors). See the section 'Ranking and subordination' below for further detail.

The Shareholder Loan will be used to prepay Synlait's debt owed under the Bank Facilities Agreement, up to the amount of the \$130 million payment due on 15 July 2024.

#### Reason for the Shareholder Loan

As announced on 2 April 2024, the banks agreed to short-term covenant relaxation of its existing facility to provide time to reduce debt. However, the banks require that \$130 million of facilities they have advanced are repaid on or before 15 July 2024. Synlait is not forecasting to be able to do that without the entry into the Shareholder Loan.

Synlait has been focused on a business recovery programme which has three areas of focus – reducing debt, accelerating volume growth, and optimising cost and operational performance. However, it is the Board's view that cash flows from operations alone, particularly given Synlait's current financial performance, will not reduce debt sufficiently to meet the payment due on 15 July 2024 or provide sufficient deleveraging to secure alternative or amended banking facilities.

The Shareholder Loan has been offered to Synlait by Bright Dairy International to ensure that the \$130 million payment due to the banks can be met on time and in full. Synlait is in the process of seeking approval to the Shareholder Loan from its banks. The banks' agent has confirmed that each of the banks have received the credit approvals required to consent to the Shareholder Loan. Synlait and the banks are in the process of negotiating the documentation to give effect to the consent and satisfying any applicable conditions. The Shareholder Loan will be subordinated to the Senior Creditors and rank in priority of payment behind the Senior Creditors (see Intercreditor / Priority Terms below).

### Details of the lender

Bright Dairy International is a wholly-owned subsidiary of Bright Dairy & Food Co. Ltd, of which Bright Dairy Holding Limited is an indirect wholly owned subsidiary. Bright Dairy Holding Limited owns and controls 39.01% of the shares in Synlait.

### Key terms

The key terms of the Shareholder Loan documents are as follows:

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<b>Parties</b>	
<b>Borrower</b>	Synlait Milk Limited.
<b>Synlait Guarantors</b>	Each guarantor in respect of the Bank Facilities being, as at the date of this notice of meeting: (a) the Borrower; (b) Synlait Milk Finance Limited; (c) The New Zealand Dairy Company Limited; (d) Eighty Nine Richard Pearse Drive Limited; (e) Synlait Milk (Dunsandel Farms) Limited; and (f) Dairyworks Limited.
<b>Security</b>	All assets security provided by Synlait and each Synlait Guarantor, and second ranking registered mortgages over all real property assets. The security will secure all obligations of Synlait and the relevant Synlait Guarantors owing to the Lender.
<b>Lender</b>	Bright Dairy International Investment Limited
<b>General Financing Structure</b>	
<b>Amount</b>	NZ\$130 million single draw term loan.
<b>Loan Maturity Date</b>	12 months from the date of first drawdown (subject to the Extension Option below).
<b>Extension Option</b>	On the date that is one month prior to the then current Loan Maturity Date, the Borrower has the option to extend the Loan Maturity Date for a further twelve months by way of board resolution of the Borrower and notification to the Lender, subject to: <ul style="list-style-type: none"><li>the shares of the Borrower remain listed;</li><li>no administrator or liquidator has been appointed to the Borrower; and</li><li>Bright Dairy Holding Limited holds not less than 39.01% of the shares in the Borrower (prior to an equity raising being completed), or 51% (after an equity raising has been completed), in each case other than as a result of a voluntary sale of shares by Bright Dairy Holdings Limited.</li></ul>
<b>Purpose</b>	The Borrower may only use the proceeds of the Shareholder Loan to repay and/or prepay (in whole or in part) its due and payable payment obligations under the Bank Facilities Agreement.
<b>Availability Period</b>	Three months from the date of the agreement entered into in respect of the Shareholder Loan.
<b>Drawdown</b>	The Facility will be available in one drawdown only.
<b>Pricing</b>	
<b>Interest</b>	<ul style="list-style-type: none"><li>8% fixed payable every three months for the first twelve months; and</li><li>if the Extension Option is exercised, the interest rate resets and will be equal to quarterly BKBM plus 1.60%, payable quarterly, in each case subject to Interest Deferral below.</li></ul>

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**Interest Deferral**

Interest is capitalised (rather than paid) if an “Interest Deferral Event” exists.

An Interest Deferral Event exists on an interest payment date if:

- (a) the Borrower would not satisfy the solvency test (as defined in section 4 of the Companies Act) immediately following such payment on the applicable payment date;
- (b) a Senior Creditor has notified the Borrower in writing that a Senior Event of Default has occurred (which is continuing) or an Obligor has notified a Senior Creditor in writing that a Senior Event of Default has occurred (which is continuing);
- (c) the Obligors have breached a financial covenant under the Bank Facilities Agreement, or would be in breach of a financial covenant under the Bank Facilities Agreement if the payment was made (if tested on that date);
- (d) the banks have waived or pre-emptively waived a breach of any financial covenant in the Bank Facilities Agreement, or agreed to an amendment of any financial covenant with equivalent effect, or an Obligor would not remain in compliance with such amended financial covenant immediately following such payment being made (if tested on that date);
- (e) any Senior Creditors have exercised any right of acceleration in respect of any indebtedness owed to a Senior Creditor under the senior financing documents;
- (f) the Obligors do not have sufficient funds to fund the payment in cash from Free Cash Flow for the interest period to which that payment date relates; or
- (g) any indebtedness to a Senior Creditor under the senior financing documents that was scheduled to be paid in the interest period to which that payment date relates has not been paid, or has been deferred.

Deferred interest capitalises and itself accrues interest. The Borrower is required to catch-up on deferred interest on the next interest payment date where no interest deferral event is continuing.

**Free Cash Flow** means, in respect of a period, the operating cash flow for that period less:

- (a) the amount of capital expenditure incurred in that period; and
- (b) the interest expense (being interest and line fees in respect of the Bank Facilities, certain other senior debt documents, and the Bonds) or scheduled to be paid in respect of that period.

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**Principal Deferral**

The obligation on the Borrower to repay the principal amount on the Maturity Date is deferred if a Principal Deferral Event exists. A *Principal Deferral Event* exists in respect of any payment of principal on the relevant payment date if:

- (a) the Borrower would not satisfy the solvency test (as defined in section 4 of the Companies Act) immediately following such payment on the applicable payment date;
- (b) the Obligors have breached a financial covenant in the Bank Facilities Agreement and such breach has not been waived or remedied to the satisfaction of the relevant Senior Creditors;
- (c) a breach of a financial covenant in the Bank Facilities Agreement would occur as a result of such payment; or
- (d) the relevant Senior Creditors have waived or pre-emptively waived a breach of any financial covenant in the Bank Facilities Agreement, or agreed to an amendment of any financial covenant with equivalent effect, or an Obligor would not remain in compliance with such amended financial covenant immediately following such payment being made (if tested on that date).

In which case, the Borrower shall repay the principal in full on the first date on which such Principal Deferral Event ceases to exist.

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<b>Mandatory Prepayments</b>	<p>In the event that a sale of Dairyworks (the <b>Dairyworks Sale</b>) is completed on or prior to the date that is 12 months from the drawdown date, the Borrower will make a prepayment equal to the net proceeds of sale on the date that is 12 months from the drawdown date (subject to the Borrower obtaining the consent of the Senior Creditors to such prepayment).</p> <p>In the event that a Dairyworks Sale is completed after the date that is 12 months from the drawdown date, the Borrower shall make a prepayment equal to the net proceeds on the date that is 1 business day after completion of the Dairyworks Sale (subject to the Borrower obtaining the consent of the Senior Creditors to such prepayment).</p>
<b>Material Terms</b>	
<b>Representations</b>	<p>Customary representations consistent with the representations in the Bank Facilities Agreement, this includes representations on:</p> <ul style="list-style-type: none"> <li>• corporate existence;</li> <li>• no default;</li> <li>• solvency; and</li> <li>• no material adverse effect.</li> </ul>
<b>Negative Undertakings</b>	<p>Customary negative undertakings consistent with the negative undertakings in the Bank Facilities Agreement including restrictions on:</p> <ul style="list-style-type: none"> <li>• disposals;</li> <li>• acquisitions;</li> <li>• borrowings;</li> <li>• granting other security; and</li> <li>• joint ventures,</li> </ul> <p>in each case, subject to various exceptions, without the prior consent of the Lender.</p>
<b>General and Reporting Undertakings</b>	<p>Customary general undertakings consistent with the general and reporting undertakings in the Bank Facilities Agreement.</p>
<b>Financial Covenants</b>	<p>None.</p>
<b>Events of Default</b>	<p>Customary events of default consistent with the events of default in the Bank Facilities Agreement (and subject to certain materiality thresholds and grace periods), including:</p> <ul style="list-style-type: none"> <li>• non-payment;</li> <li>• breach of undertaking;</li> <li>• breach of other obligations;</li> <li>• breach of representation;</li> <li>• cross-default (in respect of debt for at least \$5 million, i.e., including the Bank Facilities and the Bonds);</li> <li>• material adverse effect;</li> <li>• cessation of business;</li> <li>• litigation;</li> <li>• invalidity; and</li> <li>• insolvency.</li> </ul>
<b>Event of Review</b>	<p>An Event of Review will occur if an Independent Director is appointed to the board of the Borrower in circumstances where the Lender has not supported the appointment of that person (provided that the parties agree that such Event of Review shall not occur if the non-support would cause the Borrower to be in breach of the NZX Listing Rules). The Event of Review only applies in the period up until the Lender or an Affiliate of the Lender owns greater than 50% of the shares in the Borrower.</p> <p>Triggers a 60 day negotiation period and if satisfactory amendments are not agreed then the Lender has an ability to require repayment/cancellation on 60 days' notice.</p>

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## Intercreditor / Priority Terms

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<b>Subordination</b>	The Shareholder Loan is to be fully subordinated to the Bank Facilities under the terms of a deed of priority and subordination.
<b>Restriction on payments</b>	No payments can be made in respect of the Shareholder Loan without the consent of the Senior Creditors, other than certain limited exceptions (including for scheduled interest payments provided that no interest deferral condition exists).
<b>Restriction on acceleration / enforcement</b>	Bright Dairy International is restricted from enforcing its security without the consent of the Senior Creditors other than in certain limited situations, including where an event has occurred under the Shareholder Loan documents that entitles Bright Dairy International to enforce its security and the Senior Creditors have not enforced their security for a period of 90 days from the date of notice to Senior Creditors of the default.
<b>Drag along</b>	Customary drag along provisions are included in the deed of priority and subordination, whereby, if the Senior Creditors consent to an asset disposal, or provide a waiver or release, Bright Dairy International will be dragged by such consent, waiver or release.

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## Other

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<b>Tax</b>	<p>Synlait is required to gross up interest payments in respect of the Shareholder Loan for any applicable non-resident withholding tax. Specifically, where tax is required to be deducted or withheld from an interest payment, Synlait must pay an additional amount to the Lender so that, after the relevant deduction or withholding is made, the Lender receives a net amount equal to the payment that would have been received if no deduction or withholding had been required. Synlait will account to the IRD for any tax that is withheld or deducted from an interest payment promptly and will provide documentation evidencing that payment to the Lender.</p> <p>If Synlait makes an additional payment to the Lender to compensate the Lender for tax incurred in connection with the Shareholder Loan, and the Lender subsequently determines that the payment gave rise to a tax credit or other benefit that has been utilised for the Lender's benefit, then the Lender will pay an amount equal to the value of that tax credit or benefit to Synlait.</p> <p>Where permitted by law, Synlait may choose to pay approved issuer levy, so that the rate of non-resident withholding tax on interest is reduced to 0%. Synlait is not permitted to deduct the amount of the approved issuer levy from interest payments under the Shareholder Loan. As at the date of the agreement in respect of the Shareholder Loan, the parties agree that the conditions for paying approved issuer levy are met, and Synlait may accordingly choose to do so.</p> <p>Synlait must indemnify the Lender for any taxes incurred in connection with the Shareholder Loan, other than taxes on net income. Synlait will also indemnify the Lender for any interest or penalties arising from a late payment of tax, if that late payment is attributable to a default of Synlait and provided that the tax is paid promptly on the Lender becoming aware of the tax obligation.</p>
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<b>Governing Law and Jurisdiction</b>	<b>Governing Law:</b> New Zealand law. <b>Jurisdiction:</b> Non-exclusive jurisdiction of New Zealand courts.
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<b>Language</b>	English.
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### Tax treatment of the Shareholder Loan

Provided that the Lender is not “associated” with Synlait (which should be the case, as at the date of the agreement for the Shareholder Loan):

- Interest paid to the Lender under the Shareholder Loan will be subject to non-resident withholding tax (**NRWT**). The rate of NRWT should be 10% under the New Zealand/Hong Kong double tax agreement, provided that the Lender is eligible to benefit under that agreement.
- However, subject to certain criteria being satisfied, Synlait should be able to pay 2% “approved issuer levy” (**AIL**) on interest under the Shareholder Loan, instead of NRWT.

If the Lender becomes associated with Synlait for tax purposes (which will be the case if Bright Dairy Holding Limited increases its shareholding so that it has a 50% or greater voting interest in Synlait), then it will no longer be possible for Synlait to pay AIL instead of NRWT.

Synlait will be required to bear the cost of any AIL paid on interest under the Shareholder Loan. Synlait will also be required to gross-up interest payments on account of applicable NRWT.


Synlait’s deduction for interest under the Shareholder Loan will be subject to New Zealand’s transfer pricing rules, which (broadly) deny a tax deduction for interest that exceed an “arm’s length amount”. The excess interest may be recharacterized as a dividend for tax purposes.

### Ranking and subordination

In accordance with the terms of the deed of priority and subordination (see above), the obligations of Synlait and the Synlait Guarantors in respect of the Shareholder Loan are to be subordinated to the obligations of Synlait and the Synlait Guarantors to the Senior Creditors. The security granted in favour of Bright Dairy International is to be granted on a second ranking basis, ranking behind the security granted by Synlait and the Synlait Guarantors in favour of the Security Agent (on behalf of the Senior Creditors).

However, the obligations of Synlait and the Synlait Guarantors will not be subordinated to the other creditors of Synlait and the Synlait Guarantors (in particular, unsecured trade creditors and Bondholders). In addition, as secured obligations of Synlait and the Synlait Guarantors, following repayment in full of obligations to the Senior Creditors, Bright Dairy International will have priority over Synlait’s unsecured creditors (including the Bonds) and the unsecured creditors of the Synlait Guarantors in respect of any proceeds from the realisation of the security held by Bright Dairy International.

