



DELIVER. INVEST. CLARIFY.

OUR YEAR IN REVIEW
ANNUAL REPORT 2019

Synlait

DOING MILK DIFFERENTLY

Faye Goh, Chemistry Supervisor

Bruce Turpie, Synlait Milk Supplier



FOR A HEALTHIER WORLD

A large industrial warehouse with a high ceiling and metal truss structure. In the foreground, a robotic arm with a yellow gripper is placing large brown paper bags onto a white metal pallet. The bags have blue circular logos. In the background, there are tall stacks of white-wrapped pallets and a yellow forklift visible through a safety fence.

**IS TAKING US
TO A NEW LEVEL**

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OUR YEAR
IN REVIEW

DELIVER.

DELIVERING RESULTS

- Revenue exceeded **\$1 billion** for the first time, increasing 17% to \$1,024.3 million
- Net profit increased 10% to **\$82.2 million**
- Operating cashflow increased 39% to **\$136.7 million**
- Sales volumes increased 21,093 Metric Tonnes (MT) or 16% to **149,730***
- Consumer packaged infant formula sales continue to grow, up 21% to **42,907 MT**
- Average milk price of \$6.58 per kgMS for the 2018/2019 season, made up of a base milk price of \$6.40 and an additional **\$0.18** in incentive payments

INVEST.

INVESTING FOR THE FUTURE

- **\$18.9 million** expansion to lactoferrin facility completed on time and within budget, doubling manufacturing capacity
- **\$260 million** infant-capable manufacturing facility in Pokeno close to commissioning. Welcomed 56 milk suppliers and 77 employees
- **\$134 million** advanced liquid dairy packaging facility at Dunsandel designed, built and commissioned within 18 months
- **Talbot Forest Cheese acquisition** completed on 1 August 2019
- **\$32 million** investment to build Dry Store 4 announced. This additional 30,000m² warehouse at Dunsandel will unlock further supply chain efficiencies and enable greater traceability, deliver meaningful sustainability benefits, and result in shorter lead-times for customers
- **218 capable**, experienced and high-energy people hired to help run these facilities

CLARIFY.

CLARIFYING OUR DIRECTION

- Launched our new purpose and brand identity: **Doing milk differently for a healthier world**
- **Delivered on our promise** to clarify Synlait's focus, strategy and purpose for shareholders and staff
- Defined our formula for success: **2 + Zero**. Doubling our business with a net positive impact
- New strategy has **eight clear strategic paths** to grow and enable our business
- This now underpins everything we do and will take Synlait to the **next phase of growth**

*Excluding liquid milk

INVESTED FOR GROWTH

CAPEX
\$333.6m
NEW SYNLAIT EMPLOYEES
218

DOUBLED LACTOFERRIN CAPACITY
WITH COMPLETION OF NEW FACILITY

43 NEW LEAD WITH PRIDE™ FARMS¹

49% SOUTH ISLAND
FARMS NOW
CERTIFIED¹
63 FARMS SIGNED UP
TO PALM KERNEL
EXPPELLER (PKE)
FREE INCENTIVES¹

TURNED ON NEW ZEALAND'S FIRST
LARGE-SCALE ELECTRODE BOILER

HIGHLIGHTS

CLARIFIED OUR DIRECTION

New purpose, ambition and strategy cemented:
Heart, Head and Hands

MOVED INTO EVERYDAY DAIRY

Commissioned our advanced liquid dairy
packaging facility

Talbot Forest Cheese acquisition²

THE GROWTH STORY CONTINUES

REVENUE EXCEEDED
\$1b
FOR THE FIRST TIME

NPAT FY19
\$82.2m

¹ Reporting consistent with 1 June 2018 - 31 May 2019 dairy season

² Completed on 1 August 2019 (post balance date)

A portrait of Graeme Milne ONZM, a man with a beard and glasses, wearing a dark blazer over a blue and white checkered shirt. He is standing with his hands in his pockets against a light grey background.

CHAIR REVIEW

CHAIR REVIEW

Graeme Milne ONZM

A VERY WARM WELCOME TO THIS, THE FIRST REPORT OF OUR SECOND DECADE IN OPERATION.

May I extend that welcome to all stakeholders, whether recent shareholders, or those who joined Synlait in the early 2000s when we were originally a dairy farming company, with aspirations at the time to: Make More From Milk. Welcome also to those who have a stake in our company whether as staff, suppliers, customers, advisors, or compatriots in the industry.

During the past 11 years we have made our growth ambition clear. We always strive to be aspirational, and different, in order to shift perceptions and drive value. This year we exceeded \$1 billion in revenue for the first time.

Our new CEO, Leon Clement, joined us in August 2018 and has taken the opportunity to clarify the vision we have for the future as we enter our second decade. Our strategy has been refined but retains our company's essential DNA, which has been succinctly captured in our restated purpose: Doing milk differently for a healthier world.

AREAS OF FOCUS FOR THE BOARD

Continuing our strong financial performance

Our full year 2019 result (FY19) was positive and in line with consumer packaged infant formula sales guidance. More detail on our financial performance is available in the CFO review on page 16. However, at a top line, revenue exceeded \$1 billion, a 17% increase on the previous year. This growth was despite an overall drop in the value of the farm gate milk price during the year, which reduced revenues by more than \$30 million on a like-for-like product mix. Underlying revenue growth therefore exceeded 20%.

Net after tax profit increased 10% to \$82.2 million on the prior year, and reflected an increase in high margin sales, but also an increase in operating and capital costs necessary as we invest for future growth.

One example of this significant investment is our head count to ensure we have right capabilities to run the facilities we are building, such as the advanced liquid dairy packaging facility

at Dunsandel. Our team increased from 682 in FY18 to 900 in FY19. That is a massive increase in talent and required a huge effort from our existing team to recruit, on-board, train and integrate the significant increase in staff numbers in one year. Consequently, operating costs increased by 15% year-on-year.

Despite the operating cost investments, operating cashflow at \$136.7 million was well up on last year's \$98.4 million, demonstrating the impressive ability we have to keep growing our business. Net debt increased from \$114.9 million to \$333.6 million as we invested heavily in new plant and equipment. Even so, our balance sheet remains strong, and we retain significant headroom within our banking facility covenants.

Investing for growth

The financial performance outlined above reflects that we are nearing the end of our second major growth phase, having spent \$309.3 million on capital expenditure in FY19. This is in addition to the \$67.7 million spent in the second half of 2018.

Our current business can be fairly described as essentially focused around one sector, one market and one customer, that being infant formula for China via The a2 Milk Company™. We see this as a great strength, but also a potential vulnerability, hence our investments have been balanced to both increase our capabilities in infant nutrition while we look to enter other profitable categories.

Our major project at Pokeno gives us a new location, reducing single site risk and providing us with a third infant capable dryer. Synlait Pokeno remains on track, and we have welcomed 56 new milk suppliers to the company, representing a 20% increase in our total milk collection in one year. We thank those suppliers for putting their faith in shifting to Synlait in what can be only described as a competitive market for raw milk.

In terms of entering new categories, the completion of our \$134 million investment in the advanced liquid dairy packaging facility at Dunsandel was a significant achievement. The plant supplied its first product on schedule to our first customer, Foodstuffs South Island, in early April. While focused on fresh milk in customer brands at present, the plant is capable of producing a variety of products in a variety of packaging formats which will be developed and launched over the next few years.

CHAIR REVIEW

Graeme Milne ONZM

The list of achievements and milestones this year is extensive and is detailed further in Leon's CEO review on page 10. Highlights include successfully doubling our lactoferrin production capacity in light of very strong international demand, negotiating to buy Talbot Forest Cheese (and completing the purchase on 1 August 2019), and installing a new pilot plant for product development at our research and development centre at Massey University in Palmerston North.

Leading sustainable change in a fast-changing world

Turning to the international market in which Synlait operates, we see a degree of turbulence and change. At a macro scale we are monitoring the U.S. approach to trade negotiations, but at this stage are unharmed by it. The dairy sector is experiencing overall good demand, but there are important trends emerging.

Our business is currently solely B2B and we maintain a very close relationship with a relatively small number of high value customers in each of our categories.

OUR CUSTOMERS TELL US, AND WE CONCUR, THAT THE WORLD NEEDS HIGH QUALITY NUTRITION FOR AN INCREASINGLY AFFLUENT POPULATION, BUT THIS MUST BE PRODUCED WITH UNQUESTIONABLE SAFETY, DEMONSTRATED COMMITMENT TO SUSTAINABILITY, UNCHALLENGED ANIMAL WELFARE STANDARDS, AND WITH A POSITIVE IMPACT ON OUR RELEVANT COMMUNITIES.

It's a tall order but one which we are responding to enthusiastically at Synlait. Our Lead With Pride™ programme on farm is an industry exemplar. It focusses milk suppliers on the best standards of milk quality, animal welfare, environmental sustainability and staff and community well-being. Our health and safety performance within Synlait is a continual focus and with a Total Recordable Injury Frequency Rate (TRIFR) of 13.7 (a 28% reduction year-on-year), we are making good progress. Our sustainability targets are aspirational and publicly announced. We are proud of the stance we have taken on our environmental commitments. Product quality is of the utmost importance as we sell 'trust' within every consumer pack. Synlait has a comprehensive product quality system, externally accredited and regularly audited by customers and independent authorities.

This year to provide a greater degree of transparency, we have provided a summary of how we are tracking against our sustainability strategy on page 30. The Board are committed to supporting the business to provide investors with the opportunity to monitor our performance through a non-financial lens. Therefore, I am pleased to let you know we will soon enhance our sustainability reporting. This will detail our environmental impact across our value chain, capture our progress so far and provide further clarity on the path which we intend to travel.

Steady leadership transition

Leon, as our new CEO for almost the full 2019 financial year, has certainly hit the ground running. The many moving parts of our dynamic organisation have been quickly assimilated by Leon to such an extent that he was able to lead the Board, along with the whole company, through a comprehensive strategic review. The renewed and refocused purpose, ambition statement and strategic pillars are clarifying for all and driving the company forward at quite a pace.

BOARD UPDATE

This year an external review of the Board's capability and performance was conducted with a view to ensuring it has the skills and experience required to lead the company into the future. Several useful recommendations have already been adopted. Key among them was to ensure we have a succession plan that meets our needs for top performing governance. To that end we will start to bring new talent onto the Board and establish a pattern of a new replacement director, if not each year, then every other year.

Our indicative succession plan is that Bill Roest will step down at the end of his current term in 2020, and as indicated at the Annual Meeting last year, I will step down at the end of my current term in 2021. At this year's annual meeting on Wednesday 27 November in Christchurch, Sam Knowles will retire and seek re-election from shareholders. There will also be a resolution to align our Constitution with the updated NZX Listing Rules, which came into effect earlier this year.

Additionally, with a view to ensuring best practice we have added environmental responsibilities to our People and Governance Committee. Sam Knowles has taken on the responsibility of Chair for our new People, Environment and Governance Committee, with Hon. Ruth Richardson stepping down as Chair. Ruth has served as Chair since the formation of this Committee and has provided excellent guidance and counsel through the many challenges we have faced as a dynamic and fast-growing company. May I thank Ruth on behalf of you all for such a magnificent contribution.

I ALSO WISH TO THANK OUR SENIOR LEADERSHIP TEAM, AND ALL STAFF FOR ANOTHER INSPIRING RESULT. THE ENVIRONMENT YOU WORK IN IS FAST-PACED AND OUTCOME-FOCUSSED. THE EFFORT REQUIRED IS DAUNTING, BUT THE SENSE OF ACHIEVEMENT IS PALPABLE. OUR TEAM ARE UNQUESTIONABLY MOTIVATED TO BE: DOING MILK DIFFERENTLY FOR A HEALTHIER WORLD.

OUTLOOK

With a continuing growth agenda and clear strategies to enter new categories, we expect to invest at a rate which at least matches the pattern we have established in our first 11 years. Our aspirations are for a return on capital employed (ROCE) of approximately 20% and we do not expect to be paying dividends in the foreseeable future.

Our share price finished FY19 at \$10.05 and was a disappointing 8% down on the previous year's finish at \$10.88. We do acknowledge that the covenant issue at Pokeno, which was disclosed during the year, has had a negative effect on our share price, and we are working to resolve the situation and limit its impact as soon as is practicable.

Finally, based on the diversification of our business, and the way we create value, we are changing the way we provide guidance. We expect our FY20 profits to continue to grow, with the rate of profitability increasing at least at a similar rate to that of FY19 over FY18. Our expected earnings growth will be driven by continued momentum in consumer packaged infant formula, a full year of operation of the advanced liquid dairy and lactoferrin facilities, the first sales of long-life products, and the progression of our Everyday Dairy strategy. There will also be a contribution from Synlait Pokeno, which will be commissioned shortly.

Thank you for your continued support of Synlait.



Graeme Milne
CHAIR



CEO REVIEW

DELIVER. INVEST. CLARIFY.

Our year in review

Kia ora

Here at Synlait we are committed to doing milk differently for a healthier world.

Our new purpose and brand identity is less than one year old, but it has quickly helped shape the choices we make, and clarify the vision we have for the future.

We are a growth company, harnessing New Zealand's natural capital, and combining expert farming with state-of-the-art processing. Maintaining this momentum and clarifying our future have been our top priorities.

As I reflect on my first year at Synlait, and our performance, three things stand out for me: firstly we've delivered a strong financial result, supported our customers to grow and create value, while improving our operational efficiency; secondly, we've invested in our future, with new facilities and people capability that position us well for continued growth; and finally, we've clarified and focussed our direction with a new purpose, ambition and strategy that aligns our people and stakeholders to a common goal that will help us write the next chapter in this exciting Synlait story. In summary, we've delivered a strong result, invested in our future and clarified our direction.

DELIVERING RESULTS

Group financial results at a glance:

- Revenue exceeded \$1 billion for the first time and increased 17% to \$1,024.3 million
- Net profit increased 10% to \$82.2 million
- Operating cashflow increased 39% to \$136.7 million
- Sales volumes¹ increased 21,093 MT or 16% to 149,730 MT
- Consumer packaged infant formula sales continued to grow up 21% to 42,907 MT
- Average milk price of \$6.58 per kgMS for the 2018/2019 season, made up of a base milk price of \$6.40 and an additional \$0.18 in incentive payments

A strong financial result was delivered because we have continued to support our customers to grow and create value, while improving our own operational efficiencies. This has allowed us to invest in growth and set ourselves up for the future.

¹Excluding fresh milk

Our financial results have been characterised by ongoing growth in our infant nutrition volume (up 21% to 42,907 Metric Tonnes (MT)). As our core business, this continues to grow, and I'm pleased with how our teams came together to meet customer demand.

Our margins per MT have softened year-on-year, largely a function of customer mix, the renegotiation of our supply agreement with The a2 Milk Company™, and increases in fixed overheads as we prepare to bring new assets online. Our new advanced liquid dairy packaging facility also incurred some additional commissioning costs that impacted our cost line. We are looking to stabilise its performance during the coming months.

However, we have continued the strong efficiency gains we signalled at half year (processing 8.7% more milk in FY19 vs. FY18), and expanded lactoferrin capacity and resulting sales. These factors have combined to improve our total gross profit by 12% across the business. Our expenditure has lifted in line with this growth – but importantly, much of this increased investment is also in areas of the business that support future growth opportunities. Notably, our operating cashflow increased 39% to \$136.7 million, reflecting the strong underlying performance of the business and ability to fund our investment programme.

As an integrated manufacturing business, our customer relationships are critical to our business success. Throughout the past year we have continued to evolve our customer base. We continue to build on the strategic partnership we have with The a2 Milk Company™, working closely to grow our respective businesses. Over the past six months, we also cemented our partnership with Foodstuffs South Island for the supply of private label milk and cream. Synlait Dunsandel is now supplying the private label daily fresh milk needs to 39 stores and three distribution centres throughout the South Island. We have also delivered on our supply commitment for lactoferrin for a major international customer.

No year is without its challenges and we were disappointed when the U.S. Food and Drug administration (FDA) registration process required to launch Munchkin's Grass Fed™ infant formula in the U.S. was put on hold. Our relationship and supply agreement with Munchkin remain in place and we still supply other markets, including New Zealand and Australia, where GrassFed™ is sold.

CEO REVIEW

Leon Clement

We have a strong track record at navigating complex regulatory environments and continue to meet the strict criteria of several product quality and safety accreditations. In July, Dunsandel received FSSC 2200 certification, our first global food safety certificate. This is an extremely important achievement which is valued by several of our key customers.

We also received General Administration of Customs of the People's Republic of China (GACC) general dairy registration for our Auckland facility.

Our Akara and Pure Canterbury formulation registrations have been accepted subject to a site audit, with Synlait continuing to work through the registration process for e-Akara. Uncertainty remains around the China infant registration process with the State Administration for Market Regulation (SAMR). We acknowledge these have taken longer than anticipated.

As I mentioned above, our result was underpinned by some strong operational efficiency gains. This progress was supported by impressive improvements created by our Integrated Work Systems (IWS) programme.

During FY19, 8.7% more milk was processed and stops on Dunsandel's consumer packaging line reduced by 95%, increasing throughput by 22% over an 18-month period. These are impressive achievements that have created immediate value for our customers.

WE ALSO MADE STRONG PROGRESS ON OUR SUSTAINABILITY AGENDA.

Earlier this year, we delivered on our pledge not to build any additional coal infrastructure by commissioning New Zealand's first large-scale electrode boiler at Dunsandel. This was a key sustainability milestone for our team as we aim to radically reduce our carbon footprint over the long-term.

Culture and community are also critical to building a healthier place for our people to work. Recently we've launched Whakapuāwai, our latest sustainability commitment, which gives our people a unique opportunity to engage with their communities, our farmers and iwi to make a personal contribution to environmental restoration with native trees.

More information on Whakapuāwai is in the sustainability section on page 39, but I wanted to reinforce how important this initiative is to us. We can't solve environmental challenges on our own, but through Whakapuāwai we can lead by example and hopefully inspire others to follow.

We are a fast-paced and rapidly growing organisation that undertakes complex work, which means our teams can be exposed to a range of risks. To support this, we have launched

tools and processes that allow us to gain greater visibility and transparency of events. It has resulted in a significant increase in reported events and greater engagement from all aspects of the business in the proactive identification of hazards and risks. We have also reduced injury rates (TRIFR) by 28% over the past year. We still have plenty of room for improvement here as we strive towards our ambition of zero workplace injuries for all our people.

The above achievements demonstrate that Synlait is an action-based organisation which is growing fast. It's our people that make these things happen, which is why it's important to support our team and build the right culture to support our growth. Harnessing a more diverse range of people and perspectives is critical to our future success – and to help our people balance the demands of their work and home lives, we've launched two new people-focussed policies.

Tāwariwari, encourages workplace flexibility, essential in today's world. We want to attract and retain top talent, but know staff need flexibility to pick their place or time of work. We're now offering this.

Mātua, is our parental leave policy. We're topping up the government-paid leave to full salary for 22 weeks. To make it easier to return to work, we'll also contribute up to 20 hours child care per week until the government's child care subsidy kicks in. This policy will enable us to attract and keep talent, as well as build greater diversity.

These policies give our people options to balance their work and personal lives. More information can be found in the sustainability section on page 38.

Working with some of New Zealand's best farmers and doing the right thing is rewarding – a record 43 farmers were Lead With Pride™ certified in FY19, reaffirming our commitment to healthier farming practice. We also saw 63 farmers take up our palm kernel expeller (PKE) free incentive. We are working with our farmers to achieve these targets while maintaining farm profitability, but the record response suggests our farmers are willing to take on these challenges, which is great to see.

For the 2018/2019 season we paid an average milk price of \$6.58 per kgMS for the 2018/2019 season, made up of a base milk price of \$6.40 and an additional \$0.18 in incentive payments. We believe this is a competitive payment, reflective of the value our contracted farmers bring to our business. In an effort to improve transparency around how we pay our milk suppliers for their milk we have included an additional table in this year's annual report, which you can find on page 26.

INVESTING FOR THE FUTURE

We have grown profits and improved operational efficiencies while making significant capital and people investments to set

us up for future growth. The strong balance sheet that emerged at the end of FY18 has provided a range of new opportunities for investment that have been progressed during this past year.

THE PACE AND QUALITY AT WHICH OUR TEAM DELIVERED OUR FOUR MAJOR GROWTH PROJECTS, WHILE CONTINUING TO SUPPORT OUR CURRENT CUSTOMERS TO GROW, AND IMPROVING EXISTING OPERATIONAL EFFICIENCIES, IS TRULY IMPRESSIVE.

The build of our new \$260 million infant-capable manufacturing facility in Pokeno is close to being commissioned. We were excited to welcome 56 new North Island farms to the Synlait family, which means we have met our volume targets, and the 77 new Synlait employees who bring the capabilities required to run this facility.

Following our update to the market last month, a date for the Supreme Court oral hearing has been set for Monday 21 October 2019.

Pokeno is a world class facility being run by an engaged and highly capable team, backed by some of the Waikato's best farmers, and commissioning is on-track for this month. We look forward to updating you on this significant milestone.

We acknowledge this issue has created uncertainty for shareholders and milk suppliers but are committed to ensuring a reasonable outcome is reached. Synlait has made a reasonable settlement offer and we are working towards one of two outcomes which we believe are in the best interests of all, a reasonable settlement offer, or a court outcome.

We are comfortable that our legal exposure is not substantial. Synlait determined, and the auditors agreed, that no provision is required under the accounting standards in its financial statements.

A full update on the timeline in respect of Pokeno and next steps can be found in the corresponding Investor Presentation.

Our investment didn't stop at Pokeno, we also completed a \$18.9 million expansion to our lactoferrin facility at Dunsandel on time and on budget. This has doubled our manufacturing capacity and is beginning to pay off with demand continuing to grow for this high-quality specialised product. We have developed strong capability in designing, building and running our lactoferrin facilities which provide a high-quality infant grade specification that meets China's national standards.

Dunsandel is now also home to our new \$134 million advanced liquid dairy packaging facility, which began supplying liquid milk to Foodstuffs South Island in April. This plant was designed, built and commissioned within 18 months of signing the supply contract - an impressive achievement. It included a \$4 million investment to install New Zealand's first large scale electrode boiler. This facility allows Synlait to explore other milk product opportunities and develop new domestic and international partnerships. It also provides us with long-life liquid processing capability.

Progress was also made to develop our research and development capabilities as we build our new product development team in Palmerston North. Again, we've invested in people to ensure Synlait has the right technical expertise to enable product and customer development.

This is already showing results, with the team supporting the liquid milk plant by trialling product pipelines in high-returning, fast-growing categories such as long-life dairy beverages and liquid nutritional formulations. Since the pilot plant 'Syndi' was commissioned in October, 39 new products have already been tested, and four trials conducted.

Talbot Forest Cheese joined the Synlait family in August, again enhancing and complementing our existing categories. This will help optimise our manufacturing assets, access new profit pools, and it aligns with our approach to run a high-quality, flexible dairy manufacturing plant that enables us to tailor products to meet customer needs.

As part of our strategy to build a world class value chain, our latest investment for the future is Dry Store 4 – an additional 30,000sqm warehouse at Synlait Dunsandel, which will streamline logistic activities while bringing offsite South Island storage back to this site, supporting future growth and generating strong supply chain efficiencies. It will also enable greater control over our inventories, traceability and value add services, and improve our sustainability footprint and result in shorter lead times for our customers.

The project is expected to cost \$32 million and delivers a strong investment return based on the planned efficiency gains. The warehouse will create 20 new jobs and is expected to be completed in September 2020. Total usable warehouse space at Dunsandel will increase to 55,000sqm on completion.

Not only have we built new facilities, but we have bought in capable, experienced and high-energy people to run them. Building strong teams across all our Synlait sites, and ensuring we have the right balance of skills has been critical.

In what was a record year for new employees, with 218 people joining Synlait, our People, Performance and Culture team must be acknowledged for the excellent job done to hire extremely capable people, aligned with our culture, who are supporting us to keep delivering in a uniquely Synlait way.

CEO REVIEW

Leon Clement

CLARIFYING OUR DIRECTION: HEART, HEAD AND HANDS

Last year, soon after starting with the Synlait team, I spoke about wanting to work with our people to clarify and focus our direction, while making sure we continue to deliver in a truly Synlait way.

