



SYNLAIT MILK LIMITED ANNOUNCEMENT

NZX: SML

ASX: SM1

20 MARCH 2019

SIGNIFICANT INVESTMENT IN MAJOR GROWTH PROJECTS FOR SYNLAIT

- NPAT half year profit of \$37.3 million
- Re-confirmed guidance for canned infant formula volumes of 41,000 – 45,000 MT
- Manufacturing efficiencies have supported improved production and sales volumes
- Key growth projects including Synlait Pokeno and our Advanced Liquid Dairy Packaging Facility remain on track
- New growth opportunities in liquid milk, Talbot Forest Cheese and lactoferrin expansion
- New purpose 'Doing Milk Differently for a Healthier World' established

SOLID HALF-YEAR EARNINGS PERFORMANCE

Our HY19 NPAT of \$37.3 million is 9.6% lower than the \$41.3 million achieved in HY18. This remains a solid result for the first half of the year, with increased sales volumes achieved across our powders and cream and lactoferrin businesses. The higher sales volumes were achieved due to our ability to increase production volumes off the same asset base, a very pleasing result and representative of the efficiencies we are developing in manufacturing through our Integrated Work Systems (IWS) programme.

While our sales volumes of fully finished infant formula were slightly ahead of HY18, these were delivered at lower margins. This is a result of the new pricing agreement entered into with The a2 Milk Company™ last July, as well as not having the benefit of the higher margin sales to our China based customers that we enjoyed in HY18. These brands are awaiting State Administration for Market Regulation (SAMR) registration.

The HY19 result also benefited from the increased efficiencies of our manufacturing plant. We processed 12.4% more milk than in HY18 into 90,466 Metric Tonnes (MT) of product, a 10.5% increase on FY18. This also reflected higher sales volumes of our powder and cream products at 56,116 MT (HY18 46,111 MT) and a higher closing finished goods inventory (HY19 – 44,344 MT vs HY18 35,040 MT)



INVESTING FOR OUR NEXT PHASE OF GROWTH

The first half of FY19 has been characterised by the significant investments we have made to our manufacturing base across all our key categories. This is part of our focus on supporting the growth of our customers and diversifying our business. Nearly \$200 million of capital expenditure was invested in the six months to 31 January 2019 as we progressed our four major growth projects.

Second infant processing facility at Pokeno

The build of our new infant-capable manufacturing facility in Pokeno continues to be on track for commissioning for the 2019 / 2020 milk season. This is a \$280 million investment which will allow us to meet customer demand, whilst also eliminating our single-site risk.

At the same time, we are recruiting new milk suppliers in the area. We remain on track for the start of the 2019 / 2020 milk season and are encouraged by the warm welcome we've received from Waikato dairy farmers.

Accessing the Everyday Dairy market through our Advanced Liquid Dairy Packaging facility and the conditional acquisition of Talbot Forest Cheese

The build of the Advanced Liquid Dairy Packaging facility in Dunsandel was announced in early FY18 in conjunction with the Foodstuffs South Island (FSSI) supply agreement. The facility will cost \$125 million and gives Synlait the foundation to explore other liquid milk product opportunities which will utilise the innovation and flexibility offered by the plant. We are on track for completing the new facility and we're excited by the discussions we are having with current and prospective customers.

At the end of 2018 Synlait entered into a conditional agreement to acquire selected Talbot Forest Cheese assets. The acquisition, which is expected to be in the range of \$35 - \$40 million, will help us optimise our value chain and supports our growth strategy. The agreement is structured in two parts and settlement is expected 1 August 2019, once aspects of the conditional agreement have been met. Synlait will then assume management and operational control of Talbot Forest Cheese, allowing us to manufacture a variety of cheese products that complement our existing product portfolio. The acquisition allows us to optimise our manufacturing assets (especially during peak seasonal flows), access new profit pools, and aligns with our approach to run high-quality, flexible dairy manufacturing capabilities that can be tailored to meet customer needs.

Lactoferrin capacity expansion complete

We've also just completed our \$18 million expansion to our Dunsandel lactoferrin facility which has doubled our lactoferrin manufacturing capacity. This project was completed on time and on budget. We're already noticing growing demand for lactoferrin through external sales and in formulations with our infant formula customers. Our plant is producing extremely high quality lactoferrin, and we remain excited about the potential for this business as we look to drive capacity increases in an attractive current market pricing environment.



BUILDING A STRONG TEAM

We have made a large investment in staffing which will support our next phase of growth. At the end of HY19 we had 748 employees compared to 597 at the same point in FY18. In particular, we have invested in the capability required to fill the growing number of roles at our new Pokeno facility and support our move into the liquid milk market. We've also invested in our technical expertise to enable product and customer development, including at our Research and Development Centre at Palmerston North. Our increased spend on external consultancy has also focused on supporting our product and customer development.

As part of our commitment to looking after our people, we launched our Diversity and Inclusion working group at the end of 2018. The group aims to bring to life diversity and inclusion in our business. A special sub-group to support women leaders has also been launched.