Set out below is a simplified table that illustrates the ranking of the Shareholder Loan with respect to the other liabilities of Synlait and the Synlait Guarantors.

HIGHER RANKING / EARLIER PRIORITY	Ranking on liquidation of Synlait	Type of liability / equity
	Liabilities that rank in priority to the Shareholder Loan	Liabilities preferred by law (e.g., Inland Revenue) <sup>1</sup>
		Bank Facilities
		Other borrowings secured over assets of Synlait <sup>2</sup>
	Shareholder Loan	Shareholder Loan
	Liabilities that rank below the Shareholder Loan	Bonds
	Other unsubordinated liabilities (e.g. trade and general creditors <sup>3</sup> , among others)	
	Subordinated liabilities (if any)	
LOWER RANKING / LATER PRIORITY	Equity <sup>4</sup>	Shares, reserves and retained earnings

**Notes to diagram:**

- Liabilities that rank in priority to the Bank Facilities on liquidation include certain employee entitlements for unpaid salaries and wages, holiday pay and bonuses and PAYE deductions and amounts owing to Inland Revenue. There are typically other preferred claims which arise when a company is liquidated which are not possible to foresee and cannot therefore be quantified.
- Such amount includes the Obligors' commodity, foreign exchange and interest rate derivatives. These are secured under the security arrangements applicable to the Bank Facilities Agreement.
- In some circumstances trade and general creditors may have the benefit of security interests (e.g., a purchase money security interest for goods provided in the course of business) or a preference at law and, to the extent of those security interests or that preference, will be entitled to be paid ahead of the Shareholder Loan in the event of a liquidation.

In a liquidation scenario where Senior Creditors do not recover all amounts owing under the senior security interests and/or Bright Dairy International does not recover all amounts owing to it under the second ranking security interests held for its benefit:

- the Senior Creditors (for any shortfall);
- Bright Dairy International (for any shortfall);
- the Bondholders; and
- trade and general creditors (who do not have the priority or preference referred to in the paragraph above),

will rank equally. However, under their terms, the Bonds are subordinated to claims of the following creditors:

- the banks in respect of all amounts due in relation to the Bank Facilities Agreement;
- creditors in respect of other secured borrowed money (to the extent that such borrowed money is repaid from proceeds of enforcement of the relevant security); and
- all other creditors whose claims in a Liquidation are preferred by law.

In that event, the recovery of trade and general creditors and Bright Dairy International may be greater than the Bondholders' recovery because the Bonds are subordinated to the creditors referred to above.

In the event of an insolvency of Synlait, Bright Dairy International as the lender under the Shareholder Loan would be paid amounts due to it (to the extent any surplus proceeds were available to be paid) ahead of any payment to Bright Dairy Holding Limited in respect of its shares in Synlait.

- The amount of equity stated in the diagram includes an amount in relation to Synlait's existing quoted financial products (i.e. Synlait's ordinary shares which are quoted on the NZX Main Board).

## Bank Facilities and Bonds

### Bank Facilities

Synlait's Bank Facilities are in place with its banks, being as at the date of this Notice of Meeting, ANZ New Zealand Bank Limited, Bank of China (New Zealand) Limited, China Construction Bank Corporation New Zealand Branch, The Hongkong and Shanghai Banking Corporation Limited and Cooperatieve Rabobank U.A., New Zealand Branch. The Bank Facilities comprise two main facilities, with various tranches of lending under the revolving credit facility. They can be summarised as follows:

- A. Revolving credit facilities of \$230 million. These facilities also step down over time with maturity dates between 31 July 2024 and 1 October 2025. These are:
- \$50 million limit step down on 31 July 2024
  - \$46 million maturity on 31 July 2024
  - \$50 million maturity on 1 October 2024
  - \$84 million maturity on 1 October 2025
- B. Working capital facility of \$270 million, maturing 1 October 2024. This facility is a seasonal facility where the facility limit changes at several times during the term of the facility.
- \$50 million limit step down on 27 June 2024 for the WCF
  - \$58 million limit step down on 31 July 2024 for WCF

As announced on 2 April 2024 at the half year result, the banks agreed to short-term covenant relaxation in the Bank Facilities to provide Synlait time to reduce debt. Since that date Synlait has requested waivers in respect of both its leverage ratios and interest coverage ratio and a deferral of the maturity/limit step downs of relevant facilities through to the end of July 2024. The banks' agent has confirmed that each of the banks have received credit approval to the covenant waivers and the deferral of the maturity/limit step downs in June and July until such time that Synlait's planned equity raise is completed (as to which, see below). The approval is subject to the addition of a covenant to achieve minimum adjusted EBITDA for FY2024 of \$45 million. Synlait and the banks are in the process of negotiating the documentation for these waivers and satisfying any applicable conditions. If documentation for the deferral of the step down of relevant facility limits

and extension of relevant maturity dates due to occur on 27 June 2024 or 31 July 2024 is not able to be agreed, Synlait's drawn debt may exceed its permitted levels and therefore be in default under the Bank Facilities on 27 June 2024 and/or 31 July 2024. If documentation of the ratio waivers is not agreed prior to 31 July 2024, Synlait will likely be in default under the Bank Facilities on that date.

Some of these amounts will be affected by the \$130 million payment to be made on 15 July 2024. In particular, the Shareholder Loan advance will be applied on a pro rata basis between the drawn balances of the revolving credit facility and the working capital facility.

Synlait has five key bank covenants in place under its Bank Facilities Agreement. For the remainder of FY24, these are:

1. Total shareholder funds of no less than \$400 million at all times.
2. Working capital ratio of no less than 1.5x at all times.
3. Interest coverage ratio of no less than 1.75x for the 31 July 2024 reporting date.
4. Total leverage ratio as at 31 July 2024 of no greater than 3.5x.
5. Senior leverage ratio as at 31 July 2024 no greater than 2.25x.

On 4 June 2024 Synlait announced that Synlait is now forecasting it is unlikely to meet three of its current banking covenants as at 31 July 2024, the interest coverage ratio, the total leverage ratio, and senior leverage ratio. This reflects the timing of Synlait's deleveraging and further weakening in its financial performance. Synlait has requested waivers in respect of both its leverage ratios and interest coverage ratio and a delay in the maturity/limit step downs of relevant facilities through to end of July 2024. See above regarding the status of that request.

In connection with the proposed equity raising, Synlait is also proposing to refinance its Bank Facilities and is underway with work on this. No commitments have yet been given by any banks and the make-up of the bank syndicate is yet to be confirmed.

Synlait also has uncommitted receivables financing arrangements in place with Rabobank and ANZ and a \$10 million on-demand bilateral facility with ANZ. The receivables financing arrangements are uncommitted



facilities and the receivables financiers have the right to stop purchases at any time.

### Bonds

The \$180 million subordinated bonds mature on 17 December 2024 if not redeemed prior.

Bondholders may choose to redeem their Bonds before the maturity date if a “Change of Control Event” occurs (subject to no “Interest Deferral Condition” existing or resulting from the redemption (the “Interest Deferral Condition” in respect of the Bonds is different to the equivalent provision in the Shareholder Loan – it includes circumstances where an event of default has occurred under the Bank Facility)). A Change of Control Event includes if any circumstance or event arises which results in a person (together with its associates) holding or controlling more than 50% of the voting rights of Synlait. This could occur at the time of the equity raising described on page 7 of the Notice of Meeting depending on the structure finally adopted for that equity raising.

Synlait expects that bondholders may wish to exercise the redemption right. Accordingly, as part of the refinancing of Synlait’s Bank Facilities, Synlait will be seeking amended facilities that, following the completion of the equity raising, will be available to be drawn to meet Synlait’s expected working capital and other corporate requirements as well as allowing for the repayment of the Bonds (whether upon an early redemption triggered by the change of control or on the maturity date).

Further information about the refinancing will be provided once arrangements have been agreed with the banks, and further information about the impact of any equity raising on the Bonds will be set out in the Notice of Meeting in respect of the equity raising approvals which is intended to be circulated in August 2024.

### Key risks

Synlait considers that the key risks related to the Shareholder Loan are as follows:

(i) Conditions to the Shareholder Loan may not be satisfied

The ability to draw down under the Shareholder Loan is subject to the fulfilment of certain conditions, including the approval of the resolution at the Special Shareholders’ Meeting. If any of the conditions are not met or waived, including if shareholder approval is not obtained, the monies cannot be drawn.

Bright Dairy Holding Limited is not able to vote in

favour of the Shareholder Loan. This means the voting intentions of The a2 Milk Company Limited, as the holder of 19.8% of the shares (which equates to approximately 33% of the votes eligible to be cast on the resolution), will be influential in determining the outcome of the resolution to approve the Shareholder Loan.

Whilst as at the date of this Notice of Meeting Synlait and The a2 Milk Company Limited have engaged in discussions, The a2 Milk Company Limited has not determined how it will vote on the resolution. If Synlait is advised of a change of status of The a2 Milk Company Limited’s voting intentions, it will update shareholders by way of market announcement.

The ability to draw down under the Shareholder Loan is critical to Synlait’s ability to meet its obligation to pay the \$130 million payment to its banks on 15 July 2024. If shareholders do not approve the resolution, Synlait will not be able to meet that payment obligation to its banks. If that payment is not made and the banks do not agree to alternative arrangements, the Board’s view is that Synlait will need to cease trading or initiate a formal insolvency process.

Other conditions to drawing include an internal resolution of Bright Dairy & Food Co., Ltd and evidence that the Shareholder Loan has been approved by the State-owned Assets Supervision and Administration Commission of Shanghai (SASAC) or any institution authorised by it. Each of these conditions are outside the control of Synlait. It is possible that either of these approvals may not be received, or if received, may be received after the payment is due to the banks on 15 July. Either would mean that Synlait would be unable to make the payment due on that date and may end up defaulting on this payment obligation to its banks. If that payment is not made and the banks do not agree to alternative arrangements, the Board’s view is that Synlait will need to cease trading or initiate a formal insolvency process.

(ii) The Shareholder Loan cannot be repaid when due

If Synlait is unable to repay or refinance the Shareholder Loan on the Maturity Date, Synlait may need to cease trading or initiate a formal insolvency process. To mitigate this risk, Synlait has agreed with Bright Dairy International that if the Borrower would not satisfy the solvency test (as defined in section 4 of the Companies Act) immediately following such payment on the applicable Maturity Date, the Maturity Date will be deferred. See “Principal Deferral” in section three (Shareholder Loan) for more information.

(iii) Synlait may default under the Shareholder Loan

If Synlait defaults under the Shareholder Loan (such as by breaching an undertaking which is not remedied in any applicable grace period, or if an insolvency occurs with respect to Synlait), Bright Dairy International may be entitled to accelerate the loan and demand repayment. The rights that Bright Dairy International has to do this will be subject to the Deed of Priority that it has entered into with the banks. In particular, Bright Dairy International is restricted from enforcing its security without the consent of the Senior Creditors other than in certain limited situations, including where an event has occurred under the Shareholder Loan documents that entitles Bright Dairy International to enforce its security and the Senior Creditors have not enforced their security for a period of 90 days from the date of notice to Senior Creditors of the default.

Default under the Shareholder Loan will trigger a cross-default under the Bank Facilities allowing the banks to enforce their security.

(iv) Synlait is reliant upon the support of its banks

Synlait is currently seeking amendments and waivers under its Bank Facilities. Synlait also is proposing to refinance its Bank Facilities concurrently with an equity raising. If the banks do not continue to support Synlait through these amendment, waiver and refinancing processes, Synlait considers that it will be very difficult to find alternative funding in order to repay the Bank Facilities if the banks demand repayment. In that event, Synlait may need to cease trading or initiate a formal insolvency process if alternative funding sources cannot be obtained.

## 4. FREQUENTLY ASKED QUESTIONS

Question	Answer	More Information
<b>Shareholder Loan</b>		
What am I being asked to consider?	You are being asked to consider whether you support the entry into the Shareholder Loan.	Read this Notice of Meeting and the Independent Report in the Appendix and seek advice if you have any questions.
What is the Shareholder Loan?	A loan facility of up to \$130 million with Bright Dairy International.	See section three ( <i>Shareholder Loan</i> ) for more detail.
What are the terms of the Shareholder Loan?	The key terms of the loan are set out in section three ( <i>Shareholder Loan</i> )	See section three ( <i>Shareholder Loan</i> ) for more detail.
What do the Independent Directors recommend?	The Independent Directors fully support the entry into the Shareholder Loan and unanimously recommend that shareholders vote in favour of the resolution. The directors appointed by Bright have abstained from making a recommendation.	See section three ( <i>Shareholder Loan</i> ) for more detail.
Is there an independent appraiser's report?	Yes. The Board commissioned an independent appraisal report from Northington Partners.	See the Independent Report in the Appendix for more detail.
What is Northington Partners' conclusion?	Overall, the Independent Report concludes that the terms and conditions (including proposed consideration) of the Shareholder Loan are fair to all shareholders not associated with Bright.	See the Independent Report in the Appendix for more detail.
What is required for the Shareholder Loan to become effective?	Shareholders other than Bright must approve the entry into of the Shareholder Loan by way of an ordinary resolution (greater than 50% of those shares entitled to vote and voting). The conditions to the Shareholder Loan must also be satisfied.	See the Independent Report in the Appendix for more detail.
When will the Shareholder Loan be drawn and what will the monies be used for?	Synlait will draw down the Shareholder Loan in full to meet the \$130 million payment due to its banks on 15 July 2024, (assuming all conditions have been satisfied).	See the Independent Report in the Appendix for more detail.
<b>Process</b>		
Where will the Special Shareholders' Meeting be held?	The Special Shareholders' Meeting will be held at 2.00pm (NZST) on Thursday, 11 July 2024 at Synlait's Dunsandel facility and online.	See section five ( <i>Notice of Meeting</i> ) for more detail.