We're a growth company, it's a fast and dynamic place to work with a strong team spirit, so it is important we have a framework to keep us on the right path for success. A framework that helps provide clarity for our people on why we exist, what we are aiming for, and where and how we will achieve it. We call this framework Heart, Head and Hands, and it communicates Our Purpose, Ambition and Strategy.

HEART. OUR PURPOSE. TŌ TĀTOU ARONGA

Heart represents our purpose: Doing milk differently for a healthier world. This is the reason we exist. It's why we get up in the morning and feel excited about coming to work. It is shaped by who we are, what we stand for, and what we do.



Our purpose is driven by three elements: being **different**, essential **nutrition** and **sustainability**.

Synlait was born **different**, it's in our DNA. We're not trying to be different for different's sake. We're different because we believe that to be the best, we must think and act differently – and we're applying this attitude to all parts of our business, not just our approach to milk.

We are a 21st century milk **nutrition** company. We believe in the nutritional benefits of milk and we are committed to delivering this nutrition to our customers. We know, tomorrow's milk nutrition might be different from today's, so we need to stay agile and open to nutritional alternatives, explore whether they make sense economically, and how they compare environmentally. If they stack up, we should be in the game.

People and planet underpin all that we do. **Sustainability** isn't just a catchphrase here. It's core to what we do every day. Our investments, and the choices we make, must be net positive for the planet and help all to thrive. We continually look for ways to improve, not just for Synlait – but all New Zealanders and the dairy industry as a whole

HEAD. OUR AMBITION. TŌ TĀTOU HAO NUI

If our Heart is our 'why', our Head is where we set goals for 'what' we are trying to achieve – our ambition, the overarching goal that connects us to our strategy. Our ambition is a simple formula for success: 2 + Zero.

Our aspirational goal is to achieve \$2 billion in revenue – that's doubling the size of Synlait.

The + part of our equation talks to people and planet. Our ambition is to have a net positive impact on our communities, and to create a positive place to grow with 100% engagement across our teams.

The **Zero** focuses on a fundamental part of our business – keeping our people safe, our focus on quality, and reducing all forms of loss across the business. **Zero** injuries, **Zero** defects and **Zero** losses. We believe this is possible.

Yes, **2 + Zero** is ambitious, but it's simple and easy to help our teams find a place to make a meaningful contribution and it's exciting to think about what we can achieve together.

HANDS. OUR STRATEGY. TŌ TĀTOU RAUTAKI

Our Hands is where we take action against an aligned heart (purpose) and head (ambition). This is our strategy. It is made up of two parts: our growth strategy (doing milk differently) and our enabling strategy (for a healthier world). It's our map to achieving 2 + Zero.

Our growth strategy is made up of five key complementary opportunities designed to build on our success, diversify our business and optimise the milk coming into our factories.

Infant Nutrition is our core business. It is critical we look after this business. We will continue to deepen the partnerships we have with our existing customers, and build new customer, product and market combinations that support our goals.

Everyday Dairy represents a significant opportunity for us to capture more of the value in the dairy market – both in New Zealand and in export markets. We've started with our new partnership with Foodstuffs South Island, and we will look to our investment in Talbot Forest Cheese to expand further.

Foodservice is a natural extension for us. The market is large and growing, with strong demand for New Zealand provenance in Asia. In addition, the natural product portfolio utilises the extra dairy fat we don't use in infant nutrition.

Sports Nutrition is a growing and attractive market which is getting traction particularly in Asia. It matches our skill set and broader asset base.

The **Next Big Thing**. As I said earlier, Synlait was born disruptive. We would rather disrupt ourselves than be disrupted. We're chasing the Next Big Thing. We want to know what trends our customers are chasing, what technology can help our farmers, and how we can connect more effectively with our suppliers.

We see this growth strategy serving us over the medium to long term – but we're also realistic about how we prioritise our activity. We've been clear with our teams what we **Must Do** (Infant Nutrition), what we **Can Do** (Everyday and Foodservice), and what we **Want To Do** (Sports and the Next Big Thing) as resource and opportunities come available.

Our **enabling strategy** allows us to strengthen our business and grow it in a coordinated way. This is supported by three pillars: **Net Positive for the Planet**, **Building a Healthier Synlait** and **World Class Value Chain**.

We've already taken a stand on **Net Positive for the Planet**. We have a plan and we are delivering on our sustainability targets launched last year and as mentioned above. Our plan has us looking to lead agriculture's response to climate change, eliminate water degradation, and lead stewardship for animals, biodiversity and soil.

Building a Healthier Synlait is about strengthening our company. It's about building systems that support our people, making sure that we're all safe and establishing a culture of kotahitanga or unity, strengthening our capabilities and continuing to manage our risks. Again, as mentioned above, 2019 has seen us make some clear progress in this space.

World Class Value Chain is core to our reputation. It covers healthier farming practices, safe food and market access, manufacturing excellence, building a world class supply chain, and transparency. Our teams are doing great work in this space because we are constantly asking ourselves: how can we think differently and be better than the rest?

WHERE WE'LL BE IN 12 MONTHS.

It's been an absolute privilege to be part of the Synlait team over the past year. I've been warmly welcomed into the company by staff, milk suppliers, passionate investors and many more. Thank you. The responsibility and challenge of my role is not lost on me – you all believe in the Synlait story, and you are eager to help us write the next chapter.

I'm looking forward over the next 12 months to making some solid steps forward on our new purpose, ambition and strategy. We need to consolidate the new investments we have made. We will continue to strengthen the business for people, for planet and for the company. We have some exciting new opportunities in the mix. It's fast-paced. It's dynamic. We like it that way. Doing milk differently for a healthier world.

Ngā manaakitanga

Leon Clement
CEO

CFO REVIEW

CFO REVIEW

Nigel Greenwood

OVERVIEW

The Group exceeded \$1 billion of revenue for the first time in FY19 with revenues of \$1,024.3 million. Reported after tax earnings were a profit of \$82.2 million, a 10% increase from FY18 at \$74.6 million. This increase is primarily due to an uplift in consumer packaged infant formula sales year-on-year, offset by a slight decrease in gross margin per metric tonne (MT), and increased overhead expenditure in areas of the business that support future growth opportunities aligned to our strategy. In addition, our focus on improving our plant utilisation has enabled us to process 8.7% more milk than last year, which resulted in total powder production increasing from 139,485 MT last year to 146,299 MT in FY19.

FINANCIAL PERFORMANCE

Sales

Revenue in FY19 at \$1,024.3 million is \$145.3 million or 17% higher than FY18 (\$879.0 million), with total sales volume of 149,730 MT (excluding fresh milk, which is discussed in a separate section below) 16% above last year's 128,637 MT.

This revenue growth was driven by a 21% increase in high value consumer packaged infant formula sales, a 15% increase in powders and cream sales, and a 33% increase in lactoferrin sales. Sales of consumer packaged infant formula were in line with the 41,000 - 45,000 MT guidance we provided. Our product mix was broadly similar to FY18, with the uplift in total sales enabled by manufacturing efficiencies which have delivered through our Integrated Work Systems (IWS) programme. We also had a net upside in milk purchased from other suppliers around the edges of the season to produce additional lactoferrin.

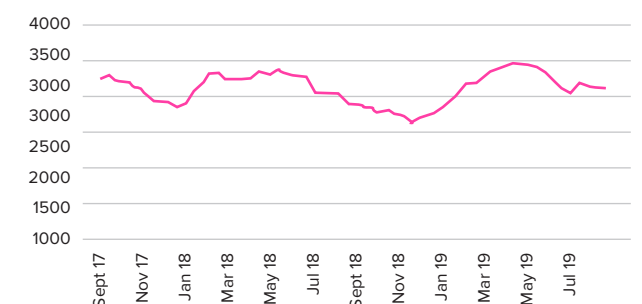
Sales (metric tonnes)	FY19	FY18	Growth %
Powders and cream	106,802	93,042	15%
Consumer packaged	42,907	35,580	21%
Lactoferrin	21	16	33%
Total	149,730	128,637	16%

We received 64.2 million kilograms of milk solids (kgMS) from our contracted suppliers, 0.6 million kgMS more than FY18. We also purchased an additional net 1.9 million KgMS over the edges of the season (vs. net sales of 2.9 million KgMS in

FY18), resulting in an overall 8.7% or 5.3 million kgMS increase in milk processed in FY19. Again, this was enabled by the impressive manufacturing efficiencies we are achieving through implementation of the IWS programme, which is increasing facility production capacities and validating the investment management has made.

Average reference commodity prices were relatively steady in the 2018/2019 milk season, decreasing by 6% compared to the 2017/2018 season, as displayed in the chart below. This equates to an average U.S. dollar (USD) commodity price of \$3,001 USD per MT, \$179 USD per MT below the 2017/2018 price of \$3,180 USD per MT. This has contributed to a \$0.25 reduction in the Group's average base milk price, which has gone from \$6.65 to \$6.40.

Weighted average dairy commodity prices



Gross profit per metric tonne

Our total gross profit per MT (excluding fresh milk) of \$1,268 is marginally (\$26) down on last year's \$1,294 per MT. The overall product mix in FY19 was comparable to the prior year, however continued investment in people to support key growth projects, higher Lead With Pride™ supplier engagement costs, a revised pricing agreement with The a2 Milk Company™, and changes to customer mix with China brands sales not repeating in FY19, all impacted the gross profit per MT year-on-year.

Gross profit per MT for powders and cream decreased \$(96) from FY18, reflecting the impact of factors outlined above. The proportion of base infant formula sales to ingredient product sales (including product internally transferred to blending and consumer packaging) remained comparable. We sold 6,901 MT of external bulk infant formula in FY19, up 44% from 4,789 MT in FY18.

CFO REVIEW

Nigel Greenwood

Consumer packaged gross profit per MT improved \$23, generated from higher utilisation of our consumer packaging facilities in Dunsandel and Auckland.

Lactoferrin margin per MT has materially increased over FY18 due to a favourable market pricing environment. Lactoferrin production volume also increased following the facility upgrades which were completed in November (up 33%), and overall contributed \$13.3 million of gross profit in FY19 (FY18: \$4.4 million).

Gross profit by category									
	Volume			Gross profit			GP/MT		
	Full FY19	Full FY18	Var	Full FY19	Full FY18	Var	Full FY19	Full FY18	Var
Powders and Cream	106,802	93,042	13,761	142.2	134.4	7.7	969	1,065	(96)
Consumer Packaged Powders	42,907	35,580	7,327	34.3	27.6	6.7	800	777	23
Lactoferrin	21	16	5	13.3	4.4	8.9	646,099	285,757	360,342
Subtotal	149,730	128,637	21,093	189.8	166.5	23.4	1,268	1,294	(26)
Consumer Packaged Liquids				(3.5)	0.0	(3.5)			
Grand total				186.3	166.5	19.9			

¹Gross profit per MT includes both external sales volumes and internal transfers of bulk infant formula to blending and consumer packaging.

Fresh milk

This year we commissioned our advanced liquid dairy packaging facility at Dunsandel supplying Foodstuffs South Island. The plant was commissioned in early April, and in the four months following, the facility produced 8,840,469 litres. Gross profit from fresh milk was (\$3.5 million) reflecting some initial commissioning challenges and low fixed overhead recoveries. In FY20 we expect to stabilise performance and bring it back in line with expectations.

Milk price

Raw milk remains Synlait’s most significant cost when determining gross profit. Our average total milk price for the 2018/2019 season was \$6.58 per kgMS compared to our 2017/2018 average total milk price of \$6.78 per kgMS.

The 2018/2019 average total milk price was made up of the final base milk price of \$6.40 per kgMS (2017/2018 base milk price \$6.65 per kgMS), and \$0.18 per kgMS incentive payment for the average milk supplier (2017/2018 \$0.13 per kgMS). Value added premiums are higher in 2018/2019 as more milk suppliers joined our dairy farming best practice Lead With Pride™ programme. This resulted in our contracted suppliers receiving a total of \$11.5 million in additional value added premiums in the 2018/2019 season, compared to \$8.1 million in 2017/2018.

Overhead expenditure

Overhead expenses for FY19 at \$62.1 million were up \$7.9 million from \$54.2 million in FY18. Notable increases in these overhead costs include employee costs of \$4.5 million and rent of \$1.2 million.

As previously signalled, increases in overhead expenditure reflect continued investment in research and development, business development and leadership capability as we hire capable, experienced and high-energy people to help run the new facilities that we are bringing on-line and enter new categories.

Share of profit / (loss) from associates

In late January 2015 (FY15) we acquired a 25% shareholding in New Hope Nutritionals for \$2.2 million, which owns and distributes the Akara and e-Akara infant formula brands in the China market. Synlait has an exclusive manufacturing and supply agreement for these brands with New Hope Nutritionals, which was renegotiated in FY18 and extended for five years, locking in a three-fold increase in volume. In the year to 31 July 2019 our share of the losses of this company was \$0.5 million (FY18 profit of \$0.4 million). We are still to receive final brand registration from the SAMR. The Akara formulation registration has been accepted subject to a site audit and we continue to work through the registration process for e-Akara.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) at \$152.1 million increased 10% on the FY18 result of \$138.6 million driven by the increased sales volumes and a comparable product mix.

\$ million	FY19	FY18
Profit before tax	\$115.1	\$103.8
Add back: net finance cost	\$9.4	\$9.3
EBIT	\$124.5	\$113.1
Add back: depreciation and amortisation	\$27.6	\$25.5
EBITDA	\$152.1	\$138.6

Net financing costs

Net financing costs at \$9.4 million increased 1.1% over FY18’s \$9.3 million.

	FY19	FY18	Var.
Gross term debt interest	(9.4)	(6.7)	(2.7)
Less capitalised interest	7.5	0.7	6.8
Net term funding interest	(1.9)	(6.0)	4.1
Working capital funding interest	(6.9)	(3.0)	(3.9)
Interest received	1.2	1.0	0.2
Loss on derecognition of financial assets	(1.8)	(1.3)	(0.5)
Net short-term funding interest	(7.5)	(3.3)	(4.2)
Net finance costs	(9.4)	(9.3)	(0.1)

Gross interest on term debt has increased by \$2.7 million to \$9.4 million in FY19 due to higher average term debt balance over the year compared to FY18. Capitalised interest increased to \$7.5 million from \$0.7 million in FY18 due to the build of the nutritional spray dryer at Synlait Pokeno and the advanced liquid dairy packaging facility at Dunsandel. The substantial increase in capitalised interest has reduced net term funding interest by \$4.1 million to \$1.9 million.

Working capital funding interest has increased by \$3.9 million due to higher average balance over the year compared to FY18, reflecting a return to normal working capital funding levels following excess cash on hand in FY18.

Loss on derecognition of financial assets is the financing cost associated with our receivables financing programme. The increase in these costs’ year-on-year reflects the increased utilisation of these facilities, with the year-end balance increasing to \$109 million from \$69 million in FY18

Foreign exchange

The management of foreign exchange exposure is one of the key risks of the business with many product sales being to overseas markets creating a primarily USD exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average New Zealand Dollar (NZD)/USD exchange rate for the year. In FY19 we achieved a net annual average NZD/USD exchange rate of 0.6792 (FY18: 0.7047).

Earnings per share and return on capital employed

Our reported basic and diluted earnings per share (EPS) for FY19 was 45.89 cents against 41.60 cents in FY18. The Group also generated a pre-tax return on average capital employed of 18.3% in FY19 compared with 22.7% in FY18.

FINANCIAL POSITION

Overview

IN FY19 SYNLAIT INVESTED FOR THE FUTURE, WITH NEW FACILITIES AND PEOPLE CAPABILITIES THAT WILL POSITION US WELL FOR CONTINUED GROWTH. \$315.1 MILLION OF CAPITAL EXPENDITURE WAS INVESTED INTO OUR FOUR MAJOR GROWTH PROJECTS (\$333.6 MILLION IN TOTAL).

Our reported net profit after tax of \$82.2 million, offset by the movement in reserves, has increased total equity to \$492.4 million at 31 July 2019 from \$424.7 million.

Trade and other receivables

At \$61.9 million, trade and other receivables have increased by \$14.8 million on FY18 (\$47.1 million). This is primarily due to a significant increase in sales made in July year-on-year.

Inventories

Inventory on hand has increased to \$164.8 million (FY18: \$145.4 million), predominately due to an increase in raw materials on hand of \$40.1 million or 11,307 MT (FY18: \$22.8 million or 6,737 MT). Higher raw materials balances reflect an expected increase in infant formula production volumes in FY20, increased plant utilisation in Synlait’s Auckland consumer packaging facility, and the imminent commencement of operations of the Synlait Pokeno dryer.

CFO REVIEW

Nigel Greenwood

Finished goods inventory has remained relatively stable at \$124.8 million (FY18: \$122.6 million). On-hand tonnage of finished goods has reduced to 23,318 MT (FY18: 26,726 MT) due to product mix and inventory management efficiencies, with FY19 inventory holdings consisting of proportionally higher high-value items.

Both raw material and finished goods inventories were reviewed for impairment resulting in a stock impairment provision totalling \$0.3 million (FY18: \$2.1 million) – all of which related to finished goods. This reduction was achieved from an increased focus on turnaround time for impaired stock on hand. Impaired finished goods were written down to net realisable value. In addition, we had onerous contracts of \$0.5 million (FY18: \$1.3 million); the reduction from prior year is a result of favourable exchange rate movements and Global Dairy Trade auctions.

Property, plant and equipment

Property, plant and equipment at \$845.2 million increased \$307.5 million from FY17 at \$537.7 million. The year-over-year increase is a consequence of total capital expenditure of \$333.6 million less depreciation of \$25.7 million and net disposals of \$0.4 million. The capital expenditure primarily relates to our four major growth initiative projects with \$315.1 million of total spend in FY19.

In December 2017, on the back of entering into an exclusive supply agreement with Foodstuffs South Island for its private label fresh milk and cream, the Group announced that it would construct and commission an advanced liquid dairy packaging facility at Dunsandel. FY19 spend was \$87.8 million (FY18 - \$45.8 million) for total project spend of \$133.6 million (including \$4 million for the electrode boiler upgrade). The fresh milk line was commissioned in early April 2019 while the UHT line will be commissioned in the first half of FY20.

IN FEBRUARY 2018, THE GROUP ANNOUNCED THE CONDITIONAL PURCHASE OF 28 HECTARES OF LAND IN POKENO TO ESTABLISH ITS SECOND NUTRITIONAL POWDER MANUFACTURING SITE.

The construction of the nutritional spray dryer is budgeted to cost \$251.5 million (excluding the cost of the land). Total spend on the project in FY19 was \$181.1 million (FY18 - \$12.7 million) for total spend to date of \$193.8 million (excluding land).

During FY19 we commissioned the upgrade of our lactoferrin facility. Total spend in FY19 was \$12.2 million (FY18 - \$6.7) for total project spend of \$18.9 million. In the year we also commenced construction on the capacity upgrade of our milk separation plant. Total spend on the project in FY19 was \$6.5 million.

\$ million	FY19	FY18
Synlait Pokeno – spray dryer	181.1	12.7
Synlait Pokeno – land	27.5	-
Advanced liquid dairy packaging facility	87.8	45.8
Lactoferrin	12.2	6.7
Separator capacity upgrade	6.5	-
Wetmix kitchen	-	25.2
Auckland consumer packaging	-	13.4
Total growth capital expenditure	315.1	103.8
Other capital expenditure	18.5	9.4
Total	333.6	113.2

Other investments

Other investments include our 16.7% shareholding in Primary Collaboration of New Zealand (PCNZ) at a cost of \$110,000. This is a wholly foreign owned enterprise (WFOE), with a shared office based in Shanghai, China. It was established with the support of New Zealand Trade and Enterprise. Other shareholders of PCNZ include a number of New Zealand primary industry related companies.

We also acquired a 25% shareholding in New Hope Nutritionals in late January 2015 at an initial cost of \$2.2 million. Accumulated losses of \$2.2 million reduced the carrying value of our investment to nil at 31 July 2019. This company owns and markets the Akara and e-Akara infant formula brands in the China market, which are exclusively manufactured by the Group.

Trade and other payables

Trade and other payables at \$216.0 million is up \$63.8 million on last year's balance of \$152.2 million. This variance reflects three items:

- Revenue in advance has increased \$15.3 million year-on-year to \$37.3 million (FY18: 22.0 million), reflecting increased orders from The a2 Milk Company™ received in the second half of FY19 to be fulfilled in FY20.
- Growth initiative capital expenditure accruals have increased \$12.5 million from \$4.3 million in FY18 to \$16.8 million in FY19. The majority of the FY19 accrual relates to the advanced liquid dairy packaging facility.
- The balance of the increase relates to capital expenditure (as the Pokeno build nears conclusion), raw materials to satisfy consumer packaged infant formula demand in the first half of FY20, and employee entitlements.

Contingent liability

The Group has included a contingent liability note in the annual financial statements relating to the Pokeno land covenant issue. There are a range of possible outcomes in this dispute meaning the Group is not able to reliably estimate the potential liability. For further information please refer to the Contingent Liability note in the financial statements on page 104.

Total net debt

Total net debt at year end, including both current and term debt facilities less cash on hand was \$333.6 million, an increase of \$218.7 million over the FY18 balance of \$114.9 million.

\$ million	FY19	FY18
Current debt	\$99.6	\$49.3
Term debt	\$249.5	\$97.1
Cash on hand	(\$16.0)	(\$32.1)
Loan facility fees	\$0.5	\$0.6
Total net debt	\$333.6	\$114.9

Cash spent on investing activities of \$337.4 million (FY18: \$119.4 million) during the financial period was offset by cash from operating activities of \$136.7 million (FY18: \$98.4 million), resulting in a free cash outflow of \$200.7 million from operating and investing activities. This together with cash outflows from interest paid of \$18.1 million (FY18: \$11.2 million) accounts for the movement in net debt. Operating cash flows are discussed further below.

With net debt of \$333.6 million, our gearing (net debt / net debt + equity) is 39.2% (FY18: 20.9%) and our leverage (net debt / EBITDA) is 2.19x (FY18: 0.83x).

Derivatives

As at 31 July 2019 we held USD\$471.3 million in foreign exchange contracts as detailed in note 15 of the Annual Financial Statements. These have been placed across a 24-month future period, in accordance with our Treasury Policy.

Given the continued depreciation in the NZD/USD exchange rate, we have mark to market unrealised losses associated with these contracts at year-end of \$21.0 million after tax, a movement of \$14.1 million after tax year-on-year. As our foreign exchange contracts fully hedge against future USD receipts and payments, this unrealised loss is recognised in other reserves in equity rather than through the income statement. The impact of these foreign exchange contracts will play out in the periods in which they mature and they will form part of our annual average NZD/USD exchange rate in those periods.

We also have in place a nominal balance of \$79.5 million of interest rate swap agreements at year-end (FY18: \$108.5 million) at various weighted average interest rates, generating an unrealised mark to market loss of \$5.1 million after tax due to the fall in interest rates since these contracts were entered into, a \$1.1 million after tax movement year-on-year.

We continue to use dairy commodity derivatives to support the management of the risk of movement in dairy commodity prices. Dairy commodity derivatives with a nominal balance of NZD\$5.3 million were in place at year end (FY18: USD\$15.3) with no material unrealised mark to market.

Year-on-year there was a \$15.3 million reduction in the cash flow hedge reserve from (\$10.8) million in FY18 to (\$26.1) million in FY19. The cash flow hedge reserve relates solely to derivatives and the year-on-year movement is explained by the movement in foreign exchange contacts as detailed above.

Operating cash flows

Operating cash flows at \$136.7 million were \$38.3 million up on FY18 at \$98.4 million. The primary reason for this increase was the increase in cash received from customers proportional to cash paid for milk and other purchases.

CFO REVIEW

Nigel Greenwood

Bank facilities and covenants

The Group has in place three syndicated bank facilities with ANZ and BNZ:

1. Working capital facility – reviewed annually in August with a year-end facility limit of NZD \$225.0 million. This is a dual currency (NZD & USD) facility
2. Revolving credit facility A – matures 1 August 2021. A \$150 million facility limit with amortisation of \$30 million on 1 August 2020
3. Revolving credit facility B - matures 1 August 2023 with a fixed facility limit of \$100 million.

Subsequent to reporting date, we have entered into an additional revolving facility for \$60 million which commenced on 30 August 2019 and matures 1 August 2020.