'DOING MILK DIFFERENTLY FOR A HEALTHIER WORLD'

We launched our new purpose and brand identity in November 2018, which speaks to our sustainability ambitions. 'Doing Milk Differently for a Healthier World' describes our forward-thinking and innovative attitude, as well as our aim for Synlait to contribute to a healthier planet, and healthier communities.

We have always brought a disruptive attitude to our industry and we'll continue doing that into the future. We have some clear goals around our strength in being a catalyst for change. We want to create more value for New Zealand.

Our new purpose is helping to clarify our ambition and strategic focus and reflects how we will continue to succeed through leveraging our unique sustainable value chain across the environment, our people and enterprise. These principles will be applied to each category to build successful relationships that contribute to our long-term success.

We continue to integrate our sustainable supply chain principles into our core business.

In June last year, Synlait announced its renewed commitment to sustainability. Since then, we've continued to progress these initiatives in a range of ways.

Our farming programme Lead With Pride™ was given a boost in June 2018 under the new sustainability strategy. Higher incentive payments have led to many more of our farmers moving towards certification, with our Lead With Pride™ accredited milk supply increasing 17% on FY18 volume.

The programme recognises and rewards milk suppliers who achieve dairy farming best practice. We introduced greenhouse gas (GHG) emissions targets and incentives for farmers with palm kernel expeller (PKE) free farms in June.

Synlait wants to achieve on-farm reduction of GHGs by 35% per kgMS, reduce water consumption by 20% per kgMS and reduce nitrogen loss by 45% by 2028. As part of this work we have been investigating methane reduction and will pilot an on-farm methane inhibitor later this year.



We also have targets for our manufacturing sites including reductions of GHGs and water consumption by 50% and 20% per kgMS respectively.

A major step towards reducing off-farm GHGs by 2028 was made with the commissioning of New Zealand's first large-scale electrode boiler earlier this month at Synlait Dunsandel. The boiler uses electricity rather than coal in the new Advanced Liquid Dairy Packaging Facility. Over a ten-year period the electrode boiler's estimated emissions savings are roughly equal to the emissions which would be produced by 9,600 households.

The installation was undertaken with the help of Orion, who delivered infrastructure upgrades to the Dunsandel electricity network to provide the necessary power for the electrode boiler.

Synlait has pledged to not build any more coal infrastructure, and we're looking at ways to address existing coal use.

In January we lodged our first submission in the certification process to become a Certified B Corporation. B Corp is a global movement which will measure us objectively to an international community standard. There are currently 16 Certified B Corporations in New Zealand, and most are small to medium enterprises (SMEs). We are aiming to be the first large scale, NZX-listed business to join this pioneering cohort.

OUR MILK SUPPLY

We continue to be supported by our Canterbury milk suppliers, and we're excited to be welcoming our new Waikato farmers into the fold. As previously mentioned, we're confident in our ability to attract North Island milk, and we're on-track for our 2019 / 2020 milk season.

Environmental challenges, *Mycoplasma bovis*, and a shifting attitude towards dairy have all contributed to a somewhat turbulent year for dairy farming. But many of the difficulties we face also provide an opportunity to further add value. We know what current best practice looks like and so do our farmers.

We now have over 60 farmers Certified as Lead With Pride™. We are also working alongside Munchkin to make the most of New Zealand's natural grass-fed system, and we have a well-established a1 protein-free programme. All three of these special milks programmes enable value to flow back to farmers via incentive payments over and above the base milk price.

This means the value is being added behind the farm gate and farmers are being rewarded for creating this additional value.

The demand for dairy remains strong with governments around the world encouraging dairy as a natural source of good nutrition. Increasing wealth in developing countries continues to drive increased demand. New Zealand dairy products have a great reputation globally for taste, quality and safety. There is plenty of opportunity for us to further differentiate and add value.



REGULATORY UPDATE

In January we obtained registration renewal of our Dunsandel plant with the General Administration of Customs of the People's Republic of China (GACC) which allows us to continue to export canned infant formula to China. Synlait Auckland has achieved GACC dairy registration and is progressing with the GACC infant nutrition process.

Whilst it is difficult to be definitive on timelines, we expect to obtain State Administration for Market Regulation (SAMR) registration for New Hope's Akara and E-Akara brands and Bright Dairy's Pure Canterbury brand by the end of 2019. The applications have been lodged with SAMR and we're working with New Hope and Bright Dairy on the application process.

STRONG GROWTH EXPECTED IN THE SECOND HALF OF FY19

We remain on track for our full year canned infant formula (IFC) volume guidance at between 41,000 – 45,000 MT, with significantly higher volumes forecast to be delivered in the second half of FY19 compared to the second half of FY18, which saw only an 11% uplift on the first half.

The volume growth in the second half of FY19 is driven by strong growth in The a2 Milk Company's™ (a2MC) Platinum® brand of infant formula. We maintain our outlook that full year profitability is expected to increase in FY19, but not at the same rate as FY18.

A copy of Synlait's HY19 Interim Report and accompanying presentation can be found at <https://www.synlait.com/news/>

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For more information about Synlait visit www.synlait.com or contact:

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