Question	Answer	More Information
Is anything else being considered at the Special Shareholders' Meeting?	No. Other than the resolution, there will be no matters for shareholders to consider or vote on. There will be an opportunity for shareholders to ask questions at the Special Shareholders' Meeting. Shareholders can also submit questions prior to the Special Shareholders' Meeting.	See section five ( <i>Notice of Meeting</i> ) for more detail.
When will the result of the Special Shareholders' Meeting be known?	As soon as the results are available, Synlait will announce them publicly via the NZX and ASX, and on the investor section of Synlait's website.	Publicly available on Synlait's listings on the NZX, ASX and the Synlait website.
How do I vote if I am not able to attend the Special Shareholders' Meeting?	You can exercise your right to vote at the Special Shareholders' Meeting in two ways. Namely, (a) by being present and voting in person or online; or (b) by appointing a proxy to attend and vote in your place. A Voting/Proxy Form is enclosed with this Notice of Meeting.	See section five ( <i>Notice of Meeting</i> ) and the Voting/Proxy Form accompanying this Notice of Meeting for more detail.
How do I vote by proxy?	If you wish to vote by proxy, you must complete the Voting/Proxy Form and ensure it is received by no later than 2.00pm (NZST) on Tuesday, 9 July 2024. You can also lodge your proxy appointment online.	See section five ( <i>Notice of Meeting</i> ) and the Voting/Proxy Form accompanying this Notice of Meeting for more detail.
Can I submit a postal vote?	No. Postal votes are not permitted.	See section five ( <i>Notice of Meeting</i> ) and the Voting/Proxy Form accompanying this Notice of Meeting for more detail.
Why is my vote important?	The Shareholder Loan requires the approval of an ordinary (greater than 50% of those shares entitled to vote and voting) resolution.	See the section headed "Importance of the resolution to the future of the company" in the Chair's letter
<b>Post resolution</b>		
What happens if the proposed resolution is not approved?	The Shareholder Loan will not be available to allow Synlait to repay \$130 million to the banks on 15 July 2024. If that payment is not made and the banks do not agree to alternative arrangements, the Board's view is that Synlait will need to cease trading or initiate a formal insolvency process.	See section three ( <i>Shareholder Loan</i> ) for more detail.

## 5. NOTICE OF SPECIAL SHAREHOLDERS' MEETING

The Special Shareholders' Meeting of Synlait will be held at:

- **Location:** Synlait's Dunsandel facility, located at 1028 Heslerton Road, RD13 Rakaia, Canterbury, New Zealand, and online via the Computershare meeting platform at: [www.meetnow.global/nz](http://www.meetnow.global/nz)
- **Date and time:** Thursday, 11 July 2024 at 2.00pm (NZST)

The Special Shareholders' Meeting will be a hybrid meeting to ensure that it is accessible and that shareholders who are not able to attend in person can still participate. Online attendance to the Special Shareholders' Meeting is via the Computershare meeting platform at: [www.meetnow.global/nz](http://www.meetnow.global/nz)

To participate online you will need your shareholder number for verification purposes – your shareholder number can be found on your Voting/Proxy Form.

The business of the Special Shareholders' Meeting will be to consider and, if thought appropriate, pass the ordinary resolution set out below.

Further information relating to the resolution is set out in the explanatory note accompanying this Notice of Meeting. Please read and consider the resolution together with the notes.

### Resolution

To consider and, if thought fit, pass the following resolution:

***That the Shareholder Loan, as described in the Notice of Meeting dated 25 June 2024, be approved under and for the purposes of NZX Listing Rules 5.1.1(b) and 5.2.1.***

This resolution requires approval as an ordinary resolution, including as a major transaction for the purposes of NZX Listing Rule 5.1.1(b), and as a Material Transaction with a Related Party for the purposes of NZX Listing Rule 5.2.1.

The Independent Directors support fully the Shareholder Loan and unanimously recommend that shareholders vote in favour of the resolution. The directors appointed by Bright have abstained from making a recommendation.

### Conclusion from Independent Report

Synlait has commissioned Northington Partners, as independent appraiser, to prepare the Independent Report.

On page 27, at Section 5.7 of the Independent Report under the heading "Summary of our Assessment of the Shareholder Loan", Northington Partners concludes that, in its opinion, after having regard to all relevant factors:

- the Shareholder Loan pricing and terms are fair to shareholders not associated with Bright;
- the terms are likely to be more favourable than what would be available on arms-length commercial terms from an independent third-party lender;
- the Shareholder Loan is now the only option available to Synlait to repay the \$130 million of bank debt due on 15 July 2024, and thereby avoid the significant consequences that would otherwise arise; and
- the Shareholder Loan provides Synlait with the time needed to progress Synlait's other deleveraging plans, including the proposed equity raising and bank refinancing, and that shareholders not associated with Bright will have an opportunity to reconsider their options at that time.

These are only some of the conclusions reached in the Independent Report, and the Independent Directors recommend that you carefully read the Independent Report attached as the Appendix in full.

### How to cast your vote

The Voting/Proxy Form included with this Notice of Meeting allows you, or your proxy, to vote either for or against, or abstain from, the resolution.

You may cast your vote in one of two ways:

1. **Attend the special meeting in person or online and vote**

You can attend the meeting in person or via the online platform to exercise your vote.

## 2. Proxy appointment

You can complete the enclosed Voting/Proxy Form and return it in accordance with the instruction on the Voting/Proxy Form, so that in each case, your vote is received by Computershare Investor Services Limited no later than 2.00pm (NZST) on Tuesday, 9 July 2024.

Shareholders can elect to lodge their proxy appointment online at [www.investorvote.co.nz](http://www.investorvote.co.nz). Shareholders can either visit the website or use the QR code printed on the Voting/Proxy Form.

To vote online you must enter your CSN/Securityholder number, post code/Country of Residence and the secure access Control Number that is located on the front of your Voting/Proxy Form. To appoint a proxy, select your preferred voting method and follow the prompts online.

You may appoint the Chair of the Special Shareholders' Meeting as your proxy if you wish. If you select a proxy to vote on your behalf (including the Chair of the Special Shareholders' Meeting) and you confer on the proxy a discretion on the Voting/Proxy Form, you acknowledge that the proxy may exercise your right to vote at his or her discretion and may vote as he or she thinks fit or abstain from voting.

A proxy does not need to be a shareholder.

### Shareholder questions

Shareholders may submit written questions to be considered at the Special Shareholders' Meeting. Prior to the Special Shareholders' Meeting, written questions can be submitted online at [www.investorvote.co.nz](http://www.investorvote.co.nz) (after submitting your vote online) or by using the Voting/Proxy Form.

During the Special Shareholders' Meeting, shareholders participating online can ask questions by clicking on the 'Ask a question' box on the online portal.

Synlait reserves the right not to address any questions that it is not required to address or, in the Board's opinion, are not reasonable to address in the context of the Special Shareholders' Meeting.

### Webcast

If you are unable to attend the meeting, a full replay of the webcast will be available and can be accessed online at the Synlait Investor Centre: [www.synlait.com/investors/](http://www.synlait.com/investors/)

### Procedural notes

Voting entitlements for the Special Shareholders' Meeting will be determined as at 5.00pm (NZST) on Tuesday, 9 July 2024. Shareholders at that time will be the only persons entitled to vote at the Special Shareholders' Meeting and only the shares registered in those Shareholders' names at that time may be voted at the Special Shareholders' Meeting.

The resolution will be voted on by way of a poll, in accordance with NZX Listing Rule 6.1.1. Results of the voting will be available after the conclusion of the Special Shareholders' Meeting and will be notified on the announcement platforms of NZX and ASX, and on the Synlait website's Investor section.

By order of the Board

Yours sincerely



George Adams  
Chair

## 6. EXPLANATORY NOTES

### NZX Listing Rules

#### Major transactions

NZX Listing Rule 5.1.1 provides that Synlait must not enter into a transaction, or a series of linked or related transactions, to sell assets where the transaction (or transactions):

- (a) would significantly change, either directly or indirectly, the nature of the business of Synlait; or
- (b) involves (or involve) a “Gross Value” that exceeds 50% of the “Average Market Capitalisation” (as those terms are defined in the NZX Listing Rules) of Synlait and its subsidiaries,

in each case except with the prior approval of an ordinary resolution of Synlait (or a special resolution if section 129 of the Companies Act also applies).

As at the close of business on 24 June 2024 (which was the last NZX Main Board trading day prior to the date of this Notice of Meeting), Synlait’s average market capitalisation was approximately \$60 million. The gross value of the Shareholder Loan is approximately \$130 million, which exceeds 50% of Synlait’s average market capitalisation.

As a result, approval is being sought for the Shareholder Loan under the second limb of NZX Listing Rule 5.1.1.

The Shareholder Loan does not require approval as a “major transaction” of Synlait under section 129 of the Companies Act.

#### Material Transactions with a Related Party

NZX Listing Rule 5.2.1 provides that Synlait must not enter into a Material Transaction if a Related Party is, or is likely to, become:

- (a) a direct party to the Material Transaction; or
- (b) a beneficiary or a guarantee or other transaction which is a Material Transaction,

unless that Material Transaction is approved by an ordinary resolution of Synlait or conditional on such approval.

Under the NZX Listing Rules, a Material Transaction includes a transaction or series of transactions whereby Synlait borrows, lends, pays or receives money, or incurs an obligation of an amount above 10% of its Average Market Capitalisation (in the case of debt securities, only the nominal amount of debt securities being issued to any Related Party or any employees are taken into account).

As at the close of business on 24 June 2024 (which was the last NZX Main Board trading day prior to the date of this Notice of Meeting), Synlait’s average market capitalisation was approximately \$60 million. The nominal amount of the Shareholder Loan being is \$130 million, which exceeds 10% of Synlait’s average market capitalisation. Bright Dairy International as a related company of Bright Dairy Holding Limited is a Related Party of Synlait. As a result, the Shareholder Loan will constitute the entry by Synlait into a Material Transaction with a Related Party.

Accordingly, approval is being sought for the Shareholder Loan under NZX Listing Rule 5.2.1.

### Resolution required

The resolution is being proposed as an ordinary resolution to satisfy the requirements of the NZX Listing Rules. An ordinary resolution is required to be passed by a simple majority of the votes of shareholders entitled to vote and voting on the resolution.

All shareholders will be entitled to vote on the resolution, provided that Bright Dairy Holding Limited as an “Associated Person” of Bright Dairy International (the lender under the Shareholder Loan) will not be permitted to vote in favour of the resolution under NZX Listing Rule 5.2.1 to approve the entry into Shareholder Loan as a Material Transaction with a Related Party.

## 7. GLOSSARY

The meaning of terms set out in this Notice of Meeting are set out below:

<b>ASX</b>	ASX Limited and, where the context requires, the Australian Securities Exchange which it operates.
<b>Bank Facilities</b>	the facilities made available by Synlait's banks under the Bank Facilities Agreement.
<b>Bank Facilities Agreement</b>	the Loan Facilities Agreement originally dated 26 June 2013 as amended from time to time between, among others, Synlait and the banks.
<b>banks</b>	as at the date of this document, ANZ New Zealand Bank Limited, Bank of China (New Zealand) Limited, China Construction Bank Corporation New Zealand Branch, The Hongkong and Shanghai Banking Corporation Limited and Cooperatieve Rabobank U.A., New Zealand Branch.
<b>Bondholder</b>	a person whose name is entered in the register in respect of the Bonds as a holder of a Bond.
<b>Board</b>	the board of directors of Synlait Milk Limited.
<b>Bonds</b>	the \$180 million subordinated bonds issued by Synlait with the ticker SML010.
<b>Bright</b>	Bright Dairy Holding Limited and/or its controlling entities, as the context requires
<b>Bright Dairy International</b>	Bright Dairy International Investment Limited, the company that is the lender under the Shareholder Loan and a related company of Synlait's largest shareholder, Bright Dairy Holding Limited.
<b>Companies Act</b>	the Companies Act 1993 (New Zealand).
<b>Dairyworks</b>	Dairyworks Limited.
<b>Director</b>	a director of Synlait.
<b>Independent Director</b>	a Director who is an "Independent Director", as such term is defined in the NZX Listing Rules. The current Independent Directors are George Adams (Chair), Paul McGilvary and Paul Washer.
<b>Independent Report</b>	the independent appraisal report prepared by Northington Partners that is included as the Appendix to this Notice of Meeting.
<b>Notice of Meeting</b>	this document together with its Appendix.
<b>Northington Partners</b>	Northington Partners Limited.
<b>NZ RegCo</b>	NZ Regulation Limited.
<b>NZX</b>	NZX Limited.
<b>NZX Listing Rules</b>	the listing rules of the NZX Main Board and Debt Market operated by NZX.
<b>NZX Main Board</b>	the main board equity security market operated by NZX.
<b>Obligors</b>	Synlait and the Guarantors.
<b>resolution</b>	the resolution to be put to shareholders at the Special Shareholders' Meeting, as described in section five ( <i>Notice of Special Shareholders' Meeting</i> ).
<b>Senior Creditors</b>	the beneficiaries under the Synlait security trust deed being the banks (in various capacities) and Bank of New Zealand as hedge counterparty.



<b>Senior Event of Default</b>	an “Event of Default” as defined in the Senior Facility Agreement and includes delivery of a “Cancellation Notice” under clause 16.2 (Consequences of an Event of Review) of the Senior Facility Agreement or the occurrence of any “event of default” (however described) under any “Finance Document” as defined in the Senior Facilities Agreement (other than the Senior Facilities Agreement) and any Hedging Agreement between a Debtor and Bank of New Zealand, or any event of review, illegality event or impossibility event (however described) has occurred under any such document that has resulted in cancellation (however described) of such document.
<b>share</b>	a fully paid ordinary share in the capital of Synlait.
<b>shareholder</b>	each person registered in the share register of Synlait as a holder of Shares.
<b>Shareholder Loan</b>	the loan of up to \$130 million to be advanced to Synlait by Bright Dairy International, and associated security and priority arrangements, if the resolution is approved and all other conditions to drawdown are satisfied.
<b>Shareholder Loan documents</b>	the facility agreement and associated security documents entered into by Synlait, Bright Dairy International and the Synlait Guarantors to give effect to the Shareholder Loan.
<b>Special Shareholders’ Meeting</b>	the special shareholders’ meeting of Synlait (and includes any adjournment of that meeting).
<b>Synlait</b>	Synlait Milk Limited, a company incorporated in New Zealand under the Companies Act, and includes entities directly or indirectly wholly-owned by Synlait.
<b>Synlait Guarantors</b>	(a) Synlait Milk Finance Limited; (b) The New Zealand Dairy Company Limited; (c) Eighty Nine Richard Pearse Drive Limited; (d) Synlait Milk (Dunsandel Farms) Limited; and (e) Dairyworks Limited.
<b>Takeovers Code</b>	the Takeovers Code set out in the schedule to the Takeovers Regulations 2000.
<b>Voting/Proxy Form</b>	the voting and proxy form accompanying this Notice of Meeting.