We have four bank covenants in place within our syndicated bank facility agreement. These are:

1. Interest cover ratio - EBITDA to interest expense of no less than 3.00x based on full year forecast result (FY19: 16.14x)
2. Minimum shareholders' funds – exceeds \$295.5 million (FY19: \$497.8 million)
3. Working capital ratio – at all times exceeds 1.50x (FY19: 2.69x)
4. Leverage ratio – no more than 3.5x (FY19: 2.19x)

The company was compliant with our bank covenants at all times during the financial period.

Note that all unrealised gains or losses associated with our derivatives held at year end within equity, and intangible assets, are excluded when determining our compliance with our minimum shareholder's funds bank covenant calculation.

Facility amendments post balance date

Subsequent to reporting date, the Group has renewed its facility arrangements with our bank syndicate as noted above.



Nigel Greenwood
CHIEF FINANCIAL OFFICER





KEY PERFORMANCE INDICATORS

Key financial metrics ¹	FY15	FY16	FY17	FY18	FY19
Income statement					
Revenue	448.1	546.9	759.0	879.0	1,024.3
Gross profit	56.1	102.1	112.1	166.5	186.3
EBITDA ²	40.9	83.7	88.8	138.6	152.1
EBIT ²	26.9	62.9	67.6	113.1	124.5
NPAT	11.0	35.7	39.5	74.6	82.2
Revenue per MT (USD) ³	3,610	3,316	3,659	4,815	4,602
Gross profit per MT (NZD) ³	573	877	792	1,294	1,268
EBIT per MT (NZD) ³	275	540	478	879	855
Net cash from / (used in) operating activities	16.4	104.4	115.2	98.4	136.7
Balance sheet					
Net operating assets ⁴	323.2	455.2	423.5	493.3	633.9
Return on net operating assets	8.5%	16.2%	15.4%	24.7%	22.1%
Net return on capital employed (pre-tax)	7.3%	14.5%	14.8%	22.7%	18.3%
Debt / debt + equity (excl. derivatives)	58.1%	48.7%	18.7%	20.9%	39.2%
Net debt / EBITDA	6.4	2.5	0.9	0.8	2.2
Earnings per share	8.35	23.50	22.82	41.60	45.89
Average FX conversion rate (NZD:USD)	0.7880	0.7058	0.6814	0.7047	0.6792
Base milk price (kgMS)	4.48	3.91	6.16	6.65	6.40
Total milk price (kgMS)⁵	4.54	4.02	6.30	6.78	6.58
Key operational metrics					
Sales (MT)					
Powders and cream	93,491	100,393	122,606	93,042	106,802
Consumer packaged	4,305	15,999	18,776	35,580	42,907
Specialty ingredients	7	10	11	16	21
Total sales (MT)³	97,803	116,402	141,393	128,637	149,730
Production (net production)					
Powders and cream	96,649	104,703	115,991	102,833	103,131
Consumer packaged	5,021	16,043	19,403	36,651	43,168
Lactoferrin	12	8	12	12	23
Total production (MT)³	101,681	120,754	135,407	139,496	146,322
Milk purchases (kgMS in thousands)					
Milk purchased from contracted supply	51,049	54,125	63,255	63,639	64,189
Milk purchased (sold) from other suppliers	2,549	3,573	1,700	(2,853)	1,877
Total milk purchases (kgMS in thousands)	53,598	57,698	64,954	60,785	66,066

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

² EBIT is calculated by excluding financing costs and income tax, with EBITDA also excluding depreciation and amortisation accordingly. A reconciliation of EBIT and EBITDA is provided in the CFO Review on page 19.

³ Fresh milk in FY19 excluded (part year in FY19)

⁴ Net operating assets includes current assets, PPE and Intangible assets. It excludes capital work in progress, derivatives, goodwill, trade payables and tax liabilities.

⁵ Total milk price for Synlait Milk suppliers on standard milk supply contract, includes value and seasonal premiums. This is a milk season reflective payment that runs 1 June to 31 May.

MILK PRICE

IN AN EFFORT TO IMPROVE
TRANSPARENCY AROUND
THE WAY WE PAY OUR FARMERS
FOR THEIR MILK, WE HAVE
INCLUDED AN ADDITIONAL
TABLE IN THIS YEAR'S
ANNUAL REPORT.

MILK PRICE

This table illustrates how we take the milk supplied to Synlait by our contracted farmers, value the components within the milk and ultimately pay out through the average base milk price. The table also highlights the incentive payments made to our farmers additional to the average base milk price.

The information in this table represents payments made in the milk season which runs 1 June to 31 May as opposed to the financial year. For the recently completed 2018/2019 milk season we paid out a base milk price of \$6.40 with an average additional incentive payment of \$0.18 per kgMS.

	2016/17	2017/18	2018/19 ¹
kgMS collected	63,249,602	63,616,077	63,438,694
Average fat %	4.90	4.86	4.91
Average protein %	3.92	3.89	3.92
Average lactose %	5.06	4.99	4.99
Volume of components collected			
Fat	35,123,275	35,289,377	35,270,506
Protein	28,126,327	28,327,076	28,168,188
Lactose	36,292,742	36,221,310	35,894,766
Component value²			
Fat	\$4.70	\$6.97	\$7.36
Protein	\$6.56	\$4.63	\$4.18
Lactose	\$1.87	\$2.03	\$1.53
Component value ratio			
Fat	1	1	1
Protein	1.397	0.664	0.567
Lactose	0.398	0.291	0.208
Total \$ paid per component			
Fat	\$164,998,609	\$245,903,402	\$259,645,339
Protein	\$184,528,391	\$131,063,290	\$117,657,713
Lactose	\$67,823,876	\$73,377,129	\$54,987,988
Volume charge	(\$27,732,308)	(\$27,289,173)	(\$26,283,402)
Average base milk price³	\$6.16	\$6.65	\$6.40
Total incentive payment			
	\$8,908,367	\$8,127,045	\$11,530,895
Average incentive payment per kgMS	\$0.14	\$0.13	\$0.18
Total average Synlait payment per kgMS⁴	\$6.30	\$6.78	\$6.58

¹ 2018/2019 milk price has not fully been paid out at the time of annual report release, these figures represent what has been paid and accrued to be paid

² Rounded to two decimal places

³ Amount paid for components + volume charge / kgMS collected = base milk price

⁴ Base milk price + average incentive payment

OUR DIRECTORS

OUR BOARD OF DIRECTORS IS COMMITTED TO BUILDING A WORLD-CLASS NUTRITIONAL BUSINESS AND ENHANCING SHAREHOLDER VALUE.



Graeme Milne ONZM
CHAIR (INDEPENDENT)



Bill Roest
INDEPENDENT DIRECTOR



Dr. John Penno
BOARD APPOINTED DIRECTOR



Min Ben
BRIGHT DAIRY APPOINTED DIRECTOR



Qikai (Albert) Lu
BRIGHT DAIRY APPOINTED DIRECTOR



Hon. Ruth Richardson
BRIGHT DAIRY APPOINTED DIRECTOR



Sam Knowles
INDEPENDENT DIRECTOR



Sihang Yang
BRIGHT DAIRY APPOINTED DIRECTOR

OUR EXECUTIVE TEAM

OUR LEADERSHIP TEAM IS HIGHLY SKILLED AND COMMITTED TO OUR PURPOSE OF DOING MILK DIFFERENTLY FOR A HEALTHIER WORLD.



Leon Clement
CHIEF EXECUTIVE OFFICER



Boyd Williams
DIRECTOR, PEOPLE, CULTURE AND PERFORMANCE



Chris France
DIRECTOR, STRATEGY AND TRANSFORMATION



Deborah Marris
DIRECTOR, LEGAL, RISK AND GOVERNANCE



Hamish Reid
DIRECTOR, SUSTAINABILITY AND BRAND



Martijn Jager
DIRECTOR, SALES AND BUSINESS DEVELOPMENT



Nigel Greenwood
CHIEF FINANCIAL OFFICER



Dr. Suzan Horst
DIRECTOR, QUALITY REGULATORY AND LABORATORY SERVICES



Antony Moess
GENERAL MANAGER, MANUFACTURING



Callam Weetman
GENERAL MANAGER, SALES



Matthew Foster
GENERAL MANAGER, STRATEGIC PROJECTS



Rob Stowell
GENERAL MANAGER, SUPPLY CHAIN



Roger Schwarzenbach
GENERAL MANAGER, INNOVATION AND TECHNICAL SERVICES

UPDATE ON OUR SUSTAINABILITY STRATEGY

UPDATE ON OUR SUSTAINABILITY STRATEGY

AS SYNLAIT ENTERS ITS SECOND DECADE, AND AS THE SCOPE OF OUR BUSINESS WIDENS, WE ARE CONTINUING TO IMPLEMENT STRATEGIES THAT SHOW HOW THE ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE PROVISION OF MILK NUTRITION PRODUCTS CAN BE ACHIEVED IN NEW ZEALAND.

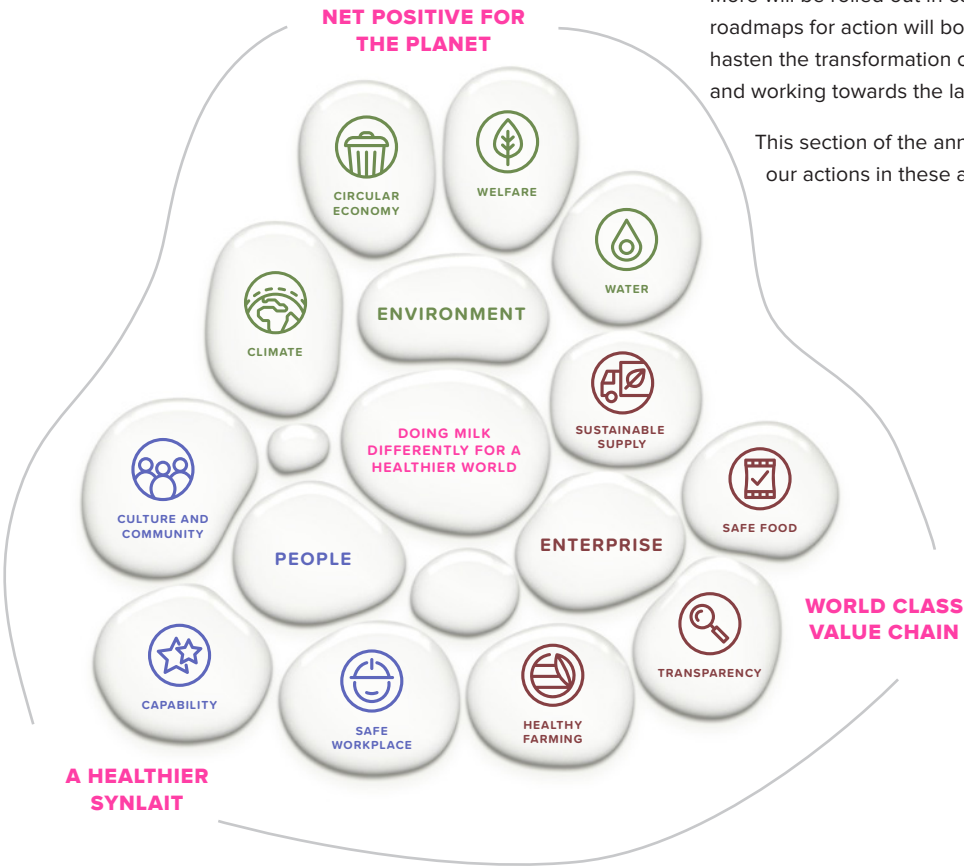
OUR SUSTAINABILITY STRATEGY HAS BEEN BUILT UPON THE THREE ENABLING PATHWAYS OF EIGHT OVERALL STRATEGIC PATHWAYS. CASCADING FROM THESE THREE PATHWAYS ARE OUR ELEVEN SUSTAINABLE INNOVATION PLATFORMS (SIPS).

We are a young and agile company, driven by pioneering thinking, and motivated to achieve our authentic purpose: **Doing milk differently for a healthier world.** Through our business strategy we have identified five areas that embody the idea of 'doing milk differently': **Infant Nutrition, Everyday Dairy, Foodservices, Sports Nutrition and the Next Big Thing.** These are being enabled by our three strategies that illustrate our commitment to a healthier world: **Net Positive for the Planet, Build a Healthier Synlait and World Class Value Chain.**

These are the principles that guide our continued growth and the foundations upon which our sustainability strategy, with its three pillars of **Environment, People** and **Enterprise**, were formed. Together, they underscore that sustainability is not a 'silo' within our business but a series of integrated, company-wide principles.

Over the course of the year, we have been systematically defining and implementing SIPS. To date, we have developed SIPS on Climate Change, Transparency, Community and Water. More will be rolled out in coming months. These detailed roadmaps for action will both change the way we operate and hasten the transformation of our business. We are committed and working towards the launch of a Sustainability Report.

This section of the annual report is a concise snapshot of our actions in these areas.



NET POSITIVE FOR THE PLANET ENVIRONMENT



OUR AIM IS TO HAVE A NET-POSITIVE IMPACT ON THE PLANET. ACHIEVING THIS MEANS TAKING STOCK OF OUR CURRENT ENVIRONMENTAL FOOTPRINT AND THEN COMMITTING TO AND IMPLEMENTING ON-FARM AND OFF-FARM INITIATIVES THAT REDUCE GREENHOUSE GAS EMISSIONS, ELIMINATE WATER DEGRADATION, REMOVE WASTE AND IMPROVE THE WELFARE OF THE ANIMALS AND ECOSYSTEMS WE DEPEND UPON.

CLIMATE

Taking action on the climate crisis is an absolute necessity. We recognise New Zealand’s commitment to the Paris Agreement and, as a significant emitter, we are committed to making a meaningful contribution towards that target. While we can’t solve big environmental issues alone, we can take care of our own backyard and inspire others to meet similarly high sustainability targets.

To provide us with a baseline against which we can measure our climate initiatives, we have undertaken our first Greenhouse Gas (GHG) Inventory. The externally audited report shows that in the period from 1 August 2017 – 31 July 2018 our GHG emissions total was 912,731 tCO2e.

Our inventory profile highlights the use of coal (108,301 tCO2e) and sea freight (30,162 tCO2e) as the two largest sources of off-farm GHG emissions, with electricity third (6,923 tCO2e).

Our on-farm emissions totalled 755,583 tCO2e – further broken down into a quantum of carbon dioxide, 119,758 (CO2-tCO2e); methane 442,268 (CH4-tCO2e); and nitrous oxide, 193,559 (N2O-tCO2e).

ON-FARM ACTION

OUR GOAL:
35% REDUCTION IN GHG PER KILOGRAM OF MILK SOLIDS BY 2028, VERSUS 2017/2018 BASE YEAR

OUR FY18 BASE YEAR PERFORMANCE: 11.87 KGCO2E PER KILOGRAM OF MILK SOLIDS

We have been providing 100% of our farmers with their own unique GHG emissions profile since the 2017-2018 season. This information has provided us with a baseline to understand and improve our performance.

Farms supplying Synlait represent approximately 83% of our total GHGs. In the past there has been a consensus view that little can be done to reduce on-farm emissions; however, we think that breakthrough technology paired with best-practice farm management can result in substantial emissions reductions.

As an example of this, we have introduced a GHG reduction incentive payment into Lead With Pride™, our internationally accredited ISO 17065 dairy farm assurance system. Lead With Pride™ certified farmers are industry leaders committed to best practice farming standards. (See page 41 for a profile on Lead With Pride™ initiatives.) To achieve the incentive payment, farmers must create comprehensive farm-specific GHG management plans that demonstrate clear knowledge of GHG sources along with mitigation strategies. These are presented for evaluation at each farm’s annual audit.

OFF-FARM ACTION

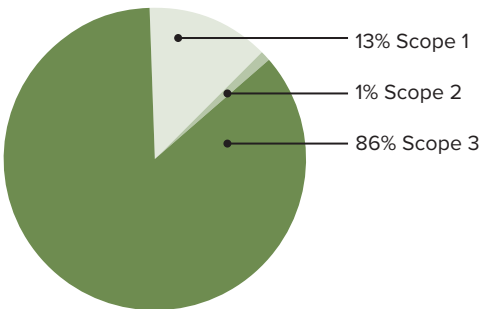
OUR GOAL:
50% REDUCTION IN TOTAL GHG PER KILOGRAM OF PRODUCT BY 2028, VERSUS 2017/2018 BASE YEAR

OUR FY18 BASE YEAR PERFORMANCE: 1.13 KGCO2E PER KILOGRAM OF PRODUCT

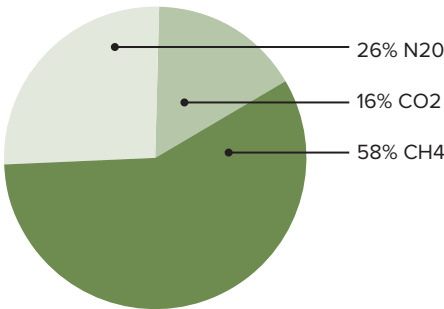
Our 17% total of off-farm emissions places us among a group of large emitters, primarily because of the energy intensive nature of our manufacturing processes and supply chain. Our sustainability strategy is re-imagining all aspects of our business for a low-emissions future, and a key part of this is the commitment to build no new coal-fired manufacturing facilities. See page 35 for information on the large-scale electrode boiler that was commissioned in March 2019 at our Dunsandel site. We also continue to work on strategies that will address the footprint of our existing coal infrastructure at Dunsandel.



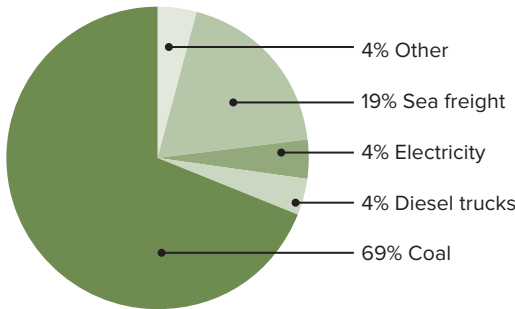
Breakdown of FY18 GHG emissions by scope, according to the GHG protocol



Breakdown of on-farm emissions by type



Breakdown of off-farm emissions by source



NET POSITIVE FOR THE PLANET ENVIRONMENT



WATER

As a nation, we cherish connections to lakes, rivers and the sea. These are our places of sport, recreation and cultural importance. New Zealanders have rightly become increasingly concerned about the degradation of waterways and have spoken strongly about the industrial and commercial use of water.

Our aim is to cease degradation of waterways and protect our reputation as a progressive, sustainably focussed company. Our water strategy is an integral part of our social licence to operate. We are currently in the process of determining baseline figures for all of our water usage and having them independently reviewed. These will be released in our Sustainability Report which we are currently working towards.

ON-FARM ACTION

OUR GOALS:
20% REDUCTION IN WATER USE PER KILOGRAM OF MILK SOLIDS BY 2028;
45% REDUCTION IN NITROGEN LOSS TO WATERWAYS PER KILOGRAM OF MILK SOLIDS BY 2028.

In addition to using less water, we are seeking to eliminate our contribution to the degradation of waterways in the catchment areas of our operations.

Part of our role is to help farmers gain a better understanding of water-related issues and provide the tools and guidance they need to make improvements. One way we are doing this is by providing farmers access to environmental advisers who provide customised guidance on the ways water usage can be reduced (for example, by changing irrigation practices or modernising equipment) and nitrogen loss limited (through fertiliser and feed management, beneficial soil strategies, irrigation and effluent management).

OFF-FARM ACTION

OUR GOALS:
20% REDUCTION IN WATER USE PER KILOGRAM OF PRODUCT BY 2028;
20% IMPROVEMENT IN THE QUALITY OF WASTE WATER.

We're setting out to reduce the volume of water we use through all aspects of our manufacturing process while improving the quality of the waste water that leaves our factory.

At Dunsandel, water usage is measured at site level and in some specific areas but there is an insufficient number of meters to monitor the contribution of each manufacturing process or facility. Our site services team is currently installing water meters in key areas to enable precise monitoring.

UPCOMING SIPS: WELFARE AND CIRCULAR ECONOMY

Our Welfare SIP is comprised of animal welfare, biodiversity and soil health. The overarching goal is to work alongside farmers to boost farming systems towards becoming regenerative.

Our Circular Economy SIP aims to move away from a 'linear' economy ('take, make, waste'), a one-way street from resource to rubbish, to a 'circular' economy where product lifecycles no longer have a beginning, middle, and end. In a circular economy, materials are reintroduced back into a useful cycle rather than being disposed of. In 2019, we purchased a licence for EcodEx, an ISO 14040 certified Life Cycle Analysis software tool, which we will use to evaluate environmental impacts associated with products, processes and activities, from the extraction of raw materials to end of life.

Our Welfare and Circular Economy strategies are currently being defined and will be reported next year.



PROFILE 1

A NEW ELECTRODE BOILER FOR DUNSANDEL

Traditionally, dairy processors have relied on coal as a cost-effective way to create the large volumes of process heat (energy used in the form of steam or hot water in industrial processing or manufacturing) required to turn fresh milk into powder. Process heat is also used to pasteurise and sterilise milk, to clean production lines, and help form product packaging. By not commissioning any new coal-fired boilers, we can make large gains against our goal of halving off-farm greenhouse gas emissions by 2028.

HOW IT WORKS

The characteristics and suitability of diesel, gas and biomass boilers were analysed before an electrode boiler was chosen for our advanced liquid dairy packaging facility at Dunsandel. The electrode boiler is 99% efficient and up to 30% more efficient than coal boilers, so stood out as the best option.

Within the boiler, electricity flows through electrodes submerged in water, releasing steam as contact with liquid is made. This is a very energy-efficient way to create process heat at scale. It is also 'on demand' – that is, able to heat water from cold in less than five minutes or from standby in about one minute. Further advantages are that variable amounts of steam can be produced as required and maintenance on the electrodes is minimal.

The electrode boiler output capacity is initially six megawatts, although there is potential for this to be increased to 12 megawatts following upgrades to the Dunsandel electricity network.

LOWER EMISSIONS

The electrode boiler, including the electrical supply infrastructure and running costs (at 2018 rates), requires a significantly greater investment than coal. Increased costs of carbon over the next 10 years were anticipated in the business case. However, compared to a coal alternative, the carbon equivalent (CO₂-e) saving of the electrode boiler is 13,714 tCO₂e per annum. We estimate that after a 10-year period, the electrode boiler's emissions savings will be roughly equivalent to 9,600 houses.

We are currently working to further transition away from coal as a fuel for process heat. Several other promising initiatives will be reported upon in 2020.

Synlait Dunsandel commissioned New Zealand's first large-scale electrode boiler to provide process heat to the advanced liquid dairy packaging facility



A HEALTHIER SYNLAIT PEOPLE



OUR COMMITMENT TO SUSTAINABILITY EXTENDS THROUGHOUT OUR TEAM MEMBERS AND THE WIDER COMMUNITY. BY INVESTING IN OUR PEOPLE AND BUILDING MEANING INTO STAFF ROLES, WE CAN CREATE A LEGACY OF COMMITTED LEADERS WHO WILL HELP US TRANSFORM OUR INDUSTRY FOR THE BETTER.



HEALTH, SAFETY AND WELLBEING

Everything starts with care of our people. Zero injuries, zero defects and zero losses; to build a world-class organisation delivering on its purpose through culture, excellence and adaptability – these are the principles at the heart of our workplace ambitions.

As a rapidly growing organisation undertaking complex work, our team members can be exposed to a range of risks. ‘Everyone Home Safe, Every Day’ is our bottom line, and we have developed health, safety and wellbeing practices that ensure that this is a business-wide commitment. Our five-year strategy focuses on leadership, risk management, event response and safety culture. The launch of MySafety, a platform to allow team members to report events and gain visibility of corrective actions and outcomes, has resulted in a 75% increase in reported events that has helped us hone health and safety systems.

AS A RESULT, OUR TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) IN 2019 IMPROVED BY 28% TO 13.7. OUR TRIFR TARGET FOR 2020 IS NINE.

Engagement in health and safety is also being improved through wellbeing-enhancing initiatives which are intended to enhance mental and emotional, social, spiritual and physical wellbeing. By encouraging appropriate rest and activity, along with providing nutritional information and guidance, we are championing better physical and mental health. This year’s ‘Eat well, live well’ event in June 2019 saw team members come together to cook and enjoy kai while learning about healthy eating, nutrition and food labelling.