**APPENDIX:  
INDEPENDENT REPORT**



# Synlait Milk Limited

## Independent Appraisal Report

Prepared in Relation to a Proposed Shareholder Loan from a Related Company  
of Bright Dairy Holding Limited

25 June 2024



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## Abbreviations and Definitions

a2MC	The a2 Milk Company
AMF	Anhydrous Milk Fat
Appraisal Report	This report prepared by Northington Partners
Bonds	The \$180 million of unsecured subordinated fixed rate bonds issued by Synlait and listed on NZDX with a maturity date of 17 December 2024
Bright	The 39% majority shareholder in Synlait, Bright Dairy Holding Limited
Bright Dairy International	Bright Dairy International Investment Limited a wholly-owned subsidiary of Bright Dairy & Food Co. Ltd, the sole shareholder of Bright Dairy Holding Limited
CNCA	Certification and Accreditation Administration of the Peoples Republic of China
Company	Synlait Milk Limited
Dairyworks	Dairyworks Limited
Dunsandel	Synlait's manufacturing site located in Dunsandel, Canterbury
EBITDA	Earnings before interest, tax, depreciation, and amortisation (and impairments)
Equity Raising	The proposed equity capital raising by Synlait
ERP	Enterprise Resource Planning
Fletcher Building	Fletcher Building Limited
FSSI	Foodstuffs South Island
FY	In relation to Synlait, financial year ending 31 July
Infratil	Infratil Limited
IPO	Initial public offering
MT	Metric Tonne
Northington Partners	Northington Partners Limited
Non-associated Shareholders	Shareholders of Synlait not associated with Bright
Notice of Special Meeting	The notice of special meeting of Synlait shareholders and accompanying material in relation to the Shareholder Loan
NPMSA	Nutritional Powders Manufacturing and Supply Agreement
NZDX	The listed debt market operated by NZX
NZX	NZX Limited
OIO	Overseas Investment Office
Pokeno	Synlait's manufacturing site located in Pokeno, Waikato
SAMR	State Administration for Market Regulation
Shareholder Loan	The \$130 million loan facility with Bright Dairy International Investment Limited
SMD	Special Milks Dryer
Synlait	Synlait Milk Limited and its subsidiaries.



## 1.0 Executive Summary

### 1.1. Introduction

Synlait Milk Limited (“**Synlait**” or “**Company**”) is a dairy and nutrition processor which manufactures infant formula, milk-powder based products, liquid milk and other advanced nutritional products. The Company’s shares are held by approximately 6,500 shareholders with a primary listing on the NZX Main Board (and a secondary listing on the ASX). The Company also has \$180 million of subordinated bonds listed on the NZDX (“**Bonds**”) maturing on 17 December 2024.

After a period of rapid investment to support geographic, product and customer diversification, Synlait has incurred significant levels of increased debt. Over the last few years, the Company has also experienced considerable earnings volatility with compressed margins for its key nutritional products. This has resulted in debt levels exceeding \$580 million as at 31 January 2024 relative to current EBITDA earnings guidance for the 12 months to 31 July 2024 of \$45 million - \$60 million. Even if earnings could be improved in the short term, the current debt level is unsustainable.

In order to meet its short-term debt obligations and provide a more sustainable financial position, Synlait commenced a recapitalisation plan in 2023. Following the completion of a comprehensive strategic review, a wide range of deleveraging options have been considered and the Company now intends to proceed with a two-stage plan:

- **Stage 1** of the plan involves a \$130m shareholder loan (“**Shareholder Loan**”) from Bright Dairy International Investment Limited (“**Bright Dairy International**”), a related company of Bright Dairy Holdings Limited (“**Bright**”). Bright is Synlait’s cornerstone shareholder with approximately 39% of the total shares on issue. The Shareholder Loan will provide Synlait with liquidity to meet its immediate obligation to its banks, which is to repay \$130 million on 15 July 2024. The repayment will provide further time for the Company to complete Stage 2 of the recapitalisation plan.
- **Stage 2** is currently focused on raising new equity capital (“**Equity Raising**”) to further reduce debt levels. The structure and size of the Equity Raising have not yet been confirmed, but the Company will clearly be targeting an amount which places the Company in a sustainable financial position and is sufficient to satisfy bank refinancing terms. Concurrent with the Equity Raising, Synlait is also seeking amended bank facility terms that following completion of the Equity Raising, will provide headroom to meet Synlait’s expected working capital and other corporate requirements as well as provide sufficient liquidity for repayment of the Bonds.

The Shareholder Loan would be a related party transaction under the NZX Listing Rules and requires approval of Synlait’s shareholders (other than Bright) at a special meeting by way of an ordinary resolution. As set out in more detail in Section 2.0, this report has been prepared in accordance with the requirements of NZX Listing Rule 5.2.1 and relates only to the Shareholder Loan component of the recapitalisation plan.

### 1.2. Summary Shareholder Loan Terms

The key terms of the Shareholder Loan are provided in Table 1 below.

**Table 1: Summary of Shareholder Loan Terms**

<b>Issuer</b>	▪ Bright Dairy International Investment Limited.
<b>Instrument &amp; Size</b>	▪ Second ranking secured term loan for \$130 million.
<b>Maturity Date</b>	▪ 12 months from the date of first drawdown with the option to extend for a further 12-month term at Synlait’s election (subject to certain conditions).



<b>Ranking</b>	<ul style="list-style-type: none"> <li>Fully subordinated to Synlait's senior banks but ranking ahead of the Bonds and unsecured creditors (given the second ranking security).</li> </ul>
<b>Interest Rate</b>	<ul style="list-style-type: none"> <li>8% fixed for the first 12 months, reset to the 90-day bank bill rate plus 1.60% if Synlait elects to extend for a further 12 months.</li> <li>Interest is payable in cash every 3 months unless deferred for certain reasons including if paying interest would result in Synlait breaching its bank covenants or not satisfying solvency tests. Any interest deferred is capitalised and compounded and payable when the deferral triggers cease to apply.</li> </ul>
<b>Other Key Conditions</b>	<ul style="list-style-type: none"> <li>No financial covenants.</li> <li>Synlait can defer repayment of the loan if at maturity repayment would result in Synlait breaching its bank covenants or not satisfying solvency tests.</li> <li>For as long as Bright owns not more than 50% of Synlait, if Bright does not support the appointment of an independent director (provided that non-support would not cause Synlait to be in breach of the NZX Listing Rules), Bright has the right to require repayment of the loan (on 60-days notice) after a 60-day negotiation period (which would require the approval of senior lenders).</li> </ul>

### 1.3. Summary of our Assessment of the Shareholder Loan for Synlait Shareholders

Our full assessment of the merits of the Shareholder Loan for Synlait shareholders is set out in Section 5.0. A summary of our assessment is set out below in Table 2.

**Table 2: Summary of Conclusions**

Item	Key Conclusions	Further Information
<b>Loan Terms</b>	<ul style="list-style-type: none"> <li>The interest rate on the Shareholder Loan is fixed at 8.0% for the first 12 months (equivalent to a margin of ~2.6% over the 1-year swap rate) and resets to 1.60% over the 90-day bank bill rate if extended for a further 12 months (at Synlait's option subject to certain conditions). Compared to rates that would be available from alternative lenders or credit providers, we believe the interest rate and margin is concessionary. The implied margin on the Shareholder Loan is comparable to the margin on Synlait's senior borrowings despite the Shareholder Loan being subordinated to senior lenders.</li> <li>While the headline term of the loan is 12 months, Synlait may extend the Shareholder Loan at its option for a further 12 months (subject to certain conditions). In certain circumstances where repayment would breach financial covenants or result in the Company becoming insolvent, the loan can be extended indefinitely.</li> <li>We believe that the other loan terms and conditions are consistent with, or more favourable to, terms that would otherwise be available from other third-party lenders.</li> <li>In essence, Synlait is exchanging senior secured borrowings for second ranking secured borrowings with enhanced flexibility in relation to its repayment and interest obligations, and with no discernible increase in cost.</li> <li>Moreover, without the Shareholder Loan Synlait would be incapable of meeting its \$130 million repayment obligation due on 15 July 2024. Unless that payment is made and assuming the banks do not agree to alternative arrangements, we believe that Synlait would need to commence a formal insolvency process.</li> </ul>	Section 5.1 and Section 5.2
<b>Financial Impact</b>	<ul style="list-style-type: none"> <li>The Shareholder Loan is the only option available to Synlait to meet its \$130 million bank repayment obligation by 15 July 2024.</li> <li>The immediate financial impact of the Shareholder Loan is not significant on Synlait's overall debt position or earnings. However, as the Shareholder Loan is subordinated, it does improve Synlait's credit position with its banks. It also provides Synlait with critical time and flexibility to advance Stage 2 of its recapitalisation plans.</li> <li>Completion of Stage 2 is essential for Synlait to achieve a more sustainable financial position.</li> </ul>	Section 5.3 and Section 5.4



Item	Key Conclusions	Further Information
<b>Funding Alternatives</b>	<ul style="list-style-type: none"> <li>▪ Synlait has considered a wide range of alternatives to meet its bank repayment obligations. These included the potential sale of Dairyworks and its North Island assets, potential bank refinancing options and discussions with Australasian credit funds regarding subordinated debt and preferential equity.</li> <li>▪ However, many of the options have been ruled out or could not be completed within the required timeframes.</li> <li>▪ Some of the funding alternatives remain viable, including asset sales and bank refinancing (after or in conjunction with the Equity Raising), but are incapable of being completed before the 15 July bank repayment deadline.</li> <li>▪ While Synlait has been in constructive discussions with its banks and could request further waivers to extend the repayment deadline to advance these funding alternatives, it is highly uncertain and outside of Synlait's control whether the banks would provide any further flexibility.</li> </ul>	Section 3.9
<b>Other Considerations</b>	<ul style="list-style-type: none"> <li>▪ Bright cannot vote on the resolution to approve the Shareholder Loan, meaning more than half of the shareholders who vote on the resolution have to vote in favour for the Shareholder Loan to be approved.</li> <li>▪ a2MC, as the holder of 19.8% of shares (equating to approximately 33% of the remaining shares eligible to vote), will be influential in determining the outcome of the resolution to approve the Shareholder Loan. As of the date of this report, a2MC and Synlait have engaged in discussions but a2MC has not yet determined how it will vote. If Synlait is advised how a2MC intends to vote, it will update shareholders on the status of a2MC's intentions by way of a market announcement.</li> </ul>	Section 5.5
<b>Consequences of Not Approving Shareholder Loan</b>	<ul style="list-style-type: none"> <li>▪ If the Shareholder Loan is not approved and Synlait cannot meet its \$130 million repayment obligation to its banks, we think it is highly likely that Synlait will need to initiate a formal insolvency process. That could mean that the business is placed into voluntary administration or receivership.</li> <li>▪ As detailed in Section 5.6, the appointment of an administrator or receiver may allow Synlait to continue to trade but the principal role of a receiver is to recover funds for the banks and other preferential claims (staff wage costs, taxes due to IRD, etc), while the effectiveness of an administrator is also subject to the cooperation of secured creditors. Given the quantum of debt and the reduced current marketability of Synlait's assets, the amount or timing of any surplus value available to shareholders under a voluntary administration or receivership alternative is highly uncertain.</li> </ul>	Section 5.6

#### 1.4. Conclusion Regarding the Fairness of the Shareholder Loan

After having regard to all relevant factors, we conclude that the terms and conditions of the Shareholder Loan are fair to Synlait shareholders not associated with Bright.

- We believe that the Shareholder Loan provides a cost-effective option to deal with Synlait's immediate debt repayment obligations. It will provide the necessary time for the Company to execute on its deleveraging plans in a manner that maximises shareholder value.
- Shareholders will likely have the opportunity to better consider the potential implications of administration or receivership at any special shareholder meeting which we anticipate would be required to approve the Equity Raising. The Synlait board and its advisers are continuing to progress the structure, terms and conditions of the Equity Raise and will further update shareholders by the end of August, possibly earlier.

Shareholders should however consider their own investment objectives before deciding whether or not to approve the Shareholder Loan.





## 2.0 Scope of the Report

### 2.1. Regulatory Requirements

#### 2.1.1. NZX Listing Rule Requirements

The Shareholder Loan is subject to rule 5.2.1 of the NZX Listing Rules. Pursuant to those rules, Synlait may not enter into a Material Transaction with a Related Party (i.e. Bright) unless that transaction is approved by an ordinary resolution of shareholders not associated with the Related Party or is conditional on such approval.

A “Material Transaction” for the purposes of the NZX Listing Rules includes a transaction whereby an Issuer “borrows, lends, pays or receives money, or incurs an obligation” of an amount above 10% of the Average Market Capitalisation of the Company. Under the terms of the Shareholder Loan, Bright Dairy International is advancing \$130 million to Synlait, representing approximately 130% of Synlait’s Average Market Capitalisation<sup>1</sup>.

NZX Listing Rule 7.8.8 requires that the notice of special meeting to consider the ordinary resolution referred to above must be accompanied by an Appraisal Report, prepared by an independent adviser to opine on the fairness of the transaction to shareholders not associated with the relevant related party. This report is therefore addressed to the independent directors of Synlait for the benefit of shareholders not associated with Bright.

The report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 2.

#### 2.1.2. Declarations

Pursuant to Listing Rule 7.10.2, we state that:

- (i) In our opinion, the terms and conditions of the Shareholder Loan are fair to shareholders of Synlait other than those associated with Bright. The grounds for this opinion are set out in this report;
- (ii) We believe that the shareholders entitled to vote on the resolution in relation to the Shareholder Loan will be provided with sufficient information to understand all relevant factors and on which to make an informed decision. The two main sources of information are this report and the Notice of Special Meeting;
- (iii) We confirm that we have been provided with all of the information that we believe is required for the purposes of preparing this report; and
- (iv) The material assumptions on which our opinion has been based are clearly set out in the body of this report.

### 2.2. Basis of Assessment and Evaluation

The content required to be included in the Appraisal Report pursuant to the NZX Listing Rules is clearly set out in rule 7.10.2. Among other things, the Appraisal Report must state whether or not the reporter considers that the terms and conditions of the proposed transaction are “*fair*” to the Company’s shareholders other than those shareholders (if any) that may be associated with the related parties to the transaction. Although there is no statutory definition of “*fair*” or any specific guidance provided in the NZX Listing Rules, our assessment of the fairness of the Shareholder Loan is based on a consideration of:

- The consequences for the existing shareholders if the Shareholder Loan is approved or not approved; and
- The overall terms for the Shareholder Loan.

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<sup>1</sup> Based on the 20-day volume weighted average price of Synlait shares traded on the NZX up to 31 May 2024, being the last trading day prior to Synlait’s announcement regarding the Shareholder Loan.



Northington Partners has evaluated the Shareholder Loan by reviewing the following factors:

- Whether the Shareholder Loan terms reflect arms-length commercial terms and whether it confers any additional value to Bright;
- The financial implications of the Shareholder Loan for Synlait, particularly with reference to its senior borrowing financial covenants;
- Any other alternatives that are available to Synlait to secure the required funding;
- Any downside risks of shareholders approving the Shareholder Loan and the potential implications of the Shareholder Loan approval not being obtained; and
- Other considerations that may be necessary for shareholders to make an informed decision in relation to assessing the Shareholder Loan.



## 3.0 Profile of Synlait

### 3.1. Overview of the Company

Synlait is a New Zealand-based dairy and nutrition company that produces a range of added-value nutritional products, including infant nutrition, foodservice and ingredients products. Founded in 2005 and headquartered in Dunsandel, Canterbury, the Company has developed a reputation for producing higher value nutritional products for leading milk-based health and nutrition customers internationally. While the Company's core operations involve milk powder manufacturing, it has expanded into the consumer category and currently supplies fresh milk and cream to Foodstuffs South Island Limited (“**FSSI**”) and markets cheese products under its Talbot Forest Cheese and Dairyworks brands. It also has a growing Foodservice UHT cream business in China and Southeast Asia.

Synlait's shares were listed on the NZX in 2013 and on the ASX in 2016.

### 3.2. Background

The Company was founded in 2005 by Canterbury dairy farmers and entrepreneurs Ben Dingle, Juliet Maclean and John Penno. Following the establishment of Fonterra in 2001, the Company emerged as one of a handful of independent dairy processors and has established a significant position in the New Zealand dairy industry.

The business was initially focused on significant investments at its Dunsandel facility. The commissioning of Dryer 1 with a capacity of 45,000 MT, an anhydrous milk fat (“**AMF**”) plant capable of producing 25,000 MT and a reverse osmosis plant were all key early developments. These investments enabled Synlait to process approximately ~217 million litres of raw milk into around 33,200 MT of dairy products in FY09.

Synlait further expanded its capabilities by commissioning its Special Milks Dryer (“**SMD**”), which has a capacity of 1,800 MT. This development would eventually position Synlait as one of only two manufacturers globally capable of producing lactoferrin as a spray-dried powder.

Bright acquired a 51% shareholding in the Company as part of a capital raise in 2010. Synlait used the new capital to commission Dryer 2, another sophisticated facility specifically designed for infant formula production (with capacity of 45,000 MT). This advanced facility allowed Synlait to manufacture infant formula and nutritional products tailored to the unique specifications required by leading global infant formula brands.

The establishment of Dryer 2 allowed the Company to enter into agreements with Bright to supply its flagship infant nutrition formula, Pure Canterbury. Additionally, Synlait began producing the a2 Platinum infant formula for a2MC, further cementing its reputation as a premium supplier in the global dairy market.

Since the early 2000's, China has adopted stricter regulations for infant formula imports, including requirements for factory registration and brand approval to ensure quality. Synlait applied to be registered as a dairy and infant formula manufacturer to the Certification and Accreditation Administration of the Peoples Republic of China (“**CNCA**”) which it received in 2014. A positive development for Synlait and its partners was the withdrawal of numerous locally manufactured and imported brands from the Chinese market, resulting in higher demand for the brands that remained.

In 2013, the Company announced an initial public offering of shares and listing on the NZX. The IPO aimed to raise \$75 million in new capital, earmarked for debt repayment and to fund several growth initiatives. These included commissioning a new lactoferrin extraction and purification facility, an on-site blending and consumer packaging plant, a new dry store, a quality testing laboratory and a 45,000 MT spray dryer (Dryer 3). Additionally, the IPO provided an opportunity for existing shareholders to participate in a ~\$38.7 million secondary offering. As a result of the IPO, Bright's shareholding in Synlait decreased to 39.0%.

In 2016, Synlait successfully completed a \$98 million entitlement offer, with the capital raised used for a combination of debt repayment and contributions to a three-year capital growth program totalling approximately \$300 million. Following this capital raise, Synlait also completed a compliance listing on the ASX.



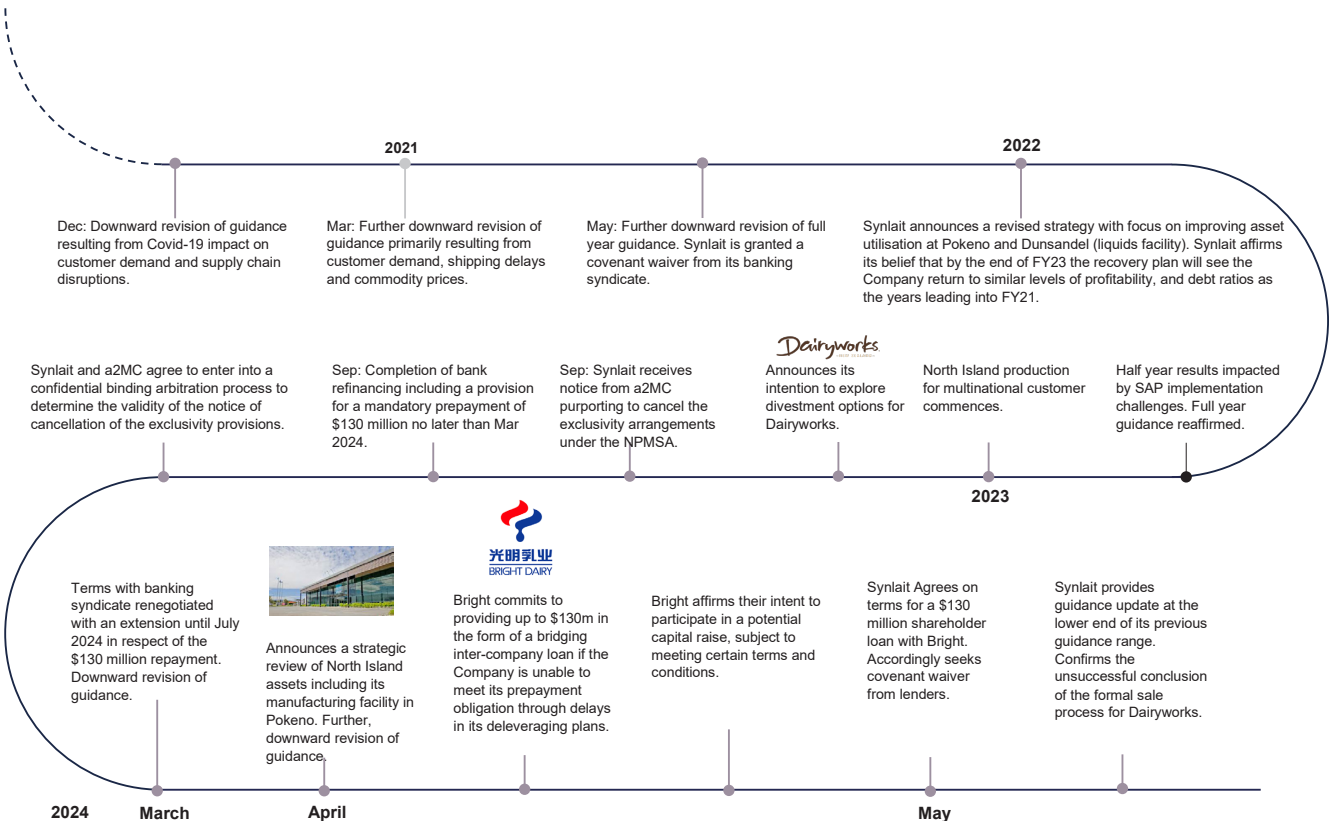
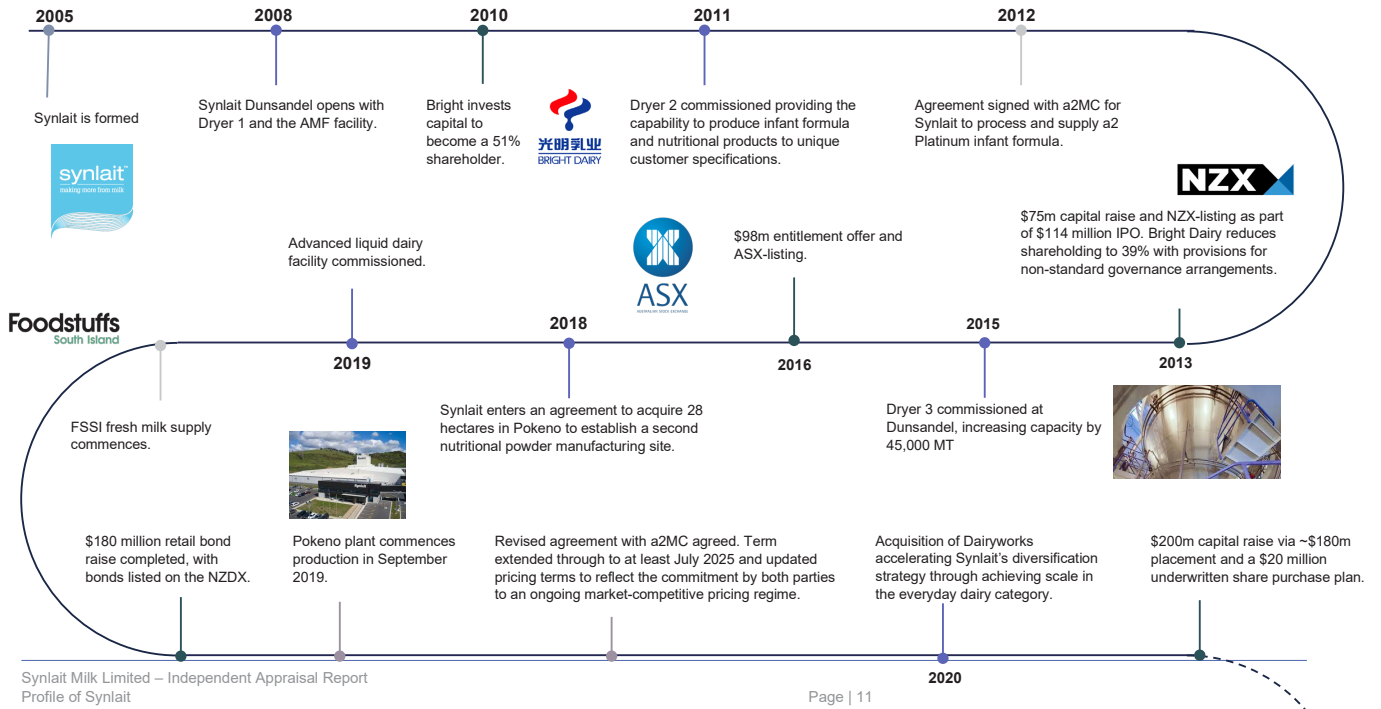
In 2017, Synlait progressed further investment in a liquid dairy packaging facility at Dunsandel to supply FSSI with private label fresh milk and cream products. This transaction marked the start of its new “everyday dairy” (now called Consumer) strategy. Further investments in this strategy were made through the acquisition of household dairy brands, Talbot Forest Cheese and Dairyworks, in 2020.

Synlait's second production facility in Pokeno became operational in 2019. That facility is capable of producing a range of nutritional and formulated powders, including infant-grade skim milk, whole milk, and infant formula base powders. Initially set to produce 40,000 MT, the facility's capacity was subsequently increased to 45,000 MT and includes the capability to handle plant-based products as well as dairy.



### 3.3. Significant Historical Events

Figure 1: Significant Historical Events





### 3.4. Channels and Products

Synlait has established a diverse product portfolio that caters to various segments of the dairy market. Central to Synlait’s offerings are Advanced Nutrition products, which are defined as formulated powders in bulk or consumer-ready format, formulated beverages, and specialty nutritional ingredients. The Company also produces an extensive range of nutritional milk powders, including skim milk powder, whole milk powder, and specialty powders like AMF.

A summary of the product portfolio is presented in Figure 2.

**Figure 2: Synlait Products by Channel**



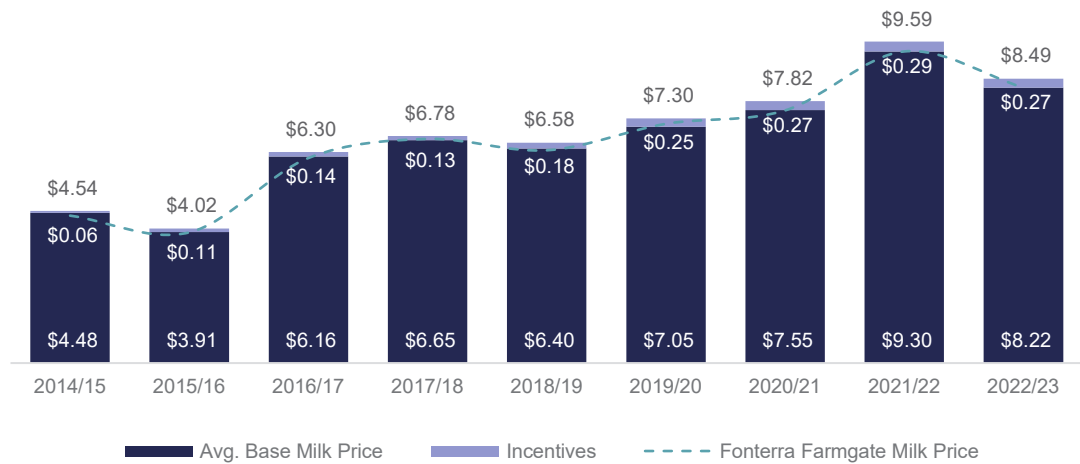
### 3.5. Milk Supply

Synlait has attracted and maintained its supplier base by building strong long-term relationships with its farmers. The growth in supplier numbers has been supported by offering financial incentives, allowing farmers to supply milk without having to acquire shares in the Company, as well as helping farmers to implement innovative and sustainable farming practices.