This year we also made available confidential wellness assessments to all staff members. Carried out by an occupational health nurse, the assessments focussed on blood pressure, blood sugar levels, cholesterol, Kessler 10 scores and cardiovascular risk. For every 20 registrations received, we donated \$100 to the New Zealand Heart Foundation as part of the Big Heart Appeal.



CAPABILITY

TALENT ATTRACTION AND DEVELOPMENT

A dedicated and capable team is critical to our performance. We build our workforce capability in several ways.

In FY19, our workforce increased by 218 employees. With such fast growth it is important that we bring people on board effectively. We do this through Synlait 101 – a three-day orientation programme that all staff complete in their first week. Synlait 101 includes information on who we are and what we do, which are presented by leaders from across the business, and a visit to a Lead With Pride™ dairy farm, which is a first for many people.

In July, more than 800 of our people attended our staff conference at Horncastle Area in Christchurch – an excellent opportunity to connect with Synlait’s purpose, ambition and strategy en masse.

Perform and Grow is our performance management process. It’s how we lead and encourage leadership and talent development within our teams. Perform and Grow’s scheduled conversations between team leaders and staff clarify expectations, drive engagement, develop personal capability and deliver performance. The programme begins with an initial meeting in August to establish coaching objectives, accountability and performance goals, with monthly check-ins throughout the year.

Our focus on employee engagement in recent years continues to show positive results. We use Gallup’s Q12 survey tool, benchmarking our performance against Australia, New Zealand and Oceania. In 2019 the ratio of engagement was 3.6:1 (engaged staff to actively disengaged staff).



FUTURE LEADERS

As a fast-growing and ambitious company, we are committed to attracting and retaining executives who show a synergy with our mission and way of working. Through our three-year Future Leaders training programme we are also committed to training our own executives. Future Leaders is suited to ambitious graduates who aspire to be at the forefront of a leading New Zealand company. Participants rotate through key roles to gain a foundational understanding of Synlait’s processes and workflows and, upon completion, are assigned a first leadership role with ongoing mentorship provided by senior leaders. The first Future Leaders cohort is now on assignment in various business areas.

More than 800 of our people attended our staff conference at Horncastle Arena, Christchurch



A HEALTHIER SYNLAIT PEOPLE



DIVERSITY AND INCLUSION

There's a pure and simple business case for diversity: companies that are more diverse are more successful.

After finalising our Diversity and Inclusion Policy last year – a tool to achieving sustainable commercial success and creating a high performing, values-driven culture – we have set out to achieve three main goals.

GOAL 1:
WORKFORCE DIVERSITY
SYNLAIT HAS IN PLACE STRATEGIES TO SUPPORT THE EMPLOYMENT, DEVELOPMENT AND RETENTION OF MORE WOMEN AND MĀORI.

GOAL 2:
DIVERSITY THROUGH LEADERSHIP
SYNLAIT WILL EMPOWER AND EQUIP ITS PEOPLE LEADERS TO RECRUIT, DEVELOP AND RETAIN A DIVERSE AND COMPETENT WORKFORCE.

GOAL 3:
WORKFORCE INCLUSION
SYNLAIT WILL FOSTER A CULTURE THAT ENCOURAGES FLEXIBILITY AND FAIRNESS TO ENABLE ALL EMPLOYEES TO REALISE THEIR POTENTIAL AND INCREASE TENURE.

OUR GOALS ARE MEASURED THROUGH THE FOLLOWING ASPIRATIONS:

- REDUCE THE GENDER PAY GAP TO ≤ 5% OVER FIVE YEARS
- ACHIEVE A 40-50% MIX OF WOMEN IN LEADERSHIP POSITIONS (TEAM LEADS, SUPERVISORS, SPECIALISTS AND ABOVE)
- NIL REGRETTED LOSSES OF HIGH POTENTIAL WOMEN

IN SEPTEMBER 2019, TWO KEY WORKPLACE POLICIES WERE INTRODUCED: MĀTUA, OUR PARENTAL LEAVE POLICY, AND TĀWARIWARI, OUR FLEXIBLE WORKING POLICY.

Mātua enables parents to take the time off work required to raise children – and encourages them to return to work in conditions that mutually benefit their families and the business. A feature of Mātua includes Synlait topping up government-paid leave to full salary for 22 weeks (extended to 26 weeks in July 2020) for the primary caregiver. Partners are offered two weeks paid leave.

Tāwariwari defines ways that we can support and enable flexible working where there is benefit (net neutral or net positive) to both the employee and the business, (and where we can ensure there is no reduction to performance and productivity).

PROFILE 2

GIVING BACK TO THE COMMUNITY THROUGH WHAKAPUĀWAI

Whakapuāwai, the name given to the key initiatives of our Community SIP means “to cause to blossom, develop, flourish, prosper, thrive”. Whakapuāwai is our commitment to restoring and regenerating ecosystems, waterways and wetlands, flora and fauna. It's also about drawing people and groups together to improve water quality, habitat for biodiversity and mahinga kai, the things that sustain and nourish the people of Ngāi Tahu and bring wellbeing, such as clean water, clean air, clean soil, and sufficient shelter.

For Synlait staff, Whakapuāwai is an opportunity to engage with their communities and make a personal contribution to environmental restoration. We are giving our employees one paid day per year to volunteer on a Whakapuāwai initiative – a way of making tangible Synlait's core purpose of: Doing milk differently for a healthier world. At this year's staff conference, each team member was given a native tree which they will now have the opportunity to plant in the new landscape – a physical symbol of the connection we all have with the land.

THERE ARE THREE ASPECTS TO WHAKAPUĀWAI:

Firstly, we are extensively landscaping and planting thousands of native trees and shrubs on 15 hectares of grazing land behind our Dunsandel operation. While the early planting programme requires plants sourced from local nurseries, within a couple of years the plants will come from our own nursery. In time, it will contain a wetland, along with walking tracks, exercise zones and meeting areas.

Secondly, we are working with farmers to identify areas on farms that would benefit from restoration of natural ecosystems. In time, plants from our own nursery will be used to regenerate these areas. Milk suppliers were also given a tree during our annual supplier conference.

Thirdly, we are forming partnerships to identify and restore community areas of shared value. As an example, Te Waihora (Lake Ellesmere) is a catchment area that has been significantly degraded as a result of changes in surrounding land use. That part of Canterbury was once a large wetland, home to thousands of species of animals and plants, and a critical source of food for Ngāi Tahu. We're now on a pathway to forming a partnership with our local hapū, Ngāi Te Ruahikihiki, to work on restoration projects, starting with extensive planting and wetland restoration around Muriwai (Cooper's Lagoon). We hope the improvements to this small piece of land will become an exemplar for restoration that land owners all around Te Waihora will follow.

Our Whakapuāwai vision for Synlait Dunsandel



WORLD CLASS VALUE CHAIN ENTERPRISE



AS DEMAND FOR OUR PRODUCTS RAPIDLY INCREASES, WE ARE CONTINUING TO BUILD REPUTATIONAL CURRENCY BY INVESTING IN ACCREDITATIONS THAT WILL PROVIDE COMPETITIVE ADVANTAGE, DIFFERENTIATE AND ADD VALUE TO OUR PRODUCTS, AND REINFORCE THE LOCAL AND INTERNATIONAL CREDIBILITY OF OUR SUPPLIERS AND MANUFACTURING PROCESSES.



SAFE FOOD

We are dedicated to manufacturing nutritional products that provide genuine benefits for human health and wellbeing. Our commitment to the highest of standards of quality and safety is integral to this outcome. We have invested heavily in a food safety strategy that mandates rigorous testing to prove the absence of microbial and chemical contaminants, and every can of finished infant formula is x-rayed to confirm the absence of foreign matter. End-product testing is incredibly important for compliance and trust, but we are also committed



to 'Quality by Design' – that is, you cannot inspect quality into a product, you have to build it into the process. 'Right First Time' manufacturing is the best guarantee for satisfied customers and shareholders. To support this, our people receive all the relevant food safety and quality training required so they can perform their roles with care and confidence.

At Synlait we continue to meet the strict criteria of several product quality and safety standards at the applicable sites, including: FSSC 22000 System; Ministry for Primary Industries' registered Risk Management Programme; US Food and Drug Administration facilities registration, HACCP Certification from China; Halal accreditation through FIANZ, APHSNZ and NZIDT; Kosher through Orthodox Union; and ISO 17025:2015 laboratory rating from IANZ.

Synlait's regulatory teams in China and Dunsandel are working in line with the Chinese infant formula regulations to register more of the brands we manufacture with the State Administration for Market Regulation (SAMR).



TRANSPARENCY

Synlait is in the early stages of aligning with and seeking accreditation from respected third-party organisations. These initiatives will assure investors, customers and consumers of the sustainable credentials of our business and frame our performance against rigorous global standards.

We are actively pursuing B Corp certification. B Corp businesses balance purpose and profit. Becoming B Corp-certified requires a B Impact Assessment score of 80 – this is a high bar, and we are improving our processes and practices in order to enter the full verification process as soon as possible. The assessment comprehensively covers the impact of a business on all stakeholders, including workers, suppliers and community, and, of course, the environment. Our ambition is to become New Zealand's first NZX listed B Corp.

We have also engaged Sustainalytics, an Environment, Social and Governance (ESG) research provider, to undertake an assessment of our sustainability performance, and consequently received our first ESG risk rating score in February 2019. Since then, we have established a roadmap to improve our performance over time.

In July 2019, we completed CDP's climate change questionnaire, which will be published by the end of the year. CDP is a worldwide organisation that aims to make environmental reporting and risk management a business norm, and drive disclosure, insight and action towards a sustainable economy.

Finally, we began the engagement process with Science Based Targets Initiative, a partnership of climate organisations that helps companies determine emissions reduction targets in line with the level of decarbonisation required to keep global temperature increase below 1.5°C.



SUSTAINABLE SUPPLY

We are currently defining our SIP for this area of our business. Our goal is to promote sustainability throughout our supply chain and to collaborate with suppliers that demonstrate strong social and environmental performance. Our strategy will be disclosed in next year's annual report.

As an aside, some key suppliers have begun investing in production facilities more proximate to our operations. These initiatives will both benefit the local economy and reduce the environmental footprint of transporting products. In advance of our Sustainable Supply SIP, we have also begun to integrate sustainability criteria into some tenders. Environmental and health and safety KPIs accounted for 7% of one of our most recent tenders.

PROFILE 3

HEALTHY FARMING AND LEAD WITH PRIDE™

Doing the right thing is rewarding – that's one takeaway from Lead With Pride™, our on-farm certification programme that continues to go from strength to strength in recognising and financially rewarding suppliers who achieve dairy farming best practice.

Several years ago, Synlait recognised the need to ensure that milk suppliers, who were facing environmental and other challenges, had access to a leadership programme which provided a pathway to excellence. Lead With Pride™ was the result – an industry exemplar launched in April 2013 that was the first programme of its kind in Australasia. Internationally recognised with an ISO/IEC 17065 standard, Lead With Pride™ encourages and rewards suppliers who prove excellence in dairy farming, as evaluated against four pillars: Social Responsibility, Environment, Animal Health and Welfare, and Milk Quality.

There are no two ways about it, Lead With Pride™ is a challenging programme – but the response to our commitments from milk suppliers, customers and investors has been extremely supportive. Today, nearly 50% of our South Island farms are part of Lead With Pride™ with 43 new farms certified this year. It's also transformational. Lead With Pride™ farmers do more than ensure quality of milk production, they take a holistic approach to all aspects of farming. The integrity of production and superior quality of milk enables our international health and nutrition customers to differentiate themselves with confidence.

Lead With Pride™ is not a static programme. Following the launch of our ambitious sustainability strategy in 2018, we have worked with farmers on strategies to further reduce their environmental impact. We have collected information to establish and communicate to our farmers their unique GHG emissions profile. We have also added a financial incentive for farmers who understand, measure and mitigate on-farm GHG emissions. Finally, we have introduced an incentive payment for maintaining a palm kernel expeller (PKE) free farm. At the end of last year's season, 63 PKE-free Lead With Pride™ farms had received this payment.

Synlait farms belong to one of three categories: Gold, Gold I Plus or Gold I Elite. Gold represents good practice but is non-certified. Gold I Plus and Gold I Elite certified suppliers meet additional standards under the four Lead With Pride™ pillars – they are ISO/IEC 17065 certified and receive incentive payments for their milk. Farms can apply to Gold I Elite status after maintaining Gold I Plus for a minimum of 12 months (Gold I Elite incentives are up to \$0.25/kgMS versus \$0.20/kgMS for Gold I Plus).

WITH SYNLAIT POKENO DUE TO COMMISSION EARLY IN FY20, WE HAVE BROUGHT TOGETHER A NEW GROUP OF MILK SUPPLIERS IN THE GREATER WAIKATO REGION. WITH SO MUCH MOMENTUM BUILDING AROUND OUR LEAD WITH PRIDE™ PROGRAMME, WE ACTIVELY TARGET FARMERS WHO MEET THE REQUIRED STANDARD, OR WHO ARE CAPABLE OF ACHIEVING CERTIFICATION IN THE NEAR FUTURE.

OUR CORPORATE GOVERNANCE REPORT

OUR CORPORATE GOVERNANCE REPORT

GOOD CORPORATE GOVERNANCE IS TOP OF MIND FOR SYNLAIT'S DIRECTORS. IT IS A CRITICAL STEP IN PROTECTING THE INTERESTS OF OUR SHAREHOLDERS, CUSTOMERS AND OTHER STAKEHOLDERS. WE STRIVE TO KEEP UP TO DATE WITH NEW DEVELOPMENTS, AS APPROPRIATE FOR OUR BUSINESS.

Synlait's shares are quoted on the NZX Main Board, and on the ASX. Synlait transitioned to the new NZX Listing Rules dated 1 January 2019 on 8 March 2019. During the year to 31 July 2019 we complied with the NZX Corporate Governance Code dated 1 January 2019 (Code), except where set out below. Our Corporate Governance Statement is current as at 31 July 2019.

PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

'Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation'.

Standards of Ethical Behaviour

Synlait's reputation matters to it. Synlait is committed to maintaining the highest standards of honesty, integrity and ethical conduct. This commitment is embodied in our Code of Ethics, Synlait Standards Policy and Whistleblower Policy. Our Securities Trading Policy, Continuous Disclosure Policy, Conflict of Interests Policy and Related Parties Transaction Policy further reflect these guiding principles.

Our Code of Ethics is subject to annual review. Together with the Synlait Standards it outlines in detail the expectations Synlait has of people working with us. They include requirements to comply with all laws, as well as applicable internal rules, policies and procedures, deal fairly, not engage in bribery and corruption, be circumspect with gifts, meals and entertainment. They also record that Synlait will not tolerate discrimination, bullying or harassment.

To support the Code of Ethics and Synlait Standards Policy and other associated policies, we introduced our Whistleblower Policy in May 2019. It is important that everyone at Synlait feels able to raise concerns about conduct. This policy gives those concerned about behaviour a process for raising those concerns, and assurance that their confidentiality will be protected where possible. To facilitate the reporting process for people who may not want to discuss their concerns with a Synlait manager, we have provided access to an independent provider accessible by a number of means.

Breaches of the Code of Ethics and/or the Synlait Standards Policy are treated seriously.

The Code of Ethics, Synlait Standards Policy, Whistleblower Policy Securities Trading Policy, Continuous Disclosure Policy and Related Parties Transaction Policy are available on both our company intranet and our website: www.synlait.com/investors/

In FY19, Synlait did not meet the requirements of Principle 1 in its entirety. While Synlait is satisfied that it had robust standards of ethical behavior that are accessible by all employees, including on our intranet, and all new employees were informed about the requirement to comply with the Code of Ethics and Synlait Standards, we did not provide ongoing training to our employees on our standards of ethical behavior as required by the Code. Going forward we will develop regular internal training about the ethical standards we require our employees to meet.

Securities Trading Policy

Synlait's Securities Trading Policy and Guidelines apply to all Directors, officers and employees of Synlait and our subsidiaries. Primarily the Policy and Guidelines exist to help Directors, officers and employees navigate insider trading laws, by reinforcing to them that insider trading is prohibited and providing assistance in understanding what material information is and therefore what might amount to insider trading.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

'To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives'.

Board Charter

Synlait's Board of Directors' Charter, available on our website www.synlait.com/investors/, sets out the roles and responsibilities of the Board and its office holders, as well as other key information about the operation of the Board. The Board delegates responsibility for implementing Synlait's strategic direction and managing Synlait's day-to-day operations to the Chief Executive Officer. This delegation is enacted in our Delegated Authorities Policy which all staff have access to.

Our Directors

Our current Board is shown on page 29 of this report and profiled on our website: www.synlait.com/people/. Their interests (as required to be disclosed under the Companies Act 1993) and other relevant information about our Directors is disclosed in the Statutory Information Section of this report starting on page 111.

It is important that all newly appointed Directors understand Synlait's expectations of them, and the entitlements that they

OUR CORPORATE GOVERNANCE REPORT

will receive as a Director of Synlait. Synlait requires that all newly appointed Directors enter into agreements with Synlait outlining their terms of appointment. We have the same requirement for Directors of Synlait’s subsidiaries.

Attendance at board and Committee meetings in the year to 31 July 2019 was as follows:

Director	Board meetings attended	Audit and Risk Committee	People, Environment and Governance Committee
Bill Roest	6/6	5/5	3/3
Graeme Milne ONZM	6/6	5/5	3/3
Dr. John Penno	6/6	N/A	N/A
Min Ben	2/6	N/A	0/3
Qikai Lu	5/6	4/5	N/A
Hon. Ruth Richardson	6/6	N/A	3/3
Sam Knowles	6/6	N/A	3/3
Sihang Yang	3/6	N/A	N/A

Nominations and appointment of Directors

Synlait’s People, Environment and Governance Committee oversees nominations to the Board, on behalf of the Board. It is charged with ensuring that there is a Board succession plan in place, so that an appropriate mix of skills, experience, expertise and diversity is maintained on the Board at all times. The Board is also actively involved in considering Board candidates.

The Board’s current succession plan requires that due regard be given to leadership skills, industry knowledge, maintenance of the current level of breadth and depth of skills and experience across the Board, any explicit skills gaps to be filled, forthcoming significant matters, creating stability and maintaining diversity when considering new appointments.

Our Constitution, as approved by NZX Regulation and adopted by our shareholders, and the NZX Listing Rules, include detailed requirements for the makeup of our Board, and the Director appointment process. The Constitution was prepared in reliance on waivers from NZX Regulation granted on 24 June 2013 and amended on 30 October 2018. Those waivers address Director appointment, Board composition and operation. The full waivers are on our website: www.synlait.com/investors/

The minimum number of Directors on Synlait’s Board at any time is three, and the maximum at any time is eight. At all times, at least two Directors must be ordinarily resident in New Zealand.

While Bright Dairy Limited continues to hold 37% -50% of our shares (excluding shares issued under employee share schemes or shares issued to Directors):

- Bright Dairy has the right to appoint four Directors. All those Directors must have appropriate skills and experience to ensure that Synlait has a suitable mix of skills and experience on the Board. Additionally, one of those

Directors must be ordinarily a resident in New Zealand and be of the standing and experience appropriate for a listed company Director;

- There must be at least three Independent Directors;
- The Chair, and the Chair of the Audit and Risk Committee, must be Independent Directors;
- The Chair of the Board has a casting vote, except where two Independent Directors form a quorum at a meeting of the Board;
- Bright Dairy, and its associated persons, are not entitled to vote on any ordinary resolution of shareholders to appoint a Director, or any ordinary resolution to re-elect a Director retiring by rotation or any ordinary resolution to remove a Director;
- The Board must appoint either a managing Director or a Board Appointed Director. The Managing Director cannot be a Bright Dairy appointed Director and is prohibited from voting or being part of the quorum on matters relating to his/her remuneration, removal and any matter relating to the appointment of a new managing Director. Currently we have a Board appointed Director, Dr. John Penno;
- At each annual meeting one third of the Independent Directors (being the Directors longest in office since last elected) must retire and will be eligible for re-election by the shareholders. The requirement to retire by rotation does not apply to the Bright Dairy Directors, or to Directors appointed by the Board or the Managing Director or Board Appointed Director.
- On Bright Dairy holding less than 37% of the ordinary shares in Synlait (excluding shares issued under employee share schemes or shares issued to Directors), Bright Dairy directors must resign so as to keep the proportion of Bright

Dairy appointed directors on the Board consistent with the proportion of the total shares in Synlait owned by Bright Dairy. Also, all remaining Bright Dairy Directors must retire at the next annual meeting as part of the Director rotation process, irrespective of whether they have been the longest in office; and

- The Directors are not permitted to appoint alternate Directors. However, a Bright Dairy Director may appoint another Bright Dairy Director to exercise their voting rights at a Board meeting if they cannot attend that meeting. The quorum for a Board meeting must include two Independent Directors.

Diversity and Inclusion Policy

Synlait is committed to a culture that promotes and values diversity and inclusion (balance and belonging). This is essential to driving sustainable commercial success and creating a high performing value driven culture within our organisation.

In September 2018, Synlait adopted its first Diversity and Inclusion Policy. Our Diversity and Inclusion Policy requires the Board to promote a culture of diversity and inclusiveness. It does so by putting in place appropriate strategies and measurable objectives. Management must report to the Board on diversity initiatives and progress against the strategies and measurable objectives.

The Board conducts an annual assessment of our Diversity and Inclusion policy, our objectives set under that policy, and the progress made towards achieving them.

We aim to achieve three main goals:

Workforce Diversity – employ, develop and retain more women and Maori.

Diversity through Leadership - empower and equip our people leaders to recruit, develop and retain a diverse and competent workforce.

Workforce inclusion - foster a culture that encourages flexibility and fairness, to enable all employees to realise their potential, and thereby increase employee retention.

Our success will be measured against the following statistics:

- Reduction of the gender pay gap to ≤ 5% in the 5 years
- 40-50% of Leadership positions (Team Leads, Supervisor, Specialists and above) held by women
- No regretted losses of high potential female employees

To assist in achieving these goals, we have adopted Mātua (a parental leave policy), Tāwariwari, (a flexible working policy), introduced un-conscious bias training and have regular reporting to the Board on candidates’ diversity.

We are pleased to report that we tracked well against our goals in FY19. Our representation of women in leadership (team leads, Supervisor, Specialists and above) increased to 37% and the gender pay gap reduced by 3% to 13%.

Information collected about our Senior Leadership Team (as opposed to the Directors and officers reported on in paragraph 17 of the Statutory Information section of this report) in furtherance of our work under our Diversity and Inclusion Policy is as follows. Corresponding information for FY18 is in brackets:

Gender	Female	Male	Total	% Female
	2 (2)	11 (12)	13 (14)	18 (14)
Ethnicity	New Zealand	Asia	Other	
(based on birth place)	8 (9)	0 (0)	5 (5)	
Domicile	New Zealand	Other		
(based on current residence)	13 (14)	0 (0)		
Language spoken	English only	Two languages	Three or more	
SLT	9 (10)	1 (1)	3 (3)	

As we adopted our Diversity and Inclusion Policy in September 2018, we did not meet the requirements of Principle 2 of the Code (Recommendation 2.5) from 1 August 2018 until the Board approved the policy on 18 September 2018. Prior to Board approval, Synlait had been aiming for a diverse and inclusive workplace, and this policy and the strategies and measurable objectives developed under that policy formalized that process.

Director training

It is important that our Board stays up to date with market developments, and has a good understanding of Synlait’s business and industry. Each year our Board is involved in two strategy workshops with management to agree Synlait’s vision and strategy.

In May 2019, the Board spent a week together to focus on Synlait’s Customers, Categories and Communities. They started in the Waikato by visiting a new farm supplier and the new Pokeno processing site. They also visited our research and development centre at Massey University and spent time with Massey University staff considering current food pilots and developments in innovation and agricultural technology. They then travelled to Christchurch to meet with staff and customers. They attended focus sessions on specific significant Synlait projects so as to inform their decision making on those projects and met key stakeholders in those projects.

This training was in addition to any governance training undertaken by the Directors independently of Synlait.

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Our People, Environment and Governance Committee is responsible for identifying and recommending ongoing governance training for the Board.

Assessment of Director, Board and Committee performance

Our Board Chair conducts an annual review of the Board and each Director, as required by our Board’s Charter.

The People, Environment and Governance Committee puts in place processes to review the performance of the Board, and the performance of individual Directors, including that of the Chair and Committee Chairs, and the managing Director on a regular basis, including an external review at least every three years.