A key feature of Synlait’s relationship with farmers is its practice of paying incentive payments over the base milk price for suppliers who participate in special milk programmes such as A1 protein-free, grass fed, and Lead With Pride™. Figure 3 illustrates the impact of these incentive payments on the average milk price paid to farmers for historic periods. This shows that over the last 9 years, Synlait’s average payout inclusive of incentive payments represents a ~3% premium to Fonterra’s farmgate milk price.



Figure 3: Historical Milk Price Payment (\$ per kgMS)



Sources: Synlait annual, interim reports and NZX announcements

Synlait's milk supply pool grew to 285 farms (South Island 220, North Island 65) in the 2022/23 milking season, but dropped to 274 farms (South Island 215, North Island 59) for the most recent season. Cessation notices from farmer suppliers have also increased dramatically in the last month following publicity over the Company's financial issues. Synlait announced to the market on 4 June that 'a significant majority' of the Company's farmer supplier base has submitted cessation notices. The cessation notice period is however two-years, meaning that notices received in the year between 1 June 2023 to 31 May 2024 would not take effect until after the completion of another two seasons.

Synlait notes that the retention of milk supply remains a critical priority and that submitting a cessation notice provides farmers with an option, rather than a clear intention to sign with other processors. Rebuilding supplier confidence and securing the withdrawal of these cessation notices is clearly going to be a key element of Synlait's recovery plan.

### 3.6. Customer Relationships

Synlait built strong relationships with leading food and beverage and advanced nutrition brands in both New Zealand and overseas. These customers include a2MC, Foodstuffs South Island and a large multinational food and nutrition business. Synlait's top three customers account for ~55% (FY23) of revenue.

Synlait has been a key manufacturing partner for a2MC since 2012, producing infant formula under a Nutritional Powders Manufacturing and Supply Agreement ("NPMSA"). Synlait holds the State Administration for Market Regulation ("SAMR") licence for a2MC's Chinese labelled Infant Formula (stages one, two and three), to manufacture and export these products to the China market until September 2027. This SAMR registration is held by Synlait and attached to the Dunsandel facility.

In September 2023, a2MC announced it had provided notice of termination of the exclusive production arrangements for a2 Platinum, a2 至初 and other nutritional products under the NPMSA. Synlait contests this termination notice and is currently involved in a binding confidential arbitration process to resolve the validity of a2MC's action.

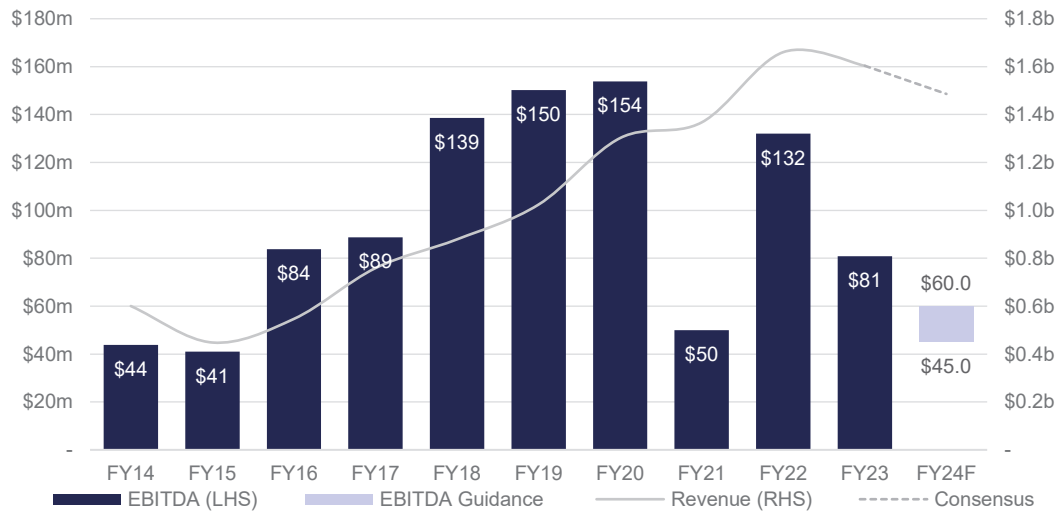


### 3.7. Financial Overview

#### 3.7.1. Revenue and Earnings

Figure 4 summarises Synlait’s revenue and earnings performance (at the EBITDA level) for the 10 years to FY23, along with the Company’s most recent guidance for FY24.

**Figure 4: Historical and Forecast Financial Performance (NZ\$)**



Sources: Synlait annual, interim reports and NZX announcements.

Note: Synlait adopted NZ IFRS-15, revenue from contracts with customers from FY19 and NZ IFRS-16, lease from FY20. Therefore, comparison with prior years may not be directly comparable.

Note: Historic EBITDA for the period FY19-FY23 has been restated as if the current product costing method change was applied retrospectively. FY24F excludes a non-cash adjustment for the product costing method change of approximately \$17 million.

The main features of Synlait’s historic financial performance can be summarised as follows:

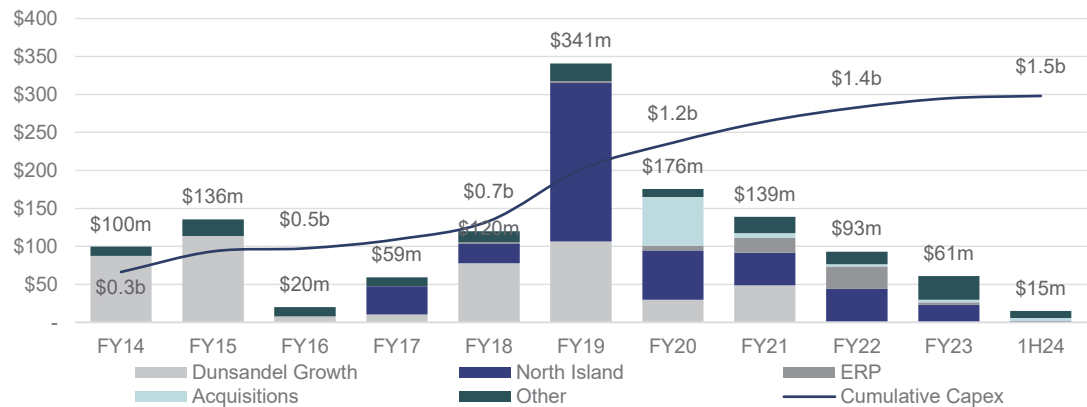
- Since listing, the Company has reported strong revenue growth driven by capacity expansion and stable underlying commodity prices. Revenue peaked at NZ\$1.66b in FY22, representing a compounding annual growth rate of 14%.
- However, since FY22, Synlait has reported declining revenue due to lower demand for ingredients and advanced nutrition products. This weakness is expected to continue, with broker consensus revenue for FY24 forecast at ~NZ\$1.49b, down 7% on the previous year.
- While profitability increased in line with revenues until FY20, earnings in recent years have fluctuated markedly, primarily due to softer demand and lower margins. Overall gross margins have compressed significantly, from around 15% in FY19 to approximately 9% in FY23. On a unit price basis, advanced nutrition margins have also decreased materially over this period.
- Synlait’s EBITDA margin has also reduced from approximately 15% in FY19 to around 6% in FY23, reflecting lower gross margins as above as well as reduced plant utilisation, particularly the underutilisation of the Pokeno facility.
- Synlait is now forecasting FY24 EBITDA at the lower end of its guidance range of NZ\$45 million to NZ\$60 million. This revision is based on several factors, including:
  - The softening of ingredients margins due to pricing pressures and adverse exchange rates.
  - Revised inventory provisioning and anticipated write-downs in the second half of the fiscal year.





### 3.7.2. Capital Expenditure

**Figure 5: Historic Capital Expenditure (NZ\$m)**



Sources: Synlait and NPL Analysis

Note: Capital expenditure excludes expenditure attributable to goodwill and brands, and working capital acquired through the acquisition of Dairyworks and Talbot Forrest.

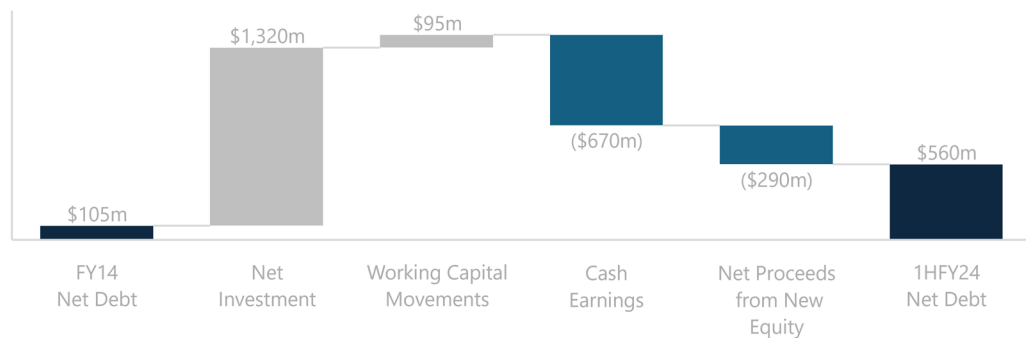
Synlait has invested over \$1.5b in capital expenditure since its inception. Figure 5 outlines annual capital expenditure spend since FY14, and reflects the following:

- Significant investments were made in the Dunsandel facility to increase processing capacity and enhance capability. This included the addition of new dryers, expansion of the lactoferrin plant, advanced liquid milks and other infrastructure improvements which totalled ~\$480m over the period.
- Synlait commissioned the Pokeno facility in September 2019, with a view to diversify its production base and increase its overall capacity. Capital expenditure for North Island production (including Pokeno, the Auckland Blending and Canning plant and other projects) has totalled ~NZ\$450m.
- As production capacity and business complexity has grown, the Company has continued to invest in improving efficiency through technology. A key element of this was its recent investment in a new ERP system (~ NZ\$65m).

### 3.7.3. Borrowings

Figure 6 summarises how Synlait has funded its growth and diversification objectives over the last 10 years. While the Company has generated meaningful cash earnings and raised close to \$300 million in new equity capital, a significant proportion of the capital expenditure has been debt funded. This has seen net debt grow from ~\$105m in FY14 to ~\$560m as at 31 January 2024. Relative to the lower end of current EBITDA guidance of ~\$45 million (FY24), the ratio of Net Debt to EBITDA exceeds 12x.

**Figure 6: FY14 – 1H24 Net Debt Bridge (NZ\$m)**



Sources: Synlait annual and interim reports and NZX announcements. Note: NPL Estimate. Totals may not sum due to rounding.



### 3.8. Ownership and Share Price Performance

Bright is Synlait's largest shareholder, maintaining a 39.0% shareholding since the IPO in 2013. The Company's next largest shareholder is a2MC who, as discussed above, is also a key customer of Synlait. The top five shareholders (as at 30 April 2024) are set out in Table 3.

**Table 3: Top 5 Shareholders**

Shareholder	Shares Held (m)	Shareholding Percentage
Bright Dairy Holding Ltd.	85.27	39.0%
The A2 Milk Company Limited	43.35	19.8%
Chester Asset Management Pty Ltd	8.71	4.0%
Accident Compensation Corporation	7.70	3.4%
New Zealand Funds Management Ltd.	6.38	2.9%

Source: Iress, NZX Filings

Figure 7 summarises Synlait's shareholder return performance for the period between listing (23 July 2013) and 5 June 2024, relative to the NZX50 Gross Index (inclusive of dividends).

Although Synlait initially outperformed the market on the back of strong demand for infant formula driven by a2MC, its returns have trailed the broader index since late 2020. The performance since 2020 has largely paralleled Synlait's lower earnings outlook, contract disputes with a2MC, extremely poor returns on Pokeno and subsequent debt issues.

**Figure 7: Synlait Total Shareholder Return Relative to NZX Gross Index (Rebased to IPO Price)**



Source: IRESS, Northington Partners. Period starting 23 July 2013 to 5 June 2024.



### 3.9. Recapitalisation Plan Summary

Synlait commenced a strategic review to consider potential avenues to reduce debt in 2023, with the announcement of its intention to divest Dairyworks in June 2023. Although the Company received credible expressions of interest in Dairyworks from a number of parties, no binding offers were received at a price level that was acceptable to the Board.

The proceeds of a possible sale of Dairyworks were unlikely to be sufficient to fund Synlait's \$130 million repayment obligation to its banks, and the Company has been actively exploring a number of other deleveraging options. Given these options were insufficiently advanced, Synlait sought and obtained a letter of support from Bright (received on 28 March 2024) which included a commitment from Bright to provide the Shareholder Loan and participate in an equity capital raising.

We summarise below the current recapitalisation plan proposed by Synlait as well as the options considered as part of its broader deleveraging plans.

#### 3.9.1. Equity Raising

If the Shareholder Loan is approved, the Company is planning to undertake an equity capital raising to ensure that Synlait is appropriately capitalised. Bright has indicated that it would support the Equity Raising, subject to terms being finalised. The Synlait board and its advisers are continuing to progress the structure, terms and conditions of the Equity Raise and will further update shareholders in due course.

Synlait will also be seeking to refinance and amend its bank facilities in parallel with the Equity Raising. It is expected that following the Equity Raising, the amended facilities will be available to be drawn to meet Synlait's expected ongoing working capital and other corporate requirements, including providing sufficient headroom to repay the Bonds. Further information will be provided about the refinancing arrangements once terms have been agreed with the banks.

We believe that Bright's shareholding in Synlait is likely to increase as a result of the Equity Raising. In these circumstances, Bright's participation in the Equity Raising would require shareholder approvals under both the NZX Listing Rules (assuming the Equity Raising comprises a transaction with a related party) and the Takeovers Code (due to Bright increasing its voting rights through an allotment of shares), which in turn requires the provision of an independent appraisal report under the NZX Listing Rules and an independent adviser's report under the Takeovers Code. These reports would include amongst other things, an opinion on the merits of the allotment of shares to Bright and an evaluation of the issue price.

#### 3.9.2. Other Funding Alternatives

**Table 4: Summary of Other Funding Alternatives Considered**

Option	Discussion	Timing
<b>Asset Sales</b>	<p>On 2 April 2024, Synlait announced that it was conducting a strategic review of its North Island assets comprising the Pokeno and Auckland facilities. Synlait has struggled to reach an acceptable level of utilisation of these assets and they are currently generating significant negative cash flows. This position is not expected to materially improve before FY26. To minimise the adverse impact of the underutilised plants on Synlait's near-term cash flows, the Company may sell some or all of its interest in the assets. We understand that some preliminary expressions of interest have been received.</p> <p>While the North Island assets have a carrying value in excess of \$340 million (excluding right of use assets), we would expect buyer interest to reflect a material discount to that value given the significant plant underutilisation, ongoing contractual obligations to Synlait's multinational customer and the significant customisation made to the Pokeno facility to meet the customer's requirements.</p>	<p>At this stage, it is uncertain whether a sale of either asset can be secured and therefore timing of associated proceeds is unknown.</p> <p>Given Synlait's current market capitalisation, asset sales are also likely to be a "major transaction" under the NZX Listing Rules and will require majority shareholder approval (noting that Bright could vote on the related resolution). This process will add to the uncertainty</p>



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	<p>Although no offers emerged for Dairyworks at a price satisfactory to Synlait after a protracted sale process, it remains a viable funding option. However, we expect that any interest would be below the current carrying value of approximately \$120 million.</p>	<p>regarding outcome and timing.</p>
<b>Alternative Debt Funding</b>	<p>Synlait has considered a range of alternative debt or “quasi-equity” alternatives, ranging from subordinated debt to preferred equity. As detailed in Section 5.1.2, this included engaging with potential third-party private credit investors. However, due to indicative pricing and timing, these options were initially discounted.</p> <p>Synlait also considered options to refinance its existing senior bank facilities with new banking facilities. However, given the Company’s financial position, there was limited appetite at the time.</p>	<p>We expect that alternative debt solutions are unlikely to be available until after completion of the Equity Raising.</p>

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## 4.0 Overview of the Shareholder Loan and Bank Facilities

### 4.1. Shareholder Loan Key Terms

The key terms of the Shareholder Loan are summarised in Table 5 below. More detail is provided in the Notice of Meeting.

**Table 5: Shareholder Loan Terms**

<b>Shareholder Loan Facility - Key Terms</b>	
<b>Borrower</b>	Synlait Milk Limited.
<b>Lender</b>	Bright Dairy International Investment Limited.
<b>Maturity Date</b>	12 months from the date of first drawdown, subject to the Extension Option and Principal Deferral.
<b>Amount</b>	NZ\$130m single draw term loan.
<b>Extension Option</b>	<p>On the date that is one month prior to the then current Maturity Date, the Borrower has the option to extend the Maturity Date for a further 12 months from the original Maturity Date by way of board resolution of the Borrower and notification to the Lender, subject to:</p> <ul style="list-style-type: none"> <li>▪ the shares of the Borrower remaining listed;</li> <li>▪ no administrator or liquidator having been appointed to the Borrower; and</li> <li>▪ Bright holds not less than 39.01% of the shares in the Borrower (if no equity raise has been conducted), or 51% (if an equity raise has been conducted), in each case other than as a result of a voluntary sale of shares by Bright.</li> </ul>
<b>Purpose</b>	The Borrower may only use the proceeds of the Facility to repay and/or prepay (in whole or in part) its due and payable payment obligations under the senior facility agreement.
<b>Interest Rate</b>	8% fixed for the first year reset to the 3-month bank bill + 1.60% for the second year, payable every three months. Subject to Interest Deferral below.
<b>Interest Deferral</b>	<p>Interest payments may be deferred if:</p> <ul style="list-style-type: none"> <li>▪ the Company fails to satisfy the solvency test;</li> <li>▪ a senior creditor has notified Synlait (or Synlait has notified a senior creditor) that a senior event of default has occurred;</li> <li>▪ a breach of a senior financial covenant has occurred or would occur as a result of such payment;</li> <li>▪ senior lenders have waived or amended a financial covenant in the senior facility;</li> <li>▪ senior lenders have taken acceleration action under the senior facility;</li> <li>▪ the cash interest payment could not be made from Free Cash Flow (defined term); or</li> <li>▪ any indebtedness to senior creditors that was scheduled to be paid in the interest period has not been paid, or has been deferred.</li> </ul> <p>Deferred interest capitalises and itself accrues interest. The Borrower is required to catch-up on deferred interest on the next interest payment date where no interest deferral event is continuing.</p>
<b>Principal Deferral</b>	<p>The obligation to repay principal on the Maturity Date will be deferred if:</p> <ul style="list-style-type: none"> <li>▪ the Company fails to satisfy the solvency test;</li> <li>▪ a breach of senior financial covenant has occurred or would occur as a result of such payment; or</li> <li>▪ senior lenders have waived or amended a financial covenant in the senior facility.</li> </ul>
<b>Mandatory Prepayment</b>	<p>In the event that Dairyworks is sold on or prior to the date that is 12 months from the drawdown date, the Borrower will make a prepayment equal to the net proceeds of sale on the date that is 12 months from the drawdown date (subject to the consent of senior creditors).</p> <p>In the event that Dairyworks is sold after the date that is 12 months from the drawdown date, the Borrower shall make a prepayment equal to the net proceeds of sale on the date that is 1 business day after completion of the Dairyworks Sale (subject to the consent of senior creditors).</p>



<b>Security and Ranking</b>	Second ranking 'all-assets' security from the Company and all guarantors, including second ranking mortgages over real property assets (consistent with senior security and including all major subsidiaries of Synlait).
<b>Subordination</b>	The Shareholder Loan is fully subordinated to the senior facilities. There will be no restrictions on Synlait and the senior lenders agreeing any amendments to the senior facility documents. No enforcement by Bright Dairy International without senior creditor consent unless a senior default has occurred and senior creditors have not enforced security for 90 days. Bright Dairy International will be dragged by any amendments, consents, waivers granted by senior creditors.
<b>Financial Covenants</b>	No financial covenants.
<b>Events of Default</b>	<p>Consistent with events of default under the bank facilities, an event of default will occur if Synlait:</p> <ul style="list-style-type: none"> <li>▪ fails to pay any principal or interest on the Shareholder Loan on its due date;</li> <li>▪ breaches certain undertakings it has made to Bright including restrictions on asset disposals or acquisitions, other borrowings or granting of other security;</li> <li>▪ has made a breach of representation;</li> <li>▪ is in cross-default where Synlait cannot meet any other indebtedness of not less than \$5 million;</li> <li>▪ experiences a material adverse effect (in Bright's reasonable opinion); or</li> <li>▪ is insolvent or ceases business.</li> </ul> <p>In such circumstances, Bright is restricted from enforcing its security without the consent of the banks, other than in certain instances (see Notice of Meeting for further details).</p>
<b>Event of Review</b>	<p>An Event of Review will occur if an 'Independent Director' (as defined in the NZX Listing Rules) is appointed to the board of the Borrower in circumstances where the Lender has not supported the appointment of that person (provided that the parties agree that such Event of Review shall not occur if the non-support would cause the Borrower to be in breach of the NZX Listing Rules). The Event of Review only applies for the period that Bright owns not more than 50% of the shares in Synlait.</p> <p>This Event of Review will trigger a 60-day negotiation period and if satisfactory amendments are not agreed then Bright Dairy International has an ability to require repayment/cancellation on 60-days' notice.</p>

In addition to Synlait shareholder approval, the Shareholder Loan is conditional on the approval of Bright's ultimate shareholder and the State-owned Assets Supervision and Administration Commission of Shanghai (SASAC), as well as final documentation from Synlait's bank syndicate. These conditions are expected to be fulfilled prior to drawing of the Shareholder Loan.

## 4.2. Bank Facility Terms

### 4.2.1. Current Terms

The existing bank facilities and terms are summarised in Table 6 below.

**Table 6: Bank Facility Summary**

<b>Synlait Senior Facility Agreement Summary</b>	
<b>Lenders</b>	ANZ Bank (syndicate lead), Bank of China, China Construction Bank, HSBC, and Rabobank
<b>Facilities</b>	<ol style="list-style-type: none"> <li>1. Working capital facility of \$270m, maturing 1 October 2024 together with an \$10m on-demand bilateral facility. This facility is a seasonal facility where the facility limits change at several times during the term of facility: <ul style="list-style-type: none"> <li>▪ \$50m limit step down on 27 June 2024; and</li> <li>▪ \$58m limit step down on 31 July 2024.</li> </ul> </li> <li>2. Revolving credit facilities of \$230m. These facilities step down over time with maturity dates between 31 July 2024 and 1 October 2025 as follows <ul style="list-style-type: none"> <li>▪ \$50m limit step down on 31 July 2024;</li> <li>▪ \$46m maturity on 31 July 2024;</li> </ul> </li> </ol>



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	<ul style="list-style-type: none"><li>▪ \$50m maturity on 1 October 2024; and</li><li>▪ \$84m maturity on 1 October 2025.</li></ul> <p>In addition, Synlait is required to make a prepayment of \$130m by no later than 15 July 2024. This prepayment was originally due on 28 March 2024 before an extension was granted by the banking syndicate on 28 March 2024. Some of the amounts of the limit step downs and maturities referred to above would be affected by the \$130m prepayment to be made on 15 July 2024.</p>
<b>Security</b>	The facilities are secured under the terms of various General Security Deeds provided by the Company and its subsidiaries, by which all present and future property is secured to the Lenders.
<b>Financial Covenants</b>	<p>The key financial covenants for the facilities as amended on 28 March 2024 include:</p> <ul style="list-style-type: none"><li>▪ Total shareholder funds of no less than \$400m at all times (previously \$600m).</li><li>▪ Working capital ratio (debtors and inventory to outstanding working capital facility) of no less than 1.5x at all times.</li><li>▪ Interest cover ratio (EBITDA to interest) of no less than 1.75x for the 31 July 2024 reporting date (previously 2.25x), increasing to 3.0x for the 31 July 2025 reporting date.</li><li>▪ Total leverage ratio (total debt to EBITDA) of no greater than 3.5x for the 31 July 2024 reporting date, decreasing to no greater than 3.25x on and from the 31 July 2025 reporting date.</li><li>▪ Senior leverage (senior secured debt, excluding the Bonds, to EBITDA) ratio of no greater than 2.25x for the 31 July 2024 reporting date.</li></ul>

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#### 4.2.2. Refinancing

As part of the bank approval process for the Shareholder Loan, Synlait has sought deferrals of the 27 June 2024 and 31 July 2024 step downs and maturities. Some of these amounts will also be affected by the \$130 million payment to be made on 15 July 2024, funded by proceeds from the Shareholder Loan. We understand that the Shareholder Loan will be applied on a pro rata basis between the drawn balances of the revolving credit facility and the working capital facility.

Synlait is also forecasting that it is unlikely to meet three of its current banking covenants as at 31 July 2024; the interest coverage ratio, the total leverage ratio, and senior leverage ratio. This reflects the timing of Synlait's recapitalisation plans and further weakening in its financial performance. Consequently, Synlait has also requested waivers for the covenants.

Synlait's banks have since confirmed credit approval to both a deferral of maturities / step downs and covenant waivers until such time that Synlait's Equity Raising is completed. Synlait and the banks are in the process of negotiating the documentation for these waivers and satisfying any applicable conditions. If documentation for the step down deferrals or covenant waivers is not received by the banks prior to the relevant date, Synlait will likely be in default under the bank facilities. We believe that Synlait will not be in a position to obtain the deferrals or covenant waivers without the Shareholder Loan.

In connection with the proposed Equity Raising, Synlait is also proposing to refinance its bank facilities and negotiate new loan terms. Further information will be provided about the refinancing once any arrangements have been agreed.



## 5.0 Evaluation of the Fairness of the Shareholder Loan

### 5.1. Shareholder Loan Pricing

Publicly disclosed pricing for sub-ordinated loans issued by companies with similar credit quality to Synlait is very limited. Directly comparable evidence would require that the issuing company was in the same financial position and facing the same significant challenges as Synlait.

We have however reviewed a range of evidence in determining whether the Shareholder Loan pricing is fair to Synlait shareholders not associated with Bright. This includes:

- i. The pricing for Synlait's existing Bonds;
- ii. Indicative pricing provided to Synlait by other third-party lenders; and
- iii. The pricing for other broadly comparable subordinated instruments listed on the NZDX.

Each of these are considered further below.

#### 5.1.1. Synlait NZDX Bond Pricing

As noted previously, Synlait issued \$180 million of bonds in December 2019 which trade on the NZDX. The Bonds were originally priced at 2.5% over the 5-year swap rate prevailing at the time of issue and broadly traded at a margin of between 2.0% - 4.0% over the underlying swap rate in the period from listing until early 2023. The average margin was ~3.1% over the period to April 2023.

The margin has steadily increased since March 2023 as the deterioration in Synlait's financial position became evident – starting with Synlait's consecutive FY23 profit downgrades in March and April 2023, followed by a range of developments which impacted on Synlait's credit position (as summarised in Section 3.3). The Bonds are now trading at a level which indicates a high chance of credit loss for bondholders, with recent prices of approximately \$0.53 per \$1.00 of face value implying a yield of over 160%.

It is difficult to meaningfully infer a reasonable market interest rate for the Shareholder Loan from the current Bond pricing. However, even though the Shareholder Loan will rank ahead of the Bonds in a liquidation of Synlait, this market evidence clearly suggests that the implied margin of approximately 2.6% for the Shareholder Loan should be viewed as being well below market pricing.

#### 5.1.2. Third Party Pricing

As part of the broader deleveraging plan, Synlait considered subordinated and mezzanine funding alternatives to refinance both its bank repayment obligations and the NZDX Bonds. This included taking market soundings from a range of Australasian credit funds for a subordinated private loan. While these options were not developed beyond an exploratory stage, we understand that the pricing feedback in late 2023 indicated equivalent rates of at least 15% for terms of 3 or more years. These options were ruled out due to the cost and timing relative to the Shareholder Loan and other options being explored (including the sale of Dairyworks).

#### 5.1.3. Comparable Listed Pricing

There are a very limited number of listed instruments with broadly similar features and term to the Shareholder Loan. However, Fletcher Building<sup>2</sup> and Infratil have listed instruments which share a similar ranking profile behind senior lenders and have similar maturity dates. Fletcher Building's capital notes (unsecured and subordinated) have maturities of March 2026, 2027 and 2028 and Infratil's infrastructure bonds (unsecured and ranking behind the senior borrowings of Infratil's subsidiaries) have maturities of March 2026, December 2026 and December 2027. The current pricing and implied margin over the relevant swap rate for these instruments is summarised in Table 7 below.