An external review of the Board was conducted in the year to 31 July 2019. The review was designed to assist the Board reflect on its capability and performance, and to provide an independent lens to help them decide on key actions. The Board evaluation provided insights into areas of strength, as well as development themes. The Board has adopted various recommendations in the report and continues to consider other recommendations.

Independent Directors

Synlait has a waiver from NZX in relation to its Board composition. The composition of our Board reflects that a single shareholder, Bright Dairy, owns over 37% of our shares. Arrangements relating to Director appointment, Board composition and operation are recorded in our constitution and are the subject of an NZX Regulation waiver which is on our website: www.synlait.com/investors/. Among other things, the Bright Dairy representation on the Board is balanced by requirements that:

- one of the Bright Dairy Directors is a New Zealand resident with such standing and commercial and governance as is appropriate for a listed company;
- there are three Independent Directors; and
- there is either a managing Director or a Board appointed Director. We currently have a Board appointed Director.

Principle 2 of the Code (Recommendation 2.8) recommends that a majority of our Board should be Independent. Synlait does not comply with this principle as three of our eight Board members are Independent.

Synlait has considered whether its Independent Directors are independent against the definition in the NZX Listing Rules and the commentary to Recommendation 2.4 in the Code and is satisfied that our Independent Directors are Independent. Their interests in shares in Synlait, and other relevant information is disclosed in the Statutory Information section of this report starting on page 111.

Synlait’s Chair, Graeme Milne, is an Independent Director as required by our Constitution.

PRINCIPLE 3: BOARD COMMITTEES

‘The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility’.

Synlait has two Board Committees: the Audit and Risk Committee and the (now called) People, Environment and Governance Committee. These Committees meet regularly. Minutes are taken at each Committee meeting and the Chair of each Committee reports back to the Board at each Board meeting, and makes appropriate recommendations.

To acknowledge the significance of sustainability and the environment in Synlait’s strategy, the Board has recently decided to extend the roles and responsibilities of what was previously the People and Governance Committee to include matters relating to the environment. The Committee is now known as the People, Environment and Governance Committee.

Synlait considers that we have an appropriate range of Committees for our size.

Audit and Risk Committee

Our Audit and Risk Committee operates under a Charter updated in September 2018. The Committee is required to review its performance against its Charter, and the Charter itself, at least once per year. The Charter is on our website: www.synlait.com/investors/

The members of the Audit and Risk Committee members are nominated by the Board, and a majority of their number, and the Chair, must be Independent Directors. At least one member of the Risk and Audit Committee must have accounting or related financial experience.

During FY19 the members of our Audit and Risk Committee were Bill Roest, Graeme Milne and Lu Qikai (Albert). The Committee is chaired by Director Bill Roest, an Independent Director who is a member of the Chartered Accountants Australia and New Zealand and a fellow of the Association of Chartered Certified Accountants (UK). Bill is not the Chair of the Board, and has never worked for our independent auditor, Deloitte. Qikai Lu has considerable financial and business experience, and has previously been a public accountant with one of the ‘big four’ chartered accounting firms in China. None of the members of our Audit and Risk Committee are executive Directors.

This Committee ensures that the Board is aware of matters that may significantly affect the financial condition or affairs of Synlait’s business, and it prepares any reports required by law or regulation or the NZX Listing Rules, or requested by the Board. This Committee reviews the interim financial statements, annual financial statements and preliminary announcements before their release. It oversees risk management at Synlait, legislative and other compliance (including with internal policies), tax management, treasury management and sales management Its role with respect to Synlait’s auditors, both external and internal, is discussed on pages 51-52.

The Chief Executive Officer, Chief Financial Officer, Director Legal, Risk and Governance and Company Secretary have a standing invitation to attend meetings of this Committee. Other members of Synlait’s management team may attend on specific invitation only.

People, Environment and Governance Committee

The People, Environment and Governance Committee (previously the People and Governance Committee) operates under a written Charter which can be found on our website: www.synlait.com/investors/. The majority of the Committee’s members are Independent, and the Board appoints the Chair of the Committee. At least one of the Committee’s members must have experience with a listed company. Sam Knowles became Chair of this Committee in June 2019 taking over from Hon. Ruth Richardson. Other members are Graeme Milne, the Hon. Ruth Richardson, Bill Roest and Min Ben.

The Chief Executive Officer, Director, People, Culture and Performance, Director, Legal, Risk and Governance and Company Secretary have a standing invitation to attend meetings of this Committee. Other members of Synlait’s management team may attend on specific invitation only.

The People, Environment and Governance Committee performs key remuneration functions for Synlait, including recommending to the Board the remuneration and compensation of the Chief Executive Officer. It oversees, and approves the Chief Executive Officer’s recommendations for, compensation of the Executive Leadership Team, reviews and agrees the Strategic Remuneration Policy and agrees remuneration adjustments for Synlait’s staff. Additionally, the People, Environment and Governance Committee conducts an annual audit to check that Synlait’s policies for remuneration are both being complied with, and in line with best practice for similar organisations.

Additionally, the People, Environment and Governance Committee fulfils various roles in respect of the governance of Synlait on behalf of the Board. Some of those are described

elsewhere in this report. Others include monitoring corporate governance, monitoring compliance with Synlait’s Code of Ethics and Synlait Standards Policy, putting in place workplace policies so as to ensure compliance with all relevant laws and putting in place procedures to deal with complaints from staff. The People, Environment and Governance Committee now also plays a vital role in setting and monitoring compliance with our sustainability strategies and policies.

Given its smaller size, and its low Director turnover, Synlait does not have a separate nominations Committee. The People, Environment and Governance Committee fulfils this role for Synlait’s Board, as noted in more detail on page 44. The Board is also actively involved in considering possible candidates for the Board.

Takeover Protocols

Synlait has a Takeovers Policy setting out the procedure to be followed if there is a takeover offer for Synlait. That policy records that the Board may establish an Independent Takeover Committee, including Synlait’s Independent Directors to manage the process.

PRINCIPLE 4: REPORTING AND DISCLOSURE

‘The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures’.

As a result of its listings on the NZX and the ASX, Synlait is required comply with strict reporting and disclosure requirements so as to keep its shareholders, customers and other stakeholders informed as to its activities.

Continuous Disclosure

We have a Continuous Disclosure Policy that explains how we comply with our continuous disclosure obligations. It can be found on our website: www.synlait.com/investors/. All staff are required to be familiar with the Policy and our procedures so that they can identify a potential need for disclosure. All Directors and members of the Senior Leadership Team are primarily responsible for compliance with the disclosure obligations and implementing the policy effectively.

The Policy outlines the sort of information that might be “Material Information” and requires that information is communicated to nominated disclosure contacts as soon as it becomes known. They are the Chief Executive Officer, the Chief Financial Officer or the Director, Legal, Risk and Governance. The disclosure contacts are responsible for assessing whether disclosure is required to be made.

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Documents available on Synlait’s website

As is disclosed elsewhere in this report, Synlait publishes our key Charters, Policies and Standards on our website: www.synlait.com/investors/

Financial Reporting

The Board has a rigorous process to ensure the quality and integrity of our financial statements.

At each Board meeting the full Board is presented with a detailed Business Performance Report (BPR), which looks at the financial performance of the organisation and identifies any risks, issues and opportunities, and attempts to quantify the upsides and downsides should any of these items eventuate. The BPR also measures against actuals, and explain the reasons for any variances – including whether these are timing differences or permanent variances.

Synlait’s full and half year financial statements were prepared in accordance with relevant financial standards. The full year financial statements are set out on pages 54 to 106 of this report.

Synlait is committed to ensuring the integrity and timeliness in its financial reporting, and is committed to providing information to shareholders in a timely manner.

The Audit and Risk Committee oversees the integrity of external financial reporting, including the accuracy and timeliness of financial statements. This Committee is charged with reviewing in significant detail the financial statements and accompanying materials. After approval by the Audit and Risk Committee, the complete set of financial statements and annual report is submitted for approval to the full Board, based on the recommendation of the Audit and Risk Committee. Each Director is obliged to form a view on the quality, accuracy and integrity of the financial statements and annual report and give their approval (or not) in accordance with the Financial Markets Conduct Act 2013 and Companies Act 1993.

On our website, we have our previous financial statements readily available for our shareholders (www.synlait.com/investors/annual-interim-reports/), including all our analyst briefings and investor presentations (www.synlait.com/investors/presentations/).

Non-financial disclosure

Our annual report has traditionally been focused on reporting against financial measures. In FY19, we established our sustainable framework and related Sustainable Innovation Platforms (SIPs) which align to our new purpose and strategy. We also established baseline information in relation to some of our goals. For further information, please refer to the Update on our Sustainability Strategy from page 30.

At this time, Synlait does not have a formal environmental, social and governance (ESG) reporting framework. However, it is in development and will be progressed during FY20, with a view to enhancing our non-financial reporting.

PRINCIPLE 5 - REMUNERATION

‘The remuneration of directors and executives should be transparent, fair and reasonable’.

Director remuneration

The People, Environment and Governance Committee is responsible for reviewing the structure of Directors’ remuneration. It obtains independent advice on appropriate remuneration and recommends to the Board the remuneration to be proposed for shareholder approval at the annual meeting. Current Directors’ remuneration is set out in the statutory information section of this report on page 114, and was recommended to shareholders following a report prepared by Ernst & Young in August 2018, which can be found on our website: www.synlait.com/investors/. The remuneration was approved by the shareholders on 27 November 2018.

Remuneration Policy

Synlait’s Strategic Remuneration Policy sets out the remuneration principles applying to remuneration of our Directors and employees and is designed to ensure that Synlait meets the strategic policy objective of attracting, rewarding and retaining staff with the requisite skills and capabilities to ensure our successful business outcomes.

The People, Environment and Governance Committee oversees the implementation of our Strategic Remuneration Policy, including recommending to the Board remuneration for the CEO and other business leaders, and budget parameters for the annual pay review.

Employee fixed remuneration comprises a base salary, Employer Kiwisaver contributions (for participating employees), and medical insurance. Remuneration is reviewed yearly for eligible employees, with any changes based on market movement, position in the salary range, and performance. We provide employees with health insurance membership under the Southern Cross Wellbeing One policy. This is a broad surgical and healthcare plan which includes cover for cancer care, unlimited surgical treatment and consultations, diagnostic imaging, tests and recovery within six months of related eligible surgical treatment or cancer care. Families of employees are also able to join the scheme at reduced rates.

Synlait does not offer bonuses or other short term incentives. Synlait operates a Long-Term Incentive Scheme (LTI Scheme) and a small group of selected senior employees are invited to join that scheme each year. Any benefits from the LTI Scheme are in addition to the salary and other benefits agreed with the employee. The terms of that LTI Scheme set out the performance criteria to be met for the award of shares to relevant employees under the LTI Scheme.

Long Term Incentive scheme

The Executive Leadership Team participated in the LTI Scheme in the year to 31 July 2019. The LTI Scheme provides for the issue of shares in Synlait to participants, if specified goals are met. The LTI scheme is an annual scheme with performance share rights (PSRs) granted to Board-approved participants in July each year the LTI Scheme operates. The number of PSRs granted to participants is set at one quarter of their base salary divided by the volume weighted average price of our shares over the period beginning ten trading days before the first day of the first financial year of the assessment period and ending ten trading days on and from that date. PSRs are non-transferable and have no voting or other share rights and are otherwise subject to the rules of the LTI Scheme and individual award agreements.

Each PSR will be converted into one ordinary share in Synlait within 20 working days of the Board determining that specified performance hurdles have been met during the assessment period of three financial years following the date of the grant. This is provided however that the employee remained employed by Synlait at the end of the assessment period. No cash consideration is payable by the employee on the grant of PSRs, or on the issue of fully paid ordinary shares following vesting of PSRs.

There are two performance hurdles required to be met, relating to total shareholder return (TSR) and earnings per share (EPS). Vesting of half of the total award is dependent on the TSR target being met, and the remaining half, the EPS target being met. The degree of vesting in each case is determined by a progressive vesting scale. If our TSR is greater than or equal to the 75th percentile of a peer group over the assessment period, a minimum of 50% of the PSRs will vest. The peer group comprises the S&P/NZX 50 index companies on the first day of the assessment period. If our EPS over the assessment period equals the Board approved EPS target plus 10%, then a minimum of 50% of the PSR will vest. For either performance hurdle to be met, our TSR must be positive over the assessment period.

Vesting of annual awards is monitored to ensure that the value vested in any one year does not exceed 5% of market capitalisation, as required by NZX Listing Rules.

Chief Executive Officer Remuneration

In the year to 31 July 2019, Leon Clement’s remuneration comprised of a base salary of \$880,035, a 3% employer KiwiSaver contribution, and medical insurance.

Also, Leon was invited to join Synlait’s FY19 LTI scheme and was awarded 20,352 performance share rights as a part of that Scheme. More information about that LTI Scheme is set out above.

PRINCIPLE 6 - RISK MANAGEMENT

‘Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks’.

Risk Management Framework and Reporting

At Synlait, risk is everyone’s responsibility. Risk management is explicitly tied to the achievement of our objectives, and is part of everything we do. In November 2018 we refreshed our Enterprise Risk Management Framework which, in addition to providing a framework to ensure all material risks are identified, understood and managed, promotes a focus on risk-aware decision making at all levels.

Our framework is built off ISO31000 guidelines and includes the following core components:

- Synlait’s Risk Management Policy, with supporting standards and procedures which promote a consistent approach to managing risk.
- Clear roles and responsibilities, including for the Board and SLT.
- Our key risks are split into operational and strategic risks.

As a growth organisation, Synlait has a healthy strategic risk appetite. This is reflected in our Risk Management Policy. We also recognise four principles which guide all risk-related activities and decision making:

- Nothing we do is worth getting hurt for.
- We do not accept activities, behaviours or decisions which create uncontrolled risk to the consumers of our products.
- We do not accept activities, behaviours or decisions which knowingly constitute a legal or regulatory breach.
- We do not accept uncontrolled risks that could result in a significant loss of revenue, profitability and/or earnings.

Our Audit and Risk Committee has been appointed by the Board to review and make recommendations to the Board on the effectiveness of our risk framework. Directors regularly receive and review reports on our material risks as part of a comprehensive risk management process. This includes:

- Review of Synlait’s risk profile, including significant changes and progress on managing these risks, as part of each Audit and Risk Committee meeting.
- A summary of this profile, including material risks and significant changes is provided to each Board meeting.

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- The risk profile is the culmination of regular management processes to identify, assess, action, monitor and review risks that arise in the pursuit of delivering our strategic objectives.
- To ensure consistency and appropriate focus, we categorise risks as either:

 - Strategic – that is, risks faced by Synlait because of the strategic objectives and/or decisions taken; or
 - Operational – that is, risks faced in the pursuit of delivering on the objectives.

Examples of the material risk areas being actively managed include:

Risk type	Area of risk	Why is this important to us?	How are we managing this?
Strategic	Delivering on sustainability	We've made bold commitments and set challenging targets. Ensuring we remain focused on delivery is not only critical for our planet, but for our reputation with all our stakeholders.	<p>Synlait is committed to enhancing its sustainability reporting. As part of our Sustainability Framework, eleven Sustainable Innovation Platforms (SIPs) have been identified.</p> <p>Within each of these, detailed targets and implementation plans are developed and closely tracked by Management, with regular reporting to the Board via the People, Environment and Governance Committee.</p>
Strategic	Changes in consumer preferences	We believe strongly in the nutritional value of bovine milk. We also recognise and closely monitor global trends to ensure we're setting ourselves up to meet future demands.	<ul style="list-style-type: none">Active monitoring of changes in the global nutrition market across multiple functions including category management, research and development, technical and regulatory.Regular engagement in market research and analysis to understand consumer and/or market preferences.
Operational	Food safety and quality	Providing safe and quality nutrition is the core of what we do. We take this responsibility seriously, and our risk management practices ensure food safety and quality is top of mind in all we do.	<p>We have a comprehensive quality management system in place which includes:</p> <ul style="list-style-type: none">Strict operational controls throughout our value chain;Thorough testing programmes, including raw milk, ingredients, finished product and across our processing environment.Training for all staff commensurate to their position; andRegular internal and external audits to verify controls and drive a focus on continuous improvement.
Operational	Market access	Like all involved in the trade of goods, we rely on stable access to global markets. We recognise and monitor our responsibilities, while also engaging with industry and government to navigate a dynamic market access environment.	<p>Our Regulatory and Corporate Affairs teams proactively manage this risk through:</p> <ul style="list-style-type: none">Regular scanning of the regulatory environment for trends, changes and areas of potential risk for SynlaitMaintaining strong relationships with local and international networks to calibrate or strengthen our understanding of potential changes and their impact;;Regular engagement with key New Zealand international industry groups - including DCANZ, DairyNZ and the Infant Nutrition Council - to promote the interests of Synlait and New Zealand dairy; andRegular and meaningful engagement with relevant Ministers, officials and advisors to build understanding of Synlait's business, our interests and shared commitments.

Operational	Talent management	Attracting and developing world-class talent is a critical success factor in ensuring we continue to deliver on our objectives.	<p>We have a holistic focus on talent management, including:</p> <ul style="list-style-type: none">Implementation of our Future Leaders programme, which aims to attract and develop leaders in line with our purpose, ambition and strategy;Investment in best-in-class systems to support a highly effective talent acquisition process;planning and talent review processes embedded in regular Management reviews; andComprehensive workforceContinued focus on our Perform and Grow framework, ensuring every employee is engaged in regular development activities.
Operational	Cyber security and data protection	The availability, reliability and integrity of all our systems and data is a critical not only for our day-to-day operations, but in maintaining the highest level of trust with all our key stakeholders.	<ul style="list-style-type: none">We actively monitor and review effectiveness of our core systems and data controls;We engage independent experts to review and strengthen our controls across both our IT and OT environments; andWe regularly test our response capabilities to identify further continuous improvement opportunities.

Health and Safety Risks

Synlait has identified five critical health and safety risks in its business. They are hazardous gases, working at heights, material handling equipment, working in confined spaces and State Highway One (traffic). We have projects actively seeking to reduce the likelihood and consequence of an event linked to those critical risk being fatal or seriously harming any person (employee or contractors).

We continue to work with NZTA on the risk that State Highway One poses to our employees and others arriving at an leaving our Dunsandel site. This year we also launched a wellbeing plan that aligns to National Wellness Campaigns (examples are Mental Health month, Heart Foundation Appeal and Cancer Society events). We have adopted Te Whare Tapa Whā model and will focus on 3 core pillars Nourish, Rest and Movement.

Employee engagement is vital in the management of HSW. For this reason, we have eleven Health and Safety Committees across the business that provide honest feedback on our operational risks. In the year ended 31 July 2019, we introduced “Wellness Assessments” company-wide - these involve both physical and mental health assessments by Occupational Health Nurses and included assessment against the Kessler 10 screening tool. This is a globally recognized measure of distress based on anxiety and depression symptoms that an individual has experienced in the most recent 4 week period. When benched marked against Australian data, the results achieved by Synlait staff compared favourably.

We measure proactive and reactive measures of Health, Safety and Wellness (HSW). These include our Total Recordable Injury Frequency Rate (TRIFR), Near Miss and New Hazard frequency rates, and Injury Severity frequency rate. Over the course of FY19, Synlait's TRIFR by 28%.

More information on our health and safety initiatives is included on page 36.

PRINCIPLE 7 – AUDITORS

‘The board should ensure the quality and independence of the external audit process’.

The Audit and Risk Committee plays a key role in Synlait's audit process. It is responsible for recommending the appointment of the external auditors to the Board, overseeing the independence of the external auditors, and overseeing the work of the external auditors; as well as reviewing policies for the provision of non-audit services by the external auditor (including the framework for pre-approval of any such services).

Currently, our external auditors are Deloitte. Deloitte attends Synlait's Annual Meeting of Shareholders where the lead audit partner is available to answer questions from shareholders. The Committee meets regularly with our external auditor, Deloitte, (including meeting without management present). Annually the Audit and Risk Committee reviews and assesses Deloitte's performance through an internal questionnaire. The results, key themes and recommendations are reported to the Board.

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Deloitte confirms their independence from the Company to the Audit and Risk Committee in March and September each year. Non-audit services performed by Deloitte are closely examined by management and the Chair of the Audit and Risk Committee prior to engaging Deloitte for these additional services, so as to ensure that they do not compromise Deloitte’s independence.

In the year to 31 July 2019 we our total payments to Deloitte were as follows:

Audit and Assurance Work	\$307,000
Taxation Compliance and accounting advice ¹	\$69,000
Percentage (non-audit/audit)	22%

¹Various engagements including income tax return review, GST review, fringe benefit tax review, high-level review of tax governance processes, and ad hoc review work. These services are compliance in nature and are not inconsistent with Deloitte’s role as auditor. Deloitte’s ongoing role as provider of tax compliance services was approved by the Audit and Risk Committee.

Synlait appointed a Senior Internal Auditor in January 2019 to perform key risk and business process focused internal audit reviews across Synlait’s operations as part of an annual programme of work agreed with the Audit and Risk Committee. The Audit and Risk Committee is responsible for reviewing the activities, resources and organisational structure of the internal audit function.

PRINCIPLE 8 - SHAREHOLDER RIGHTS AND RELATIONS

‘The board should respect the rights of shareholders and foster relationships with shareholders that encourage them to engage with the issuer’.

It is important that we communicate with our shareholders so as to keep them informed. It is equally important that they can communicate with us, and exercise their shareholder voice.

Website

We aim to ensure investors understand all our activities by communicating regularly with them, using clear and balanced information. Our website is just one of our key information channels, which include:

- NZX and ASX websites (announcements);
- the investor and news sections of our website, synlait.com;
- social media channels (LinkedIn and Facebook);
- annual and interim reports; and
- our annual meeting.

The investor section of Synlait’s website contains the below information:

- a live share price feed (for the NZX and ASX), historical pricing and trading data;
- announcements and news releases, copies of the annual and interim reports and investor presentations;
- key corporate governance documents such as Charters and policies, including Synlait’s constitution;
- notice of meetings, results of meetings and other relevant meeting materials;
- key dates in the investor schedule, such as annual meeting, full and interim reporting dates
- share registry information; and
- the analyst and media policy.

In addition to the above, key business information is also available on our website, including the names and biographies of the Board and senior management team, our history, and an overview of our current business operations.

The information on our website is reviewed regularly and updated as necessary.

Communicating with Synlait

Instructions on how to reach the investor relations team and company secretary are available in the on the Investor Centre on our website. Shareholders can direct questions or requests for information to Directors or management by contacting Hannah Lynch, our Corporate Affairs Manager, at Hannah.Lynch@synlait.com or +64 21 25 28990. We aim to respond to all shareholder communications in a timely manner.

Shareholders can elect to receive and send Synlait communications in the manner which suits them best – either electronically or via mail. Through our share registry, Computershare, shareholders can amend their communication preferences at any time.

Right to vote

Synlait’s constitution and the NZX Listing Rules afford shareholders the right to vote on certain matters affecting Synlait. Our shareholders can vote at any meeting of shareholders in person or by using a representative. On a vote by show of hands, each shareholder attending in person or by their representative has one vote. If a poll is taken, each shareholder attending in person or by their representative has one vote per fully paid up share they hold. Postal votes are not permitted unless the Board notifies shareholders otherwise. More information on voting is n our constitution on our website: www.synlait.com/investors/

At the annual meeting held on 28 November 2018 shareholders were asked to vote on five matters. The following table details the resolution, whether the resolution was passed and the voting results:

Resolution	Passed/Not passed	Votes for	Votes against	Total	Abstain
That the Board be authorised to fix the auditor’s fees and expenses for the FY19 year	Passed	135,894,656 (99.90%)	139,120 (0.10%)	136,033,776	9,278
That Graeme Milne be re-elected as a Director.	Passed	63,441,200 (96.03%)	2,625,760 (3.97%)	66,066,960	69,976,094
That the annual fee for each Director be \$85,000, except for the annual fees of each of the two Committee Chairs, which will be \$97,000, and the Chairman of the Board, which will be \$169,000. All of these increases apply from 1 April 2019.	Passed	134,267,065 (98.91%)	1,478,521 (1.09%)	135,745,586	297,468
That Synlait Milk Limited’s constitution be amended, with effect from the close of the Annual Meeting, as set out in Appendix One to the notice of the Annual Meeting.	Passed	135,937,736 (99.94%)	80,768 (0.06%)	136,018,504	24,550
That John Penno be re-elected as a Director, and, if Resolution 4 is passed, that John Penno is elected as the Board Appointed Director.	Passed	135,681,930 (99.74%)	353,974 (0.26%)	136,035,904	7,150

Notice of annual meeting

Synlait’s last annual meeting was held on Thursday 28 November 2018. The notice of the meeting was released to the market on 30 October 2018. An audio recording of the meeting is available in the investor centre on the company’s website

Our 2019 meeting will be held on Wednesday 27 November at Tait Communications in Christchurch. A Notice of Meeting will be issued shortly. Shareholders are invited to attend and participate in the meeting which is chaired by the Chair of the Board. A webcast of the meeting will be made available to shareholders.

OUR FINANCIAL STATEMENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

for the year ended 31 July 2019

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DIRECTORS’ DECLARATION

31 July 2019

DIRECTORS’ RESPONSIBILITY STATEMENT

The Directors are pleased to present the Annual Report and financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, and Synlait Business Consulting (Shanghai) Limited (together “the Group”) as set out on pages 54-106 for the year ended 31 July 2019.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2019 and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

For and on behalf of the Board.



Graeme Milne
CHAIRMAN

11 September 2019



Willem Jan (Bill) Roest
INDEPENDENT DIRECTOR

11 September 2019

INCOME STATEMENT

For the year ended 31 July 2019

		2019	2018
	Notes	\$'000	\$'000
Revenue	1	1,024,305	879,001
Cost of sales	2	(837,976)	(712,533)
Gross profit		186,329	166,468
Other income	1	898	430
Share of (loss)/profit from associates	19	(580)	426
Sales and distribution expenses	2	(26,836)	(20,603)
Administrative and operating expenses	2	(35,303)	(33,636)
Earnings before net finance costs and income tax		124,508	113,085
Finance expenses	10	(8,819)	(8,969)
Finance income	10	1,232	1,023
Loss on derecognition of financial assets	4, 10	(1,842)	(1,329)
Net finance costs	10	(9,429)	(9,275)
Profit before income tax		115,079	103,810
Income tax expense	17	(32,840)	(29,257)
Net profit after tax for the year		82,239	74,553
Earnings per share			
Basic and diluted earnings per share (cents)	12	45.89	41.60

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2019

		2019	2018
	Notes	\$'000	\$'000
Profit for the period		82,239	74,553
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	15	(21,323)	(38,081)
Income tax on other comprehensive income	17	5,971	10,663
Total items that may be reclassified subsequently to profit and loss		(15,352)	(27,418)
Other comprehensive income for the year, net of tax		(15,352)	(27,418)
Total comprehensive income for the year		66,887	47,135

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2019

Group		Share capital	Employee benefits reserve	Cash flow hedge reserve	Retained earnings	Total equity
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
Equity as at 1 August 2017		268,074	36	16,622	91,983	376,715
Profit or loss for the year		–	–	–	74,553	74,553
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		–	–	(38,006)	–	(38,006)
Movement in time value hedge reserve		–	–	(75)	–	(75)
Income tax on other comprehensive income		–	–	10,663	–	10,663
Total other comprehensive income		–	–	(27,418)	–	(27,418)
Employee benefits reserve	13, 14, 17	–	894	–	–	894
Total contributions by and distributions to owners		–	894	–	–	894
Equity as at 31 July 2018		268,074	930	(10,796)	166,536	424,744
Profit or loss for the year		–	–	–	82,239	82,239
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		–	–	(21,410)	–	(21,410)
Movement in time value hedge reserve		–	–	87	–	87
Income tax on other comprehensive income		–	–	5,971	–	5,971
Total other comprehensive income		–	–	(15,352)	–	(15,352)
Employee benefits reserve	13, 14, 17	–	728	–	–	728
Total contributions by and distributions to owners		–	728	–	–	728
Equity as at 31 July 2019		268,074	1,658	(26,148)	248,775	492,359

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

STATEMENT OF FINANCIAL POSITION

As at 31 July 2019

	Notes	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents		16,007	32,129
Trade and other receivables	4	61,933	47,145
Intangible assets	9	3,686	2,951
Goods and services tax refundable		3,689	6,536
Income accruals and prepayments		9,554	4,340
Inventories	5	164,849	145,404
Derivative financial instruments	15, 16	2,358	2,906
Other current assets	6, 18	20,500	1,375
Total current assets		282,576	242,786
Non-current assets			
Property, plant and equipment	8	845,202	537,669
Intangible assets	9	16,428	8,100
Goodwill	9	3,643	3,643
Other investments	19	110	690
Derivative financial instruments	15, 16	45	793
Total non-current assets		865,428	550,895
Total assets		1,148,004	793,681
Current liabilities			
Loans and borrowings	11	99,626	49,321
Trade and other payables	7	216,020	152,198
Current tax liabilities		29,220	27,391
Derivative financial instruments	15, 16	27,960	7,783
Total current liabilities		372,826	236,693
Non-current liabilities			
Loans and borrowings	11	249,482	97,065
Deferred tax liabilities	17	22,651	24,364
Derivative financial instruments	15, 16	10,686	10,814
Total non-current liabilities		282,819	132,243
Total liabilities		655,645	368,936
Equity			
Share capital	12	268,074	268,074
Reserves	14	(24,490)	(9,866)
Retained earnings	14	248,775	166,537
Total equity attributable to equity holders of the Group		492,359	424,745
Total equity and liabilities		1,148,004	793,681

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

STATEMENT OF CASH FLOWS

For the year ended 31 July 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Cash receipts from customers		1,025,311	893,618
Cash paid for milk purchased		(461,369)	(423,095)
Cash paid to other creditors and employees		(403,420)	(356,763)
Goods and services tax refunds/(payments)		2,846	(1,456)
Income tax payments		(26,670)	(13,914)
Net cash inflow from operating activities	3	136,698	98,390
Cash flows from investing activities			
Interest received		1,232	1,023
Acquisition of property, plant and equipment		(309,314)	(110,416)
Other investments – Talbot		(18,000)	–
Proceeds from sale of property, plant and equipment		(147)	(168)
Acquisition of intangible assets		(11,127)	(9,873)
Net cash outflow from investing activities		(337,356)	(119,434)
Cash flows from financing activities			
Drawdown/(repayments) of borrowings		152,300	13,700
Net movement in working capital facility		50,305	(23,126)
Interest paid		(18,069)	(11,228)
Net cash inflow/(outflow) from financing activities		184,536	(20,654)
Net (decrease) / increase in cash and cash equivalents		(16,122)	(41,698)
Cash and cash equivalents at the beginning of the financial year		32,129	73,827
Cash and cash equivalents at end of year		16,007	32,129

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

REPORTING ENTITY

The consolidated financial statements (“financial statements”) presented are those of the Group, including Synlait Milk Limited and its subsidiaries Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited and Synlait Business Consulting (Shanghai) Limited.

Synlait Milk Limited is primarily involved in the manufacture and sale of dairy products.

The parent company, Synlait Milk Limited, is a profit oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange and the Australian Securities Exchange. Synlait Milk Limited is a FMC reporting entity under the Financial Market Conducts Act 2013 and its financial statements comply with that Act.

BASIS OF PREPARATION

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

Certain comparative figures have been reclassified during the year for consistency with the current year presentation. These classifications had no effect on the reported results of operations.

The financial statements were authorised for issue by the directors on 11 September 2019.

Basis of Measurement

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

Functional and presentation currency

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

Transactions and balances

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

Use of accounting estimates and judgements

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

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

Key sources of estimation uncertainty and key judgements relate to assessment of impairment of inventory and the derecognition of financial assets. The individual notes in the financial statements provide additional information.

BASIS OF CONSOLIDATION

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

SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements, except for the change in accounting policy relating to the adoption of NZ IFRS 9 (2014) and NZ IFRS 15.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2019. The Group has not early adopted these standards, amendments and interpretations.

NZ IFRS 16 ‘Leases’ (effective 1 January 2019)

NZ IFRS 16 removes the current dual accounting treatment of leases and will apply a single on-balance sheet accounting treatment for all leases by recognising a right-of-use asset and a lease liability, similar to current finance lease accounting. The right-of-use asset is initially and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of future lease payments. The lease liability is subsequently adjusted for interest and lease payments, as well as the impact of other lease modifications and adjustments. This standard will be effective from the Group’s 2020 financial year and NZ IFRS 16 will supersede the current lease guidance including NZ IAS 17 “Leases”.

Based on analysis undertaken by the Group, the directors do not anticipate that the implementation of NZ IFRS 16 will have a significant impact on the Group’s financial statements. The Group will apply NZ IFRS 16 using the modified retrospective (full simplified) approach, which means no adjustments will be required for comparatives.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Changes in Accounting Policies

During the period the Group adopted the following new standards:

NZ IFRS 9 (2014) ‘Financial Instruments’ (effective from periods beginning on or after 1 January 2018)

NZ IFRS 9 establishes the principles for hedge accounting measurement, classification and impairment of financial assets. The Group has previously adopted NZ IFRS 9 (2013) effective from 1 August 2014. NZ IFRS 9 (2014) is the final replacement of NZ IAS 39 “Financial Instruments: Recognition and Measurement” and consolidates previous issuances of NZ IFRS 9. The Group adopted NZ IFRS 9 (2014) from 1 August 2018 and applied the new standard on a retrospective basis. The Group adopted the simplified approach to recognise lifetime expected credit losses for financial assets as required or permitted by NZ IFRS 9 (2014). In line with management expectation, the new standard has not had a material impact for the Group.

NZ IFRS 15 ‘Revenue from Contracts with Customers’ (effective from periods beginning on or after 1 January 2018)

NZ IFRS 15 establishes a single comprehensive revenue recognition model that applies to revenue arising from contracts with customers across all industries. The Group adopted NZ IFRS 15 from 1 August 2018 and applied the new standard on a modified retrospective basis, which means no adjustments are required for comparative periods.

NZ IFRS 15 establishes the core principle that an entity should recognise revenue to depict the transfer of promised goods or services in an amount reflecting the consideration the entity expects to be entitled to in exchange for those goods or services. To apply this principle, an entity should apply the following five step model:

- Identify the contract;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Recognise revenue when (or as) each performance obligation is satisfied.

Under NZ IFRS 15 an entity shall recognise revenue when a performance obligation is satisfied, which is a move to a control based revenue recognition approach as revenue recognition occurs when control of the goods or services underlying the particular performance obligation is transferred to the customer. NZ IFRS 15 prescribes more extensive disclosure requirements and guidance on specific scenarios. In line with management expectation, the new standard has not had a material impact for the Group.

PERFORMANCE

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

1	Revenue recognition and segment information	65
2	Expenses	66
3	Reconciliation of profit after income tax to net cash inflow from operating activities	67

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

1 REVENUE RECOGNITION AND SEGMENT INFORMATION

SALES OF GOODS

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

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

	2019	2018
	\$'000	\$'000
Dairy products	1,024,305	879,001
Other sundry income	898	430
Total income	1,025,203	879,431

DESCRIPTION OF SEGMENTS

The Group operates in one industry, being the manufacture and sale of fresh milk and milk powder related products. The Board makes resource allocation decisions based on expected cash flows and results of the Group's operations as a whole and the Group therefore has one segment.

The Group operates in one principal geographical area being New Zealand. Although the Group sells to many different countries, it is understood that a significant proportion of both infant nutritional and ingredients sales are ultimately consumed in China.

Revenues of approximately 66% (2018: 69%) are derived from the top three external customers.

The proportion of sales revenue by geographical area is summarised below:

	2019	2018
China	9%	8%
Rest of Asia	25%	24%
Middle East and Africa	7%	9%
New Zealand	31%	30%
Australia	25%	26%
Rest of World	3%	3%
Total	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

2 EXPENSES

	2019	2018
	\$'000	\$'000
The following items of expenditure are included in cost of sales		
Depreciation and amortisation	24,289	22,354
Employee benefit expense	48,711	39,793
Kiwisaver contributions	1,166	922
Export freight	9,524	9,141
Rent	874	540
(Decrease) / increase in inventory provision	(1,805)	393
(Decrease) in onerous contract provision	(809)	(12)
The following items of expenditure are included in sales and distribution		
Depreciation and amortisation	1,625	1,640
Employee benefit expense	10,195	8,261
Kiwisaver contributions	252	196
Rent	3,637	2,450
The following items of expenditure are included in administrative and operating		
Depreciation and amortisation	1,725	1,562
Employee benefit expense	17,986	15,734
Kiwisaver contributions	480	396
Directors fees	752	601
Share based payments expense	644	588
Consultancy	2,768	4,459
Deloitte services included in administrative and operating expenses		
Statutory audit fee	185	168
Half year accounts review	45	40
Other assurance services	77	—
Taxation compliance	69	114
Total paid for Deloitte services	376	322

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

3 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2019	2018
	\$'000	\$'000
Profit for the year	82,239	74,553
Non-cash and non-operating items:		
Depreciation and amortisation of non-current assets	27,639	25,556
Loss on sale of fixed assets	147	168
Write off intangibles	123	175
Share of loss/(gain) from associate	580	(426)
Non-cash share based payments expense	644	588
Interest costs classified as financing cash flow	8,819	9,001
Interest received classified as investing cash flow	(1,232)	(1,023)
Loss on derecognition of financial assets	1,842	1,297
Deferred tax	4,341	1,846
Gain on derivative financial instruments	22	323
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(14,788)	31,884
(Increase) in prepayments	(5,214)	(1,477)
(Increase) in inventories	(19,444)	(62,709)
Decrease/(Increase) in goods and services tax refundable	2,846	(1,456)
Increase in trade and other payables	46,306	6,592
Increase in current tax liabilities	1,828	13,498
Net cash inflow from operating activities	136,698	98,390

WORKING CAPITAL

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

4	Trade and other receivables	69
5	Inventories	72
6	Current assets – Other current assets	73
7	Trade and other payables	73

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

4 TRADE AND OTHER RECEIVABLES

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

Impairment

The Group recognises a loss allowance for expected credit losses (“ECL”) on trade and other receivables.

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

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

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

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

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

Credit Risk Management

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

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

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

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

In the past five financial years, the Group has written off \$0.3m bad debts. The historical analysis of bad debts on a customer basis assists in the determination of any increases in credit risk since initial recognition. There are no significant credit risk concentrations as at 31 July 2019 and two customers represent 70% of the overdue receivables, with no historical non-performance. There were no other forward looking indicators to indicate increases in credit risk.

In addition, the Group has assessed the credit risk on other financial assets. The Group considered the credit risk for the loan to Talbot Forest Cheese, and have determined that low credit risk existed in this agreement. The loan of \$18m was extinguished upon acquiring Talbot Forest Cheese on 1 August 2019. For further details, please refer to Note 18 “Business Combinations”

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

The Group has not changed its overall strategy regarding the management of risk from 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	2019	2018
	\$'000	\$'000
Trade receivables	58,076	46,566
Provision for doubtful and impaired receivables	(395)	–
Net trade receivables	57,681	46,566
Other receivables	4,252	579
Total receivables	61,933	47,145

(a) Impaired receivables

As at 31 July 2019, trade receivables of \$7.1m were overdue but not impaired (2018: \$1.4m) with impairment of \$0.3m (2018: nil). These relate to a number of independent customers for whom there is no recent history of default. The majority was collected within several business days of 31 July 2019. Of the overdue receivables \$1.1m remains unpaid which is expected to be collected in the 2020 financial year.

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

	2019	2018
	\$'000	\$'000
Overdue by		
0 to 30 days	6,021	1,025
30 to 60 days	60	223
Over 60 days	1,044	124
Total overdue trade receivables	7,125	1,372

As outlined in the Changes in Accounting Policies, the Group has adopted NZ IFRS 9 (2014) effective from 1 August 2018 and applied the new standard on a retrospective basis. The Group adopted the simplified approach to recognise lifetime expected credit losses for financial assets as required or permitted by NZ IFRS 9 (2014).

During the period, an additional impairment loss of \$0.08m was recognised.

In FY19, the Group performed an analysis of the past 12 month’s overdue receivables and the overdue receivables made up 1% of total receivables collected and outstanding over the year ended 31 July 2019. All overdue receivables outstanding as at 31 July 2018 were collected.

(b) Allowance for bad and doubtful receivables

The Group has recognised a loss of \$0.3m in relation to unrecoverable trade receivables during the year (2018: \$nil).

(c) Trade and other receivables

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

Receivables denominated in currencies other than the functional currency comprise NZ\$52.6m (2018: \$45.8m) of USD denominated trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

(d) Derecognised financial assets

The Group has derecognised trade receivables that have been sold to two banks under the terms of receivables purchase agreements entered into during July 2015 and January 2016. The Group routinely assess the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the banks. Receivables selected for assignment are with customers with strong credit ratings and good payment histories. This minimises the risk (and therefore consequences) of late payment or default, as well as resulting in little volatility in the present value of future cash flows in relation to assigned receivables under the various scenarios detailed in the terms of the two agreements. An evaluation of external evidence of credit risk has also been performed for each customer. The Group has assigned \$109.0m of receivables as at 31 July 2019 (2018: \$68.5m).

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

If the Group’s customers defaulted on all trade receivables that have been derecognised at balance date, the Group would be required to pay a late payment charge of \$9,003 per day (2018: \$6,320) for each day that these receivables remain overdue, assuming that market conditions remain unchanged from reporting date. The likelihood that debtors will fall overdue or remain overdue for a long period of time is small, given the strong credit ratings and good payment histories of the customers whose receivables have been selected for assignment.

The loss for the period of \$1.8m (2018: \$1.3m) arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

5 INVENTORIES

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

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

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

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

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

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

	2019	2018
	\$'000	\$'000
Raw materials at cost	40,058	22,833
Finished goods at cost	118,090	94,881
Finished goods at net realisable value	6,701	27,690
Total inventories	164,849	145,404

Raw material inventories at \$40.1m (11,307 MT) have increased (2018: \$22.8m, 6,737 MT), due to increased forecast canned infant formula production in the first half of FY20, increased plant utilisation of the Auckland blending and canning facility, and the imminent commencement of operations of the Pokeno plant.

Finished goods have remained comparable at \$124.8m (23,318 MT) (2018: \$122.6m, 26,726 MT). The decrease in tonnage on hand relates to product mix, with less low-value goods and more high-value goods included. Finished goods held at net realisable value have reduced as there has been an increased focus on increasing turnover of impaired stock.

The cost of inventories recognised as an expense during the year was \$838.0m. The cost of inventories recognised as an expense includes \$7.4m (2018: \$7.0m) in respect of write-downs of inventory to net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

The total inventory provision as at reporting date was \$0.3m (2018: \$2.1m) which all related to finished goods (2018: \$1.9m related to finished goods and \$0.2m related to raw materials). This decrease is due to increased focus on reducing impaired stock on hand.

In addition, the total onerous contracts provision as at reporting date was \$0.5m (2018: \$1.3m). Onerous contracts have reduced in value as a result of a flatter global dairy trade auction results and favourable year end exchange rate, increasing forecast NZD returns on USD sales contracts.

6 CURRENT ASSETS – OTHER CURRENT ASSETS

Included in other current assets is the Talbot Forest Cheese loan. On 18 September 2018, the Group entered into a conditional agreement to acquire selected assets of Talbot Forest Cheese Limited and Talbot Forest Properties Limited (the Vendor) with settlement on 1 August 2019. Prior to the 2019 settlement date, Synlait provided the Vendor with a secured loan facility. This loan facility enabled the Vendor to complete a capital works programme and satisfy other aspects of the conditional agreement. During the period, the loan advanced was \$18m (31 July 2018: \$nil). On 1 August 2019 the loan balance was extinguished on execution of the transaction. For further details, please refer to Note 18, Business Combinations.

7 TRADE AND OTHER PAYABLES

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

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

	2019	2018
	\$'000	\$'000
Trade payables	82,122	55,328
Accrued expenses	126,690	91,984
Employee entitlements	7,208	4,886
Total trade and other payables	216,020	152,198

Payables denominated in currencies other than the functional currency comprise NZ\$0.5m (2018: \$0.2m) of USD and AUD denominated trade payables and accruals.

LONG TERM ASSETS

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

8	Property, plant and equipment	75
9	Intangible assets	77

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

8 PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

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

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

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

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

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

SUBSEQUENT COSTS

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

DEPRECIATION

Depreciation of property, plant and equipment is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

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

Buildings	10–50 years
Plant and equipment	3–33 years
Fixtures and fittings	2–14 years

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

IMPAIRMENT

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost						
Cost	7,457	126,926	356,929	8,384	41,501	541,197
Balance as at 1 August 2017	7,457	126,926	356,929	8,384	41,501	541,197
Additions	–	–	–	–	113,248	113,248
Reclassification / transfer	–	9,785	63,116	1,173	(74,074)	–
Disposals	–	–	(196)	–	–	(196)
Balance as at 31 July 2018	7,457	136,711	419,849	9,557	80,675	654,249
Additions	27,500	–	–	–	306,100	333,600
Reclassification / transfer	–	46,457	95,610	4,499	(146,566)	–
Disposals	–	(127)	(2,251)	(1,283)	–	(3,661)
Balance as at 31 July 2019	34,957	183,041	513,208	12,773	240,209	984,188
Accumulated depreciation						
Cost	–	14,482	74,423	4,173	–	93,078
Balance as at 1 August 2017	–	14,482	74,423	4,173	–	93,078
Depreciation	–	3,878	18,584	1,200	–	23,662
Disposals	–	–	(160)	–	–	(160)
Balance as at 31 July 2018	–	18,360	92,847	5,373	–	116,580
Depreciation	–	4,236	20,060	1,403	–	25,699
Disposals	–	(44)	(1,964)	(1,283)	–	(3,291)
Balance as at 31 July 2019	–	22,552	110,943	5,493	–	138,988
Carrying amounts						
As at 31 July 2018	7,457	118,351	327,002	4,184	80,675	537,669
As at 31 July 2019	34,957	160,489	402,265	7,282	240,209	845,202

(a) Impairment

During the period, property, plant and equipment have been examined for impairment. No indicators of impairment have been identified and no material items of property, plant and equipment are considered to be impaired.

(b) Capital work in progress

Assets under construction includes capital expenditure projects, until they are commissioned and transferred to fixed assets. Capital work in progress of \$240.2m is significantly greater than 2018 (\$80.7m) due to the construction of Synlait Pokeno.

(c) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to \$7.5m (2018: \$0.8m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset. In the year total borrowing costs capitalised were for the liquid processing and packaging plant, Synlait Pokeno, and other smaller projects. Borrowing costs continue to be capitalised for Synlait Pokeno, the enterprise resource planning systems upgrade, and the separator capacity upgrade.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

9 INTANGIBLE ASSETS

GOODWILL

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

For the purposes of impairment testing, goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

PATENTS, TRADEMARKS AND OTHER RIGHTS

Separately acquired patents and trademarks are shown at historical cost. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of patents and trademarks over their estimated useful lives of 10 years.

COMPUTER SOFTWARE

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of 3 to 10 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets.

NEW ZEALAND UNITS (NZU)

New Zealand Units are purchased to offset carbon emissions under the New Zealand Emissions Trading Scheme. The units are measured at cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Impairment losses are recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	Goodwill	Patents, trademarks and other intangibles	Computer software	Intangibles in progress	New Zealand Units	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 31 July 2018						
Opening net book amount	3,643	283	2,829	134	–	6,889
Additions	–	–	3,448	6,802	2,967	13,217
Development costs recognised as an asset	–	123	270	(3,736)	–	(3,343)
Amortisation charge (note 2)	–	(54)	(1,840)	–	–	(1,894)
Asset disposals	–	–	(175)	–	–	(175)
Closing net book value	3,643	352	4,532	3,200	2,967	14,694
Current	–	–	–	–	2,951	2,951
Non-current	3,643	352	4,532	3,200	16	11,743
Closing net book value	3,643	352	4,532	3,200	2,967	14,694
Year ended 31 July 2019						
Opening net book value	3,643	352	4,532	3,200	2,967	14,694
Additions	–	497	3,170	7,117	5,765	16,549
Development costs recognised as an asset	–	–	–	(3,667)	–	(3,667)
Amortisation charge (note 2)	–	(131)	(1,809)	–	–	(1,940)
Asset disposals/surrendered	–	–	–	(123)	(1,756)	(1,879)
Closing net book value	3,643	718	5,893	6,527	6,976	23,757
Current	–	–	–	–	3,686	3,686
Non-current	3,643	718	5,893	6,527	3,290	20,071
Closing net book value	3,643	718	5,893	6,527	6,976	23,757

Intangibles in progress of \$6.5m at balance date is predominantly constituted of project to date spend on systems and process development. During the year \$0.1m of intangibles in progress were determined to no longer meet the definition of an asset and were written off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

(a) Impairment tests for goodwill

As at 31 July 2019 management has determined that there is no impairment of any cash-generating units containing goodwill.