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<sup>2</sup> Fletcher Building Industries Limited is the issuer of the capital notes but they are guaranteed on an unsecured subordinated basis by Fletcher Building.





**Table 7 Comparable Subordinated Instrument Pricing**

Company	Instrument	Value Outstanding	Maturity	Current Yield	Margin over Swap
Fletcher Building	Capital note	\$100m	March-26	9.1%	4.0%
Fletcher Building	Capital note	\$100m	March-27	9.8%	4.0%
Fletcher Building	Capital note	\$100m	March-28	9.1%	4.6%
Infratil	Infrastructure Bonds	\$120m	Mar-26	7.2%	2.1%
Infratil	Infrastructure Bonds	\$156m	Dec-26	7.2%	2.3%
Infratil	Infrastructure Bonds	\$102m	Dec-27	6.9%	2.3%

Source: NZX, Northington Partners. As of 21 June 2024.

The average yield and margin for Fletcher Building's capital notes are 9.3% and 4.5% respectively, while Infratil's infrastructure bonds are currently yielding 7.1% with an average margin of 2.2%. This compares to the Shareholder Loan with a fixed interest rate of 8.0% for 12 months and an implied margin of 2.6% over the current 1-year swap rate of 5.4%. The margin reduces to 1.6% if the Shareholder Loan is extended at Synlait's option.

Notwithstanding that the Shareholder Loan has a second ranking security, we would consider the overall credit quality of the Fletcher Building capital notes and Infratil infrastructure bonds to be far superior to that of the Shareholder Loan. This reflects:

- Fletcher Building has an investment grade rating of Baa3 (negative outlook) from Moody's Investors Service for its senior borrowings, a current market capitalisation of over \$2 billion and a current total debt (including capital notes) leverage ratio of 1.8x;
- Infratil is unrated but its assets include large infrastructure assets including One NZ (formerly Vodafone), Manawa, Wellington Airport and CDC Data Centres. These assets have strong credit characteristics including stable, more predictable cash flows. The appropriate margins for Infratil infrastructure bonds should be much lower than we would expect for the Shareholder Loan; and
- Synlait does not have a credit rating but given its current level of financial distress, we would suggest that it would likely be rated as speculative grade with a high chance of default.

#### 5.1.4. Pricing Conclusion

Based on the available evidence, we conclude that the interest rate proposed for the Shareholder Loan is much lower than the likely cost of alternative funding sources (assuming alternatives would be available at all).

## 5.2. Other Key Terms of the Shareholder Loan

The Shareholder Loan includes terms which we consider are favourable to Synlait, relative to both the existing senior facilities and the likely terms for alternative funding. This view reflects the following:

- The Shareholder Loan has no financial covenants and does not place any obligations on Synlait outside of ordinary terms expected for a subordinated instrument of this nature;
- Synlait only has an obligation to repay the principal amount of the Shareholder Loan at maturity if the Company is in a position to do so without breaching the senior financial covenants and while still satisfying its solvency obligations. Therefore, while the headline maturity is 12 months with an option at Synlait's election to extend by a further 12 months (subject to certain conditions), the Shareholder Loan has an indefinite maturity in circumstances where repayment would breach senior financial covenants or the solvency test; and
- Similarly, interest payments can be deferred and capitalised in situations where payment would breach senior financial covenants or solvency requirements.

We believe that the majority of the terms above are concessionary and are therefore fair to Synlait shareholders other than Bright.



For as long as Bright owns not more than 50% of Synlait, the Shareholder Loan also includes an “Event of Review” if an independent director (as defined in the NZX Listing Rules) is appointed to the board of Synlait in circumstances where that appointment has not been supported by Bright. This would trigger a 60-day negotiation period and if Bright is still not satisfied with the appointment, then Bright has an ability to require repayment of the Shareholder Loan on 60 days’ notice.

While we understand this feature of the Shareholder Loan was a concession by Synlait to satisfy Bright requirements, we don’t believe that it confers any undue influence to Bright for the following reasons:

- Synlait will still be required to satisfy the NZX Listing Rules which stipulate that at least 2 directors are independent and 2 directors must be ordinarily resident in New Zealand;
- Bright directors will not be able to vote on board resolutions concerning the Shareholder Loan where they are “interested” in the transaction under the Companies Act 1993, including for instance, decisions on whether to extend the Shareholder Loan; and
- Even in the circumstances where Bright might demand repayment following an Event of Review and negotiation period, repayment would only be possible if Synlait was in a position to do so (i.e. the senior lenders allow repayment).

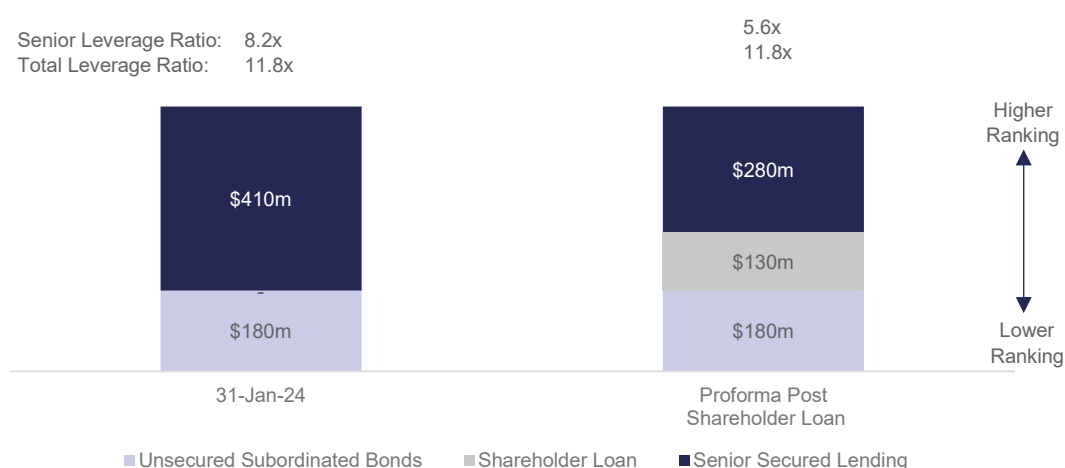
### 5.3. Immediate Financial Implications of the Shareholder Loan

The Shareholder Loan has no immediate impact on Synlait’s overall debt position because it will be used to repay a portion of the existing senior bank debt. It does however provide critical liquidity to satisfy Synlait’s \$130 million bank repayment obligation by 15 July 2024 and provide time to advance other recapitalisation priorities including the proposed Equity Raising.

Given the Shareholder Loan is subordinated to Synlait’s senior lenders, the bank will exclude the loan from its assessment of the senior leverage ratio (senior debt to EBITDA) which is a key financial covenant (see Section 4.2). However, given Synlait’s EBITDA is so depressed (expected to be towards the lower end of FY24 guidance of \$45 - \$60m), both the total and senior leverage ratios are expected to be well above covenant levels at the FY24 reporting period.

The impact on total and senior debt levels and leverage ratios post the Shareholder Loan are illustrated in Figure 8 below based on Synlait’s 1H24 debt position and \$50 million of assumed EBITDA for FY24 (relative to guidance of \$45 - \$60 million).

**Figure 8: Synlait Debt Structure as of 31 January 2024**



Source: Northington Partners based on Synlait debt at 31 January 2024 and assumed FY24 EBITDA of \$50 million.

Figure 8 demonstrates that the Shareholder Loan will have no immediate impact on Synlait’s overall debt position or total leverage ratio but will improve its senior leverage ratio from 8.2x to 5.6x, albeit still well above current covenant levels (2.25x at FY24).



#### 5.4. Potential Future Financial Implications

As set out previously, implementation of the Shareholder Loan represents Stage 1 of a broader recapitalisation plan and is not sufficient to reduce Synlait's current debt position to sustainable levels. As announced by the Company and detailed in the Notice of Meeting, Synlait also intends to launch the Equity Raising with Bright's support and refinance the current bank facilities.

Synlait will clearly be seeking to recapitalise the Company sufficiently through the Equity Raising to meet its short-term obligations, but also to reduce debt to a level that can be sustained at expected medium-term earnings levels and is sufficient to receive the support of the banks for the refinancing. We therefore expect the size of the Equity Raising will be material and, given its size, will be contingent on shareholder approval to be considered at a separate special shareholder meeting.

In addition, depending on the size of the Equity Raising and the success of on-going measures to improve earnings performance, Synlait may continue to pursue other strategic initiatives to reduce debt, with likely options including the sale of the North Island assets and Dairyworks.

#### 5.5. Voting Outcomes of the Shareholder Meeting

Bright is not able to vote on the resolution relating to the Shareholder Loan, meaning approval will require majority support of the remaining Synlait shareholders who vote. Given a2MC control 19.8% of the shares of Synlait, they will be highly influential in determining the outcome of the resolution to approve the Shareholder Loan. As of the date of this report, a2MC and Synlait have engaged in discussions but a2MC has not indicated how it intends to vote. If Synlait is advised how a2MC intends to vote, it will update shareholders on the status of a2MC's voting intentions by way of a market announcement.

#### 5.6. Potential Consequences of the Shareholder Loan Not Being Approved

In the event that the Shareholder Loan is not approved and implemented in accordance with the proposed timeline, the Company will not have access to sufficient funding to meet the 15 July 2024 \$130 million bank loan repayment obligation and would be in default to the banks. Unless the banks agree to alternative arrangements, the most likely outcome in a default situation would be for the Company or the banking syndicate to immediately initiate a formal insolvency process. This may involve the appointment of a voluntary administrator or receiver to take control of the Company. In turn, an insolvency event is also an "Event of Default" in relation to the Subordinated Bonds, at which point they also become immediately due and repayable.

Receivership is an insolvency process aimed at protecting the position of secured creditors, who have general or specific charges or security over the Company's assets. The receiver's role would be to take control of the Company's assets to generate proceeds, either through continued operation or the realisation of assets, which can then be used to repay the secured creditors. The specific asset management strategy that the receiver pursues will depend on the receiver's view of which course is likely to result in the best value outcome for the secured creditor that appointed them. In this instance, a likely scenario is that a receiver would attempt to accelerate cash generation through an orderly realisation of Synlait's assets. In this context, the receiver has a duty to get the best price reasonably obtainable at the time of sale.

In contrast, a voluntary administrator is appointed by the Directors of Synlait with the objective of maximising the chances of the Company (or as much as possible of its business) continuing to operate or, where that is not possible, generating a better return for the Company's creditors and shareholders than would result from an immediate liquidation of the Company. Voluntary administration has some benefits over receivership in that it provides temporary relief from creditor action (typically 20 working days) to provide time for the administrator to assess the Company's options with an objective of providing a better return than may be available to both creditors and shareholders from an immediate liquidation. However, secured creditors that have a right to appoint a receiver may do so despite the appointment of administrators in which case the receiver would take priority.

The ultimate outcome for shareholders under any insolvency process is highly uncertain and we do not consider that approval of the Shareholder Loan would disadvantage shareholders. Furthermore, shareholders are likely to have the ability to consider this as a viable option at the shareholder meeting to approve any Equity Raising (i.e. shareholders will likely have the ability to assess the merits of



liquidation, administration or receivership at the special shareholder meeting to approve the Equity Raising).

### 5.7. Summary of our Assessment of the Shareholder Loan

In our opinion, after having regard to all relevant factors, we consider that the Shareholder Loan pricing and terms are fair to the Non-associated Shareholders. Moreover, the terms are likely to be more favourable than what would be available on arms-length commercial terms from an independent third-party lender.

The Shareholder Loan is now the only option available to Synlait to repay the \$130 million of bank debt due on 15 July 2024, and thereby avoid the significant consequences that would otherwise arise. In effect, the Shareholder Loan provides the Company with the time needed to progress Synlait's other deleveraging plans, including the proposed Equity Raising and bank refinancing. Non-associated Shareholders will have an opportunity to reconsider their options at that time.

## **Appendix 1. Sources of Information Used in this Report**

Other than the information sources referenced directly in the body of the report, this assessment is reliant on the following sources of information:

- Synlait's annual and interim reports and investor presentations.
- Discussions with senior personnel of Synlait and its advisers.
- Documentation for the Shareholder Loan including the initial loan term sheet and final loan agreement.
- Drafts of the Special Notice of Meeting to approve the Shareholder Loan.
- Synlait's FY24 and FY25 budget.
- Various other documents that we considered necessary for the purposes of our analysis.

## Appendix 2. Declarations, Qualifications and Consents

### Declarations

This report is dated 25 June 2024 and has been prepared by Northington Partners at the request of the independent directors of Synlait to fulfil the requirements of the NZX in relation to the Shareholder Loan. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Synlait for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of Synlait (other than Bright) that are being asked to consider approval of the Shareholder Loan, and Northington Partners consents to the distribution of this report to those people.

Our engagement terms did not contain any term which materially restricted the scope of our work.

### Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Jonathan Burke B.Com (Hons), BCM. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

### Independence

Other than other independent roles with Synlait, Northington Partners has not been previously engaged by Synlait or (to the best of our knowledge) by any other party to the Shareholder Loan in relation to any matter for the Shareholder Loan that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of Bright.

The preparation of this independent report will be Northington Partners' only involvement in relation to the Shareholder Loan. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

### Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by Synlait. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

## Indemnity

Synlait has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Synlait has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.





## DIRECTORY

### Registered Office

1028 Heslerton Road  
Rakaia, RD13  
New Zealand

+64 3 373 3000

[info@synlait.com](mailto:info@synlait.com)

[synlait.com](http://synlait.com)

### Auditor

PricewaterhouseCoopers  
PwC Centre Level 4  
60 Cashel Street  
PO Box 13244  
Christchurch 8013  
New Zealand

### Lawyers

Bell Gully  
Deloitte Centre / Bell Gully Building  
1 Queen Street / 40 Lady Elizabeth Lane  
Auckland / Wellington  
New Zealand

### Share registrar

Computershare Investor Services Limited  
Private Bag 92119 Auckland 1142  
Level 2 159 Hurstmere Rd  
Takapuna  
Auckland 0622  
New Zealand

0800 650 034 / +64 9 488 8777

[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

### Further information online

Our Annual and Interim Reports, all our core governance documents (including our constitution, some of our key policies and charters), our investor relations policies and all our announcements can be viewed on our website:

[www.synlait.com/investors/](http://www.synlait.com/investors/)

**Certified**



**Corporation**

### 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*.