For the purposes of goodwill impairment testing, goodwill has been allocated to the Auckland blending and canning cash generating unit. The recoverable amount of the cash generating unit has been determined based on value in use.

The discounted cash flow valuation was calculated using projected 5 year future cash flows based on a Board approved business plan. Based on projected future cash flows, management has determined that the recoverable amount of the Auckland blending and canning cash generating unit exceeds its carrying value and therefore goodwill would not be impaired. The business plan was modelled using the following key assumptions:

- Forecast canned infant formula demand and assumed production volumes and shifts over the assessment period.
- Revenue per metric tonne based on external pricing information.
- Estimated operating costs based on production volumes and shifts over the assessment period.
- Estimated terminal growth rate of 0%.
- An allowance of 2.5% per annum for increases in expenses.
- Post-tax discount rate of 8.5% based on current capital structure and cost of debt to derive a weighted average cost of capital.

The Board believes that in severe downside forecast canned infant formula demand scenarios, or any reasonably possible change in other key assumptions used in the discounted cash flow valuation, would not cause the carrying amount to exceed its recoverable amount.

DEBT AND EQUITY

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

This section includes the following notes:

10 Finance income and expenses	81
11 Loans and borrowings	82
12 Share capital	83
13 Share based payments	84
14 Reserves and retained earnings	85

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

10 FINANCE INCOME AND EXPENSES

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

	2019	2018
	\$'000	\$'000
Interest income on bank deposits	1,232	1,023
Total finance income	1,232	1,023
Interest and facility fees	(16,345)	(9,627)
Capitalised borrowing cost	7,526	658
Total finance costs	(8,819)	(8,969)
Loss on derecognition of financial assets	(1,842)	(1,329)
Net finance costs	(9,429)	(9,275)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

11 LOANS AND BORROWINGS

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

	2019	2018
	\$'000	\$'000
Current liabilities		
Working capital facility NZD	47,240	–
Working capital facility USD	52,386	49,321
	99,626	49,321
Non-current liabilities		
Revolving credit facility	250,000	97,700
Loan facility fees	(518)	(635)
Total non-current liabilities	249,482	97,065

(a) Terms of loans and borrowings

The bank loans and working capital facility within Synlait Milk Limited are secured under the terms of the General Security Deed dated 26 June 2013, by which all present and future property is secured to the ANZ Bank and Bank of New Zealand.

The Group facilities include:

- A secured revolving credit facility (Facility A) of \$150m maturing 1 August 2021, with amortisation of \$30m on 1 August 2020.
- A secured revolving credit facility (Facility B) of \$100m maturing 1 August 2023.
- A secured working capital facility of NZD \$225m that matures on 20 August 2019.

The Group recently finalised an additional revolving credit facility of \$60m that matures 1 August 2020 and extended the secured working capital facility of \$225m for a period of twelve months.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group has met all externally imposed capital requirements for the twelve months ended 31 July 2019 and 31 July 2018.

	Nominal Interest rate %	Financial year of maturity	Carrying amount 2019 \$'000	Carrying amount 2018 \$'000
Secured revolving credit facility (Facility A) – ANZ / BNZ	2.55%	2021	150,000	15,000
Secured revolving credit facility (Facility B) – ANZ / BNZ	2.65%	2024	100,000	82,700
Secured working capital facility – ANZ / BNZ – USD	3.30%	2020	52,386	49,321
Secured working capital facility – ANZ / BNZ – NZD	2.53%	2020	47,240	–

The nominal interest rate is calculated by adding the BKBM rate for NZD facilities, US LIBOR rate for USD facilities and the applicable margin rate. It excludes line fees and swap costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

12 SHARE CAPITAL

Ordinary shares are classified as equity.

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

	2019	2018	2019	2018
	Shares	Shares	\$'000	\$'000
(a) Share capital				
Ordinary shares				
On issue at beginning of period	179,223,028	179,223,028	268,074	268,074
On issue at end of period	179,223,028	179,223,028	268,074	268,074

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

(b) Ordinary shares

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

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

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

(c) Capital risk management

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

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

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

The Group's policies in respect of capital management and allocation are reviewed by the Board of Directors.

(d) Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

13 SHARE BASED PAYMENTS

(a) LTI share scheme

Under the LTI share scheme, participants receive Performance Share Rights (“PSRs”) which can be converted into Ordinary Shares in Synlait Milk Limited in three financial years’ time provided performance hurdles have been met during the assessment period (the date of award of the PSRs plus three financial years). The number of PSRs granted to participants is set at one quarter of their base salary divided by Synlait Milk Limited’s share price on the date of the award of the PSRs.

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

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

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

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

The table below sets out the number of LTI share scheme PSR’s granted during the year:

	2019	2018
Outstanding 1 August	506,839	253,685
Granted during the year	134,582	253,154
Forfeited during the year	(168,487)	–
	472,934	506,839

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

	2019 PSRs	2018 PSRs
Risk free rate	1.97%	2.54%
Volatility	35.84%	28.53%
Share price at entitlement date	10.81	4.53
Share price at grant date	8.66	7.65
Total value of options granted at grant date (\$000’s)	559	1,779

The estimated value of the PSRs is amortised over the vesting period from grant date.

(b) Expenses arising from share based payment transactions

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

	2019	2018
	\$’000	\$’000
Expenses for equity settled share based payment transactions	644	588

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

14 RESERVES AND RETAINED EARNINGS

(a) Retained earnings

Movements in retained earnings were as follows:

	Group	
	2019	2018
	\$’000	\$’000
Balance 1 August	166,536	91,984
Net profit for the year	82,239	74,553
Balance 31 July	248,775	166,537

(b) Nature and purpose of reserves

(i) Cash flow hedge reserve

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

(ii) Employee benefits reserve

The employee benefits reserve of \$0.7m is comprised of the cumulative share based payment expense for share options not yet vested of \$0.6m (FY18: \$0.6m), and the related movement in deferred tax asset of \$0.1m (FY18: \$0.3m).

(c) Dividends

No dividends were declared by the Group during the year.

FINANCIAL RISK MANAGEMENT

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

15 Financial risk management	87
16 Financial instruments	93

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

15 FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

Foreign exchange risk

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

The Group has a Board approved treasury policy that sets the parameters under which foreign exchange cover is to be taken. As foreign exchange contracts are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates. As at 31 July 2019, the Group has hedged 50% of its exposure to foreign exchange risk on sales, and 21% of its exposure to foreign exchange risk on payables, over the following 2 years.

Interest rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

Commodity Price Risk
Dairy commodity price risk is the risk of volatility in profit and loss from the movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on the Groups earnings and milk price by eroding selling prices and increasing input costs.
The Group primarily manages its dairy commodity price risk by:
<div><div>–</div><div>Determining the most appropriate mix of products to manufacture based on the milk supply curve and global demand for dairy products;</div></div> <div><div>–</div><div>Governing the length and terms of sales contracts so that sales revenue is reflective of current market prices and is, where appropriate, linked to Global Dairy Trade (GDT) prices; and</div></div> <div><div>–</div><div>Using commodity derivative contracts to manage sales price volatility caused by fluctuations in GDT prices.</div></div>
The Group has a Board approved treasury policy that sets the parameters under which commodity cover is to be taken, including permitted derivative types and volume limits.
Credit risk
The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. Management has a credit policy in place under which each new customer is rigorously analysed for credit worthiness. Investments and derivatives are only entered into with reputable financial banks.
The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains all the late payment risk in the derecognition of financial assets, as described in note 4.
Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.
Liquidity risk
Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium term facility requirements.
The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

Market risk

(i) Foreign exchange risk

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

	2019				2018			
	USD	AUD	EUR	RMB	USD	AUD	EUR	RMB
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	34,462	36	–	18	31,222	–	–	–
Trade payables	(363)	–	(11)	–	(139)	(3)	–	–
Working capital facility	(34,300)	–	–	–	(33,647)	–	–	–

The Group's exposure to foreign currency in the period ended 31 July 2019 is limited to its sales of dairy products, purchases of raw materials for production and capital equipment purchases. As at the reporting date, the Group had the following foreign exchange derivative instruments outstanding in respect of future sales and purchases transactions:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	2019		2018	
	Weighted average exchange rate	Nominal balance USD'000	Weighted average exchange rate	Nominal balance USD'000
Less than 1 year	0.6895	353,150	0.6916	274,800
1 to 2 years	0.6765	160,600	0.7008	210,000
Imports				
Less than 1 year	0.6752	(42,467)	0.7163	(25,531)

(ii) Interest rate risk

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

	2019		2018	
	Weighted average interest rate	Nominal Balance \$'000	Weighted average interest rate	Nominal Balance \$'000
Less than 1 year	4.23%	79,500	4.45%	79,000
1 to 2 years	4.40%	45,000	4.23%	79,500
2 to 3 years	4.36%	40,000	4.40%	45,000
3 to 4 years	4.20%	30,000	4.36%	40,000
4 to 5 years	4.20%	30,000	4.20%	30,000
5 to 6 years	3.56%	10,000	4.20%	30,000
6 to 7 years	–	–	3.56%	10,000

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

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

(iii) Sensitivity analysis

The following table summarises the sensitivity of the Group's profit and equity to interest rate risk and foreign exchange risk.

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

	2019		2018	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
1% increase in interest rate	–	2,450	–	3,032
1% decrease in interest rate	–	(2,560)	–	(3,184)
5% increase in exchange rate	–	33,312	–	30,349
5% decrease in exchange rate	–	(36,811)	–	(33,878)

(iv) Commodity derivatives

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

Liquidity risk

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

	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 July 2019					
Working capital facility	99,626	–	–	–	99,626
Trade and other payables	216,020	–	–	–	216,020
Loans and borrowings	–	149,580	99,902	–	249,482
Derivative financial instruments	27,960	6,569	3,201	916	38,647
Total	343,606	156,149	103,103	916	603,775
At 31 July 2018					
Working capital facility	49,321	–	–	–	49,321
Trade and other payables	152,199	–	–	–	152,199
Loans and borrowings	–	14,393	82,672	–	97,065
Derivative financial instruments	7,783	7,874	2,694	246	18,598
Total	209,303	22,267	85,366	246	317,183

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

Cash flow hedges

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

Hedging instruments used in cash flow hedges	Nominal amount	Carrying amount		Hedge accounted amounts in cash flow reserve		Total cash flow hedge reserve
	\$'000	Assets NZD'000	Liabilities NZD'000	Intrinsic value NZD'000	Time value NZD'000	NZD'000
31 July 2019						
Foreign exchange risk						
Foreign exchange contracts (USD)	471,283	2,320	31,531	(29,211)	–	(29,211)
Interest rate risk						
Interest rate swaps	79,500	–	7,116	(7,116)	–	(7,116)
Commodity price risk						
Dairy commodity futures (NZD)	5,307	83	–	83	–	8
Total		2,403	38,647	(36,244)	–	(36,319)
31 July 2018						
Foreign exchange risk						
Foreign exchange contracts (USD)	429,269	3,125	12,633	(9,508)	–	(9,508)
Foreign currency collars	30,000	273	427	(67)	(87)	(154)
Interest rate risk						
Interest rate swaps	108,500	–	5,538	(5,538)	–	(5,538)
Commodity price risk						
Dairy commodity futures (NZD)	15,286	301	–	301	–	204
Total		3,699	18,598	(14,812)	(87)	(14,995)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

Effects of cash flow hedges on statement of comprehensive income	2019		2018	
	Hedging gains / (losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Hedging gains / (losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss
	\$'000	\$'000	\$'000	\$'000
Foreign exchange risk				
Forward exchange contracts	(19,703)	–	(34,359)	–
Foreign currency collars	154	–	(4,622)	–
Interest rate risk				
Interest rate swaps	(1,578)	–	616	–
Commodity price risk				
Dairy commodity futures	(196)	–	284	–
Total	(21,323)	–	(38,081)	–

Impact to reserves in equity

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

Hedge reserves	2019 \$'000	2018 \$'000
Opening balance	(10,797)	16,621
Movements attributable to cashflow hedges:		
Change in value of effective derivative hedging instruments	(29,589)	(35,535)
Reclassifications to the income statement as hedged transactions occurred	8,266	(2,546)
Tax expense / (credit)	5,971	10,663
Total movement	(15,352)	(27,418)
Closing balance	(26,149)	(10,797)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

16 FINANCIAL INSTRUMENTS

CLASSIFICATION

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

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

(i) Financial instruments at amortised cost

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

The Group currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable and other receivables as financial assets measured at amortised cost.

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

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

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

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

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

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

<p>FAIR VALUE ESTIMATION</p> <p>The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.</p> <p>As the Group’s financial instruments are not traded in active markets their fair value is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.</p> <p>All financial instruments held at fair value are included in level 2 of the valuation hierarchy as defined in NZ IFRS 13.</p> <p>The fair value of foreign currency forward contracts is determined using forward exchange rates at balance date. The fair value of foreign exchange option agreements is determined using forward exchange rates at balance date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date. The fair value of commodity derivatives is determined using NZX settlement prices.</p> <p>OFFSETTING FINANCIAL INSTRUMENTS</p> <p>Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are master netting agreements in place for derivative financial instruments held, however these instruments have not been offset in the statement of financial position as they do not currently meet the criteria for offset.</p> <p>IMPAIRMENT OF FINANCIAL ASSETS</p> <p>The Group has adopted the expected credit loss (“ECL”) model. For further detail please refer to Note 4. The Group assesses whether there is evidence that a financial asset or group of financial assets is impaired, with the exception of assets that are fair valued through profit or loss. A financial asset or a group of financial assets can be impaired and the impairment losses are recognised in accordance with IFRS 9 (2014). The Group continues to assess if historical and future objective evidence of impairment exists after the initial recognition of the asset.</p> <p>DERIVATIVE FINANCIAL INSTRUMENTS – HEDGE ACCOUNTING</p> <p>The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk, and commodity price risk including forward exchange contracts, interest rate swaps, and commodity derivative contracts.</p> <p>Derivatives are initially recognised at fair value at the date the derivative contact is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.</p> <p>The full fair value of a hedging derivative is classified as a current asset or liability when the remaining term of the hedged item is 12 months or less from balance date, or when cash flows arising from the hedged item will occur within 12 months or less from balance date. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and no cash flows will occur within 12 months of balance date.</p>	
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

<p>(i) Hedge accounting</p> <p>The Group designates certain hedging instruments in respect of foreign currency risk and interest rate risk as cash flow hedges. Hedges of risk on firm commitments and highly probably transactions are accounted for as cash flow hedges.</p> <p>At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.</p> <p>(ii) Cash flow hedge</p> <p>The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion and reclassification adjustments are recognised immediately in profit or loss, included in revenue for foreign exchange instruments and commodity price derivatives, and finance costs for interest rate swaps.</p> <p>Amounts recognised in the hedging reserve are classified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.</p> <p>Hedge accounting is discontinued when the Group revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is immediately recorded in profit or loss.</p> <p>The Group separates the intrinsic value and time value of vanilla option and collar contracts, designating only the intrinsic value as the hedging instrument. The time value, including any gains or losses, is recognised in other comprehensive income until the hedged transaction occurs and is recognised in profit or loss.</p> <p>(iii) Derivatives that do not qualify for hedge accounting</p> <p>Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.</p>	
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

(a) Financial instruments by category

Financial assets	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
	\$'000	\$'000	\$'000	\$'000
At 31 July 2019				
Cash and cash equivalents	16,007	–	–	16,007
Derivative financial instruments	–	–	2,403	2,403
Trade and other receivables	61,933	–	–	61,933
Investments in equity	–	110	–	110
Total	77,940	110	2,403	80,453
At 31 July 2018				
Cash and cash equivalents	32,129	–	–	32,129
Derivative financial instruments	–	–	3,699	3,699
Trade and other receivables	47,145	–	–	47,145
Investments in equity	–	690	–	690
Total	79,274	690	3,699	83,663
Financial liabilities	At amortised cost	At fair value through profit or loss	Total	
	\$'000	\$'000	\$'000	
At 31 July 2019				
Derivative financial instruments	–	38,647	38,647	
Working capital facility	99,626	–	99,626	
Trade and other payables	216,020	–	216,020	
Borrowings	249,482	–	249,482	
Total	565,128	38,647	603,775	
At 31 July 2018				
Derivative financial instruments	–	18,598	18,598	
Working capital facility	49,321	–	49,321	
Trade and other payables	152,199	–	152,199	
Borrowings	97,065	–	97,065	
Total	298,585	18,598	317,183	

All derivative financial instruments are designated in effective hedge relationships.

For instruments held at amortised cost, carrying amount is considered a reasonable approximation for fair value.

OTHER

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

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

17 INCOME TAX

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

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

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

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

New Zealand tax consolidated group

Synlait Milk Limited and its wholly-owned New Zealand controlled entity, Synlait Milk Finance Limited, form a tax consolidated group. The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited are not members of the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	2019	2018
	\$'000	\$'000
(a) Income tax expense		
Current tax expense:		
Current tax on profits for the year	(29,220)	(27,358)
Current tax on prior period adjustments	721	(54)
	(28,499)	(27,412)
Deferred tax expense:		
Temporary differences	(3,433)	(1,842)
Tax losses to carry forward	17	111
Adjustment to prior year tax losses brought forward	5	–
Other prior year adjustments	(930)	(114)
Total deferred tax	(4,341)	(1,845)
Income tax (expense) / benefit	(32,840)	(29,257)
(b) Reconciliation of effective tax rate		
Profit before income tax	115,079	103,810
Income tax using the Group's domestic tax rate – 28%	(32,222)	(29,067)
Other non-deductible costs	(533)	(22)
	(32,755)	(29,089)
Adjustment to prior year tax losses brought forward	(5)	–
Other prior year adjustments	(80)	(168)
	(85)	(168)
Income tax expense	(32,840)	(29,257)
(c) Imputation credits		
Imputation credits available directly and indirectly to the shareholders of the Group	83,219	53,079

(d) Income tax recognised in other comprehensive income

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

	Before tax	Tax (expense) / benefit	After tax
	\$'000	\$'000	\$'000
31 July 2019			
Cash flow hedges	(21,323)	5,971	(15,352)
Other comprehensive income	(21,323)	5,971	(15,352)
31 July 2018			
Cash flow hedges	(38,081)	10,663	(27,418)
Other comprehensive income	(38,081)	10,663	(27,418)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

	2019	2018
	\$'000	\$'000
(e) Deferred taxation		
The balance comprises temporary differences attributable to:		
Assets		
Other items	2,141	1,260
Tax losses carried forward	112	294
Derivatives	10,170	4,199
Other items	(13)	27
Total deferred tax assets	12,410	5,780
Property, plant and equipment	(35,061)	(30,144)
Derivatives	-	-
Other items	-	-
Total deferred tax liabilities	(35,061)	(30,144)
Total deferred tax	(22,651)	(24,364)

Movements – Group	Balance 1 Aug 2017	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Prior year adjustment	Balance 31 July 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	(28,222)	(1,862)	-	-	(60)	(30,145)
Derivatives	(6,464)	-	10,663	-	-	4,199
Other items	1,015	(101)	-	305	68	1,287
Tax losses carried forward	184	111	-	-	-	295
Total	(33,487)	(1,853)	10,663	305	8	(24,364)
	Balance 1 Aug 2018	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Prior year adjustment	Balance 31 July 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	(30,145)	(4,165)	-	-	(751)	(35,061)
Derivatives	4,199	-	5,971	-	-	10,170
Other items	1,287	603	-	84	155	2,128
Tax losses carried forward	295	(178)	-	-	(5)	112
Total	(24,364)	(3,740)	5,971	84	(602)	(22,651)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

18 BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The cost of the acquisition is measured at fair value, which is calculated as the sum of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group, at acquisition date, in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of acquisition or up to the date of disposal as appropriate.

On 1 August 2019, the Group completed the acquisition of selected assets and liabilities of Talbot Forest Cheese Ltd. (“TFC”) for total consideration of \$37.8m, including inventory. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. On the acquisition date, the Group paid \$18.8m. Of the remaining consideration payable, \$18.1m was applied against an intercompany loan owed by the vendor to the Group and \$0.9m has been retained and will be payable upon completion of pre-completion works and plant acceptance tests. The acquisition will be accounted for in accordance with IFRS 3, Business Combinations.

The acquisition of TFC includes a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products with an annual production capacity of 12,000MT, along with a consumer cheese brand. The acquisition excludes the Talbot Forest Cheese artisan factory in Geraldine, New Zealand. Whilst this transaction was not completed in FY19 and is not reflected in the financial statements, a business combinations note has been included in the financial statements on a provisional basis pursuant with NZ IFRS 3.

The following summarizes the consideration paid for TFC and amounts of assets acquired and liabilities assumed recognised at the acquisition date:

	August 1, 2019
	\$'000
Current Assets	
Inventory	2,173
Non-current Assets	
Property, plant and equipment	12,745
Land and buildings	5,960
Brand	1,700
Total identifiable net assets at fair value	22,578
Goodwill arising on acquisition	15,173
Total consideration	37,751
Less: Debt and accrued interest payable owed to the Group extinguished upon acquisition	(18,076)
Less: Retentions and other payables	(885)
Net cash outflow on acquisition	18,790

The land, buildings, plant and equipment, inventory, and brand have been recognised at acquisition date fair values based on third party valuations.

The brand has been recognised at acquisition date fair value. The fair value was determined based on a valuation performed on acquisition date. The brand was valued using the relief from royalty method and key assumptions used in the valuation of the brand include the forecast earnings growth rate, the royalty rate and the discount rate.

Goodwill arose in the acquisition of the business operations of TFC because the cost of acquisition reflected the benefit of future cash flows above the current fair market value of the assets acquired, and the synergies and future market benefits expected to be obtained from the cheese manufacturing plant and related brand.

Acquisition costs of \$0.3m have been recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

19 OTHER INVESTMENTS

INVESTMENTS IN ASSOCIATES

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

	2019	2018
	\$'000	\$'000
Equity securities	110	110
Investment in associates	–	580
Total other investments	110	690

Synlait Milk Limited held interests in the following entities at the end of the reporting period:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2019	2018
			%	%
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
The New Zealand Dairy Company Limited (Subsidiary)	New Zealand	Ordinary	100	100
Eighty Nine Richard Pearse Drive Limited (Subsidiary)	New Zealand	Ordinary	100	100
Sichuan New Hope Nutritional Foods Co. Ltd (Associate)	China	Ordinary	25	25
Synlait Business Consulting (Shanghai) Limited	China	Ordinary	100	–

Associates

In January 2015, the Group acquired 25% of the shares of New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the “Akara” and “e-Akara” infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited.

The investment is not individually significant to the Group. The Group's share of this equity accounted investment is as follows:

	2019	2018
	\$'000	\$'000
(Loss)/Gain from continuing operations	(580)	426
	(580)	426

The carrying value of the investment in New Hope Nutritionals was nil at balance date (2018: \$0.6m):

	2019	2018
	\$'000	\$'000
Opening balance	580	154
Investment cost	–	–
Share of (losses)/gains	(580)	426
	–	580

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

20 RELATED PARTY TRANSACTIONS

Parent entity		
Bright Dairy Holding Limited hold 39.04% of the shares issued by Synlait Milk Limited (2018: 39.04%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the Peoples' Republic of China.		
Other related entities		
In June 2013, a subsidiary of Synlait Milk Limited, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.		
In January 2015, the Group acquired 25% of the shares of New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the “Akara” and “e-Akara” infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited.		
In May 2017, Synlait Milk Limited acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and canning plant in Auckland. Eighty Nine Richard Pearse Drive Limited owns the land and buildings at which the Auckland blending and canning plant is being constructed. Eighty Nine Richard Pearse Drive Limited leased its land and buildings to The New Zealand Diary Company Limited, and now leases them to Synlait Milk Limited.		
In May 2019, Synlait Business Consulting (Shanghai) Limited was incorporated. The wholly foreign owned entity will be operational from 1 August 2019 and the principal activity of the entity is to provide services to assist Synlait to market products in China.		
Key management and personnel compensation		
Other than their salaries and bonus incentives, there are no other benefits paid or due to directors and executive officers as at 31 July 2019. The total short-term benefits paid to the key management and personnel is set out below.		
	2019	2018
	\$'000	\$'000
Short term benefits	5,773	5,061
Share based payments expenses (note 13)	644	588
During the year the Group has continually invested in its senior leadership team. The senior leadership team has 13 members for the year ended 31 July 2019 (31 July 2018:14).		
(a) Other transactions with key management personnel or entities related to them		
Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.		
(i) Loans to directors		
There were no loans to directors issued during the period ended 31 July 2019 (2018: \$nil).		
(ii) Other transactions and balances		
Directors of Synlait Milk Limited control 3.0% of the voting shares of the company at balance date (2018: 3.5%)		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

(b) Transactions with other related parties

	2019	2018
	\$'000	\$'000
Purchase of goods and services		
Bright Dairy and Food Co Ltd – Directors fees	196	176
Sale of goods and services		
Bright Dairy and Food Co Ltd – Sale of milk powder products	6,464	584
Bright Dairy and Food Co Ltd – Reimbursement of costs	(91)	(150)
Sichuan New Hope Nutritional Foods Co. Ltd – Sale of milk powder products	–	7,301

(c) Outstanding balances

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

	2019	2018
	\$'000	\$'000
Current receivables (sales of goods and services)		
Bright Dairy and Food Co Ltd – Sale of milk powder products	1	1
Bright Dairy and Food Co Ltd – Reimbursement of costs	(233)	(129)
Sichuan New Hope Nutritionals Ltd – Sale of milk powder products	224	217

21 CONTINGENCIES

The Group is currently involved in a dispute regarding restrictive covenants attached to land it purchased in Pokeno.

In February 2018, the Group announced the conditional purchase of 28 hectares of land in Pokeno to establish its second nutritional powder manufacturing site. The land was subject to restrictive covenants limiting the development of the land that the vendor was required to remove. The vendor applied to the High Court to have the restrictive covenants removed.

In November 2018, the High Court removed the restrictive covenants. The High Court also declined to award compensation to the covenant holder on the basis that they would not suffer any loss due to the extinguishment of the covenants as they were of little practical value. The Group took legal title to the land following the High Court's decision. The covenant holder appealed to the Court of Appeal which in May 2019 overturned the High Court's decision.

In June 2019, the Group filed an application for leave to appeal to the Supreme Court to have the Court of Appeal's decision overturned. In August 2019, the Supreme Court advised that there will be an oral hearing prior to a decision on whether the Group will be granted leave to appeal. The oral hearing is set for 21 October 2019.

There are a range of possible outcomes for the Group including a negotiated settlement between the parties. Given the range of possible outcomes the Group is not able to reliably estimate any potential liability.

No other significant contingent liabilities are outstanding at balance date (2018: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

22 COMMITMENTS

(a) Capital commitments

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

	2019	2018
	\$'000	\$'000
Pokeno processing plant	49,455	163,824
Liquid dairy packaging facility	16,916	74,040
Separator capacity upgrade	5,820	–
Drystore 4	2,523	–
Lactoferrin capacity expansion	–	9,000
Total	74,714	246,864

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

(b) Operating lease commitments – group as lessee

LEASES

Leases on terms where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments with a corresponding liability to the lessor included in the statement of financial position as a finance lease obligation. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction in the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern over which economic benefits from leased assets are consumed.

	2019	2018
	\$'000	\$'000
Less than one year	3,468	1,416
Between one and five years	4,897	5,164
Greater than five years	537	1,612
Total	8,902	8,192

The operating leases relate to the leasing of warehouse and office space, vehicles and printers. All terms are reviewed on a regular basis. All leases are subject to potential renewal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2019

23 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 1 August 2019, the Group completed the acquisition of Talbot Forest Cheese. For further information, please refer to Note 18.

There were no further events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

24 OTHER ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and cash held on trust by Tax Management New Zealand Ltd.

Goods and Services Tax (GST)

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

INDEPENDENT AUDITOR’S REPORT



OPINION

We have audited the consolidated financial statements of Synlait Milk Limited and its subsidiaries (the ‘Group’ or ‘Synlait’), which comprise the consolidated statement of financial position as at 31 July 2019, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 54 to 106, present fairly, in all material respects, the consolidated financial position of the Group as at 31 July 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and International Financial Reporting Standards (‘IFRS’).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (‘ISAs’) and International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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

Other than in our capacity as auditor and the provision of other assurance and taxation compliance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

AUDITOR’S REPORT CONTINUED

AUDIT MATERIALITY	<p>We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the ‘quantitative’ materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the ‘qualitative’ materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>We determined materiality for the Group financial statements as a whole to be \$5,750,000.</p>
KEY AUDIT MATTERS	<p>Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.</p>

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Sales to international customers	<p>The Group’s revenue primarily consists of the sale of dairy products which totalled \$1,024 million for the year ending 31 July 2019. As outlined in note 1 of the consolidated financial statements approximately 69% of sales are to customers outside of New Zealand.</p> <p>The contract terms for international customers, which determine the point at which control of the goods is transferred and revenue should be recognised vary by customer.</p> <p>The application of the incorrect terms to revenue recognition for a contract for an international customer may result in revenue being recorded in the incorrect period.</p> <p>We have included the application of the correct contract terms to revenue recognition for international customers as a key audit matter due to the significance of the revenue balance to the Group and the potential impact that would arise from revenue being recorded in the incorrect period.</p>
	<p>We have evaluated the application of sale contract terms for international customers to recognise revenue by performing the following:</p> <ul style="list-style-type: none">- We obtained an understanding of and evaluated the design and implementation of internal controls used by the Group to ensure that the correct sale contract terms for international customers are used to recognise revenue at the appropriate time.- For a sample of sales recognised for international customers for the period prior to and after 31 July 2019 we obtained the specific documentation that outlined the sales and delivery terms. We read this documentation, noted the specific terms and conditions and checked that revenue was recognised at the appropriate time in accordance with those conditions. <p>We have found that revenue has been appropriately recognised in the correct years.</p>

AUDITOR’S REPORT CONTINUED

Pōkeno Land Legal Dispute	
<p>In February 2018 the Group announced the conditional purchase of 28 hectares of land in Pōkeno to establish its second nutritional powder manufacturing site.</p> <p>In November 2018, the High Court removed the covenants which would have hindered development of the land. The Group took legal title to the land following the High Court’s decision.</p> <p>In May 2019 the Court of Appeal overturned the High Court decision to remove the covenants.</p> <p>The Group continues to be involved in legal proceedings and has filed an application for leave to appeal to the Supreme Court to have the Court of Appeal’s decision overturned.</p> <p>The disclosure about and explanations of the legal dispute are contained in note 21 of the notes to the consolidated financial statements.</p> <p>We have included the Pōkeno legal dispute as a key audit matter due to the level of judgement and uncertainty in relation to the legal dispute and the range of possible outcomes.</p>	<p>We have evaluated the appropriateness of the accounting treatment, assessment of the potential outcomes of the proceedings and the accounting presentation of the legal dispute by performing the following procedures:</p> <ul style="list-style-type: none">- Reading the High Court and Court of Appeal judgements relating to the legal dispute;- Discussing the matters with the Group’s senior management including internal legal counsel;- Discussing the matters with external counsel representing the Group and obtaining a legal confirmation letter; and- Challenging management’s assessment of the potential outcomes of proceedings and the appropriateness of treating the legal dispute as a contingent liability in accordance with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets. <p>We have found that the legal dispute has been appropriately disclosed as a contingent liability within note 21 to the notes to the consolidated financial statements.</p>

OTHER INFORMATION	<p>The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.</p> <p>Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.</p>
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AUDITOR’S REPORT CONTINUED

DIRECTORS’ RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS	<p>The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.</p>
AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS	<p>Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.</p> <p>A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board’s website at:</p> <p>www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1</p> <p>This description forms part of our auditor’s report.</p>
RESTRICTION ON USE	<p>This report is made solely to the Company’s shareholders, as a body. Our audit has been undertaken so that we might state to the Company’s shareholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company’s shareholders as a body, for our audit work, for this report, or for the opinions we have formed.</p>

Deloitte Limited

Andrew Dick, Partner
For Deloitte Limited
Auckland, New Zealand
11 September 2019

STATUTORY
INFORMATION

STATUTORY INFORMATION

1 BUSINESS OPERATIONS

Synlait is an innovative, pioneering New Zealand-based company that is shifting perceptions and driving value through new thinking, and new attitudes. We combine expert farming with state-of-the-art processing to produce a range of nutritional milk products for our global customers that provide genuine benefits for human health and wellbeing.

Our company was born disruptive. It is this spirit that has driven our success. We’re applying that attitude to sustainability – ensuring that looking after people and protecting our planet underpins all we do.

The company’s business underwent change during the year as we executed our strategy, with intentional investments made as part of our next growth phase. These included the completion of the advanced liquid dairy packaging facility, now servicing Foodstuffs South Island, its inaugural customer, and the building of the second infant processing facility at Pokeno.

In May 2019 we established a subsidiary in China, Synlait Consulting (Shanghai) Limited (Synlait China). Synlait China’s activities are limited to the provision of consulting services. It will assist us with local knowledge on doing business in China and enable us to better support our customers.

Subsequent to our balance date (on 1 August 2019), Synlait completed the acquisition of the business and selected assets of Talbot Forest Cheese including its Temuka site and its consumer cheese brand (Talbot Forest Cheese). This business is now owned and operated by a second new subsidiary, Synlait Foods (Talbot Forest) Limited.

2 DIRECTORS

Synlait’s Directors as at 31 July 2019 are the same Directors profiled on page 28 of this report. Directors of Synlait’s subsidiaries are as follows:

- **Synlait Milk Finance Limited:** Bill Roest, Graeme Milne ONZM, Dr John Penno, Min Ben, Qikai Lu, Hon. Ruth Richardson, Sam Knowles and Sihang Yang
- **The New Zealand Dairy Company Limited:** Graeme Milne and Nigel Greenwood
- **Eighty Nine Richard Pearse Drive Limited:** Graeme Milne and Nigel Greenwood
- **Synlait Consulting (Shanghai) Limited:** Deborah Marris, Martijn Jager and Nigel Greenwood
- **Synlait Foods (Talbot Forest) Limited:** Leon Clement and Nigel Greenwood

3 DIRECTORS’ INTERESTS

The Directors of Synlait and its subsidiaries declared the interests described below during the year to 31 July 2019 to meet their obligations under the section 140(2) of the Companies Act 1993. They are recorded in the Interests Register of the relevant company:

Directors’ Interests	
Bill Roest	Graeme Milne ONZM
Director Synlait Milk Limited	Chair Synlait Milk Limited
Director Synlait Milk Finance Limited	Chair Synlait Milk Finance Limited
Director Housing Foundation Limited	Chair Eighty Nine Richard Pearse Drive
Director Metro Performance Glass Limited	Chair The New Zealand Dairy Company Limited
Independent Chair of the Audit Committee for Fisher & Paykel Appliances Limited	Chair Terracare Fertilisers Limited
Trustee New Zealand Housing Foundation	Director Alliance Group Limited
Trustee WJ & IJ Family Trust	Director NZP Holdings Limited
Shareholder in Synlait Milk Limited	Director New Zealand Pharmaceuticals Limited
Receipt of Directors’ Fees from Synlait Milk Limited at approved rate	Director Nyriad Limited
Insurance cover arranged by Synlait Milk Limited	Director Nyriad Nominee Limited
Deed of Indemnity and Access from Synlait Milk Limited	Chair of PF Olsen Limited
	Chair PF Olsen Group Ltd
	Chair Advisory Board Pro-Form Limited

STATUTORY INFORMATION CONTINUED

Directors’ Interests (continued)	
Hon. Ruth Richardson	Graeme Milne ONZM (continued)
Director Synlait Milk Limited	Chair Advisory Board Rimanui Farms Limited
Director Synlait Milk Finance Limited	Council member Waikato University
Director Ruth Richardson (NZ) Limited	Trustee Rockhaven Trust
Chair SYFT Technologies Limited (retired 20 August 2019)	Partner GR & JA Milne
Chair The New Zealand Merino Company Limited	Shareholder in Synlait Milk Limited
Director Bank of China (NZ) Limited	Receipt of Directors’ Fees from Synlait Milk Limited at approved rate
Chair Kula Fund Advisory Committee	Insurance cover arranged by Synlait Milk Limited
Shareholder in Synlait Milk Limited	Deed of Indemnity and Access from Synlait Milk Limited
Receipt of Directors’ Fees from Synlait Milk Limited at approved rate	Sam Knowles Director
Insurance cover arranged by Synlait Milk Limited	Director Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited	Director Synlait Milk Finance Limited
Dr. John Penno	Director Trustpower Limited
Board Appointed Director Synlait Milk Limited	Director Rangatira Limited
Director Synlait Milk Finance Limited	Director Fire Security Services 2016 Limited
Director Sichuan New Hope Nutritional Foods Co., Limited	Director Umajin Limited
Director Okuora Holdings Limited	Chairman OnBrand Limited
Chair The Pure Food Co Limited	Chairman Adminis Limited
Director Leafit Foods Limited	Director Magritek Limited
Director Thorndale Dairies Limited	Director Com Investments Limited
Trustee John Penno Trust	Director Growthcom Limited
Shareholder in Okuora Holdings Limited	Director Habourside Rentals Limited
Shareholder Leafit Foods Limited	Director of Montoux Limited
Shareholder in Thorndale Dairies Limited	Trustee Ruby Family Trust
Shareholder in Synlait Milk Limited	Trustee World Wildlife Fund NZ
Chair of Fresh Water Leaders Group reporting to Ministers Parker and O’Connor	Trustee Com Trust
Receipt of Directors’ Fees from Synlait Milk Limited at approved rate	Trustee Ian Samuel Knowles Children’s Trust
Insurance cover arranged by Synlait Milk Limited	Receipt of Directors’ Fees from Synlait Milk Limited at approved rate
Deed of Indemnity and Access from Synlait Milk Limited	Insurance cover arranged by Synlait Milk Limited
Shareholder (through Okuora Holdings Limited) in Signum Limited	Deed of Indemnity and Access from Synlait Milk Limited
Min Ben	Sihang Yang
Director Synlait Milk Limited	Director Synlait Milk Limited
Director Synlait Milk Finance Limited	Director Synlait Milk Finance Limited
Receipt of Directors’ Fees from Synlait Milk Limited at approved rate	Receipt of Directors’ Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited	Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited	Deed of Indemnity and Access from Synlait Milk Limited
Qikai Lu	Deborah Marris
Director Synlait Milk Limited	Director Synlait Consulting (Shanghai) Limited
Director Synlait Milk Finance Limited	Director Primary Collaboration New Zealand Limited
Director Ba’emek Advanced Technologies Limited	Director BFGM Limited
Receipt of Directors’ Fees from Synlait Milk Limited at approved rate	Shareholder BFGM Limited
Insurance cover arranged by Synlait Milk Limited	Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited	Leon Clement
	Director Synlait Foods (Talbot Forest) Limited
	Director POD Farming Limited
	Shareholder POD Farming Limited
	Insurance cover arranged by Synlait Milk Limited

STATUTORY INFORMATION CONTINUED

Directors' Interests (continued)

Martijn Jager Director Synlait Consulting (Shanghai) Limited Insurance cover arranged by Synlait Milk Limited	Nigel Greenwood Director Eighty Nine Richard Pearse Drive Limited Director The New Zealand Dairy Company Limited Director Synlait Foods (Talbot Forest) Limited Insurance cover arranged by Synlait Milk Limited
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No Director requested to disclose or use information in their possession as a Director of Synlait or its subsidiaries that would not otherwise have been available to him or her.

As permitted by section 162 of the Companies Act 1993 and our Constitution, we indemnify and insure Directors and Officers against liability to other parties that may arise in the course of their activities as a Director or Officer. Details of the indemnities and insurance are kept in Synlait's Interests Register. This cover does not apply to any liabilities arising from criminal or reckless acts by our Directors or Officers.

4 DIRECTORS' REMUNERATION

The remuneration and other benefits paid to Synlait's Directors in the year to 31 July 2019 was as approved by shareholders at the last two annual meetings. The annual fee paid to Directors (effective 1 April 2019) is \$85,000 per annum, except for the annual fee of the two committee Chairs, which is \$97,000, and the Chair which is \$169,000 per annum.

The total remuneration and the value of other benefits received by Directors (and past Directors) from Synlait for the year ended 31 July 2019 was as set out in the table below. Fees are not paid to Directors or employees of Synlait for acting as a Director of any of Synlait's subsidiaries.¹

				2019 Total
Director	Class	Position	Retired / Appointed	Remuneration ²
Bill Roest	Independent ³	Audit and Risk Committee Chair		\$93,667
Graeme Milne ONZM	Independent ³	Chair	Retired and reappointed 28 November 2018	\$156,333
Dr John Penno ⁴	Board Appointed	Director	Appointed 28 November 2018 (previously Managing Director)	\$229,889
Min Ben	Bright Appointed ⁵	Director		\$81,667
Qikai Lu	Bright Appointed ⁵	Director		\$81,667
Hon. Ruth Richardson	Bright Appointed ⁵	Currently Director, previously People and Governance Chair		\$91,667
Sam Knowles	Independent ³	Currently People and Governance Chair, previously Director		\$83,667
Sihang Yang	Bright Appointed ⁵	Director		\$81,667

¹Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, Eighty Nine Richard Pearse Drive Limited, Synlait Consulting (Shanghai) Limited and Synlait Foods (Talbot Forest) Limited. Note that the Directors do not receive any additional remuneration or benefits as directors of the subsidiaries.

²From 1 April each year director fees are updated, so these include eight months at the rates approved in 2017 and four months at the new rates approved in 2018.

³Director independence is addressed on page 46

STATUTORY INFORMATION CONTINUED

⁴In the year to 31 July 2019 Dr John Penno received remuneration of \$229,889. This was made up of employee remuneration of \$174,222 for his engagement as Chief Executive Officer and Managing Director (no bonus component) and Director fees of \$55,667 for the period since 27 November 2018 when he was appointed as Board Appointed Director.

Dr John Penno was a participant of the company's long-term incentive scheme in 2017 and 2018. He was granted 70,154 performance share rights under the scheme in the year ended 31 July 2017 and 51,843 performance rights under the scheme in the year ended 31 July 2018. In the year to 31 July 2019 the performance share rights for both years (121,997) were forfeited. Details of the executive long term incentive scheme are disclosed on page 49.

⁵Directors have been appointed by Bright Dairy Limited, owners of 39.04% of Synlait as at 31 July 2019, under Synlait's constitution in conjunction with a waiver granted by NZX Regulation on 24 June 2013

5 EMPLOYEE REMUNERATION

During the year ended 31 July 2019, 211 employees and former employees received individual remuneration and other benefits in their capacity as employees of Synlait Milk Limited or any of its five subsidiaries the value of which was \$100,000 or more. Remuneration and other benefits are shown in the table below in brackets of \$10,000.

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

Remuneration range	Number of employees FY19
\$100,000 – \$109,999	73
\$110,000 – \$119,999	40
\$120,000 – \$129,999	11
\$130,000 – \$139,999	12
\$140,000 – \$149,999	13
\$150,000 – \$159,999	10
\$160,000 – \$169,999	7
\$170,000 – \$179,999	10
\$180,000 – \$189,999	4
\$190,000 – \$199,999	6
\$200,000 – \$209,999	6
\$210,000 – \$219,999	3
\$220,000 – \$229,999	1
\$230,000 – \$239,999	1
\$310,000 – \$319,999	1
\$320,000 – \$329,999	1
\$340,000 – \$349,999	2
\$360,000 – \$369,999	2
\$370,000 – \$379,999	1
\$380,000 – \$389,999	1
\$400,000 – \$409,999	2
\$410,000 – \$419,999	1
\$450,000 – \$459,999	1
\$460,000 – \$469,999	1
\$820,000 – \$829,999	1

STATUTORY INFORMATION CONTINUED

6 DONATIONS

Donations made by Synlait and its subsidiaries totalled \$5,500 for the year to 31 July 2019.

7 AUDITORS

We outline key information about our auditors and our audit process, including audit and other fees paid to our auditor in the year to 31 July 2019 on pages 51 to 52.

8 STOCK EXCHANGE LISTINGS

Synlait’s shares have been listed on the Main Board operated by NZX Limited (NZX) since 23 July 2013. We were admitted to the Official List of ASX Limited as a foreign exempt issuer under a compliance listing on 24 November 2016 and trading of our shares on that exchange commenced on 25 November 2016.

As an ASX foreign exempt issuer, we must comply with the NZX Listing Rules (other than as waived by NZX) and are exempt from complying with most of the ASX Listing Rules as set out in ASX Listing Rule 1.15.

9 SHARES ON ISSUE

As at 31 July 2019 there were 179,223,028 ordinary shares in Synlait on issue.

10 20 LARGEST SHAREHOLDERS

Our shareholders with the 20 largest shareholdings in Synlait as at 31 July 2019 were:

Rank	Name	31-Jul-2019	% S/O
1	Bright Dairy Holding Limited	69,968,944	39.04%
2	The a2 Milk Company (NZ) Limited	31,174,646	17.39%
3	John Penno	5,100,000	2.85%
4	Munchkin, Inc.	3,895,000	2.17%
5	Pendal Group Limited	3,613,692	2.02%
6	Ausbil Investment Management Limited	3,135,115	1.75%
7	FIL Investment Management (Australia) Limited	2,989,979	1.67%
8	Eley Griffiths Group Pty. Ltd.	2,775,952	1.55%
9	The Vanguard Group, Inc.	2,524,236	1.41%
10	Retail Investors of Craigs Investment Partners	2,393,198	1.34%
11	Regal Funds Management Pty. Ltd.	1,848,680	1.03%
12	ECP Asset Management Pty Ltd	1,807,354	1.01%
13	New Hope Dairy (HongKong) Trading Co Ltd	1,792,300	1.00%
14	Renaissance Smaller Companies Pty. Ltd.	1,721,352	0.96%
15	Accident Compensation Corporation	1,565,148	0.87%
16	Vanguard Investments Australia Ltd.	1,507,516	0.84%
17	First NZ Capital Custodians Limited (Various Private Investors)	1,442,946	0.81%
18	BlackRock Institutional Trust Company, N.A.	1,089,311	0.61%
19	Paul & Bronwyn Lancaster	1,085,623	0.61%
20	Norges Bank Investment Management (NBIM)	1,019,365	0.57%
Total top 20 holders of ordinary shares		142,450,357	79.48%
Total remaining holders balance		36,772,671	20.52%

STATUTORY INFORMATION CONTINUED

11 SUBSTANTIAL PRODUCT HOLDERS

As required under section 293 of the Financial Markets Conduct Act 2013, the substantial product holders of the company according to Synlait’s records and disclosures made under section 280(1)(b) of the Financial Markets Conduct 2013 Act as at 31 July 2019 were:

Name	Fully paid ordinary shares held by substantial product holder as at 31 July 2019	Percentage of 179,223,028 shares on issue held by substantial product holder as at 31 July 2019
Bright Dairy Holding Limited	69,968,944	39.04%
The a2 Milk Company (NZ) Limited	31,174,646	17.39%

12 HOLDINGS BY DIRECTORS

As at 31 July 2019 Synlait’s Directors had a relevant interest in the following securities issued by Synlait:

Name	Securities held legally or beneficially as at 31 July 2019	Securities held legally or beneficially as at 31 July 2018
Bill Roest	27,750	27,750
Graeme Milne ONZM	72,753	72,753
Dr John Penno	5,100,000	6,120,755
Min Ben	0	0
Qikai Lu	0	0
Hon. Ruth Richardson	56,222	56,222
Sam Knowles	55,000	55,000
Sihang Yang	0	0

13 SPREAD OF SHAREHOLDERS

As at 31 July 2019, our shareholding was spread as follows:

Range	Total holders	Units	% Units
1 - 99	362	18,476	0.01
100 - 199	381	48,703	0.03
200 - 499	619	195,858	0.11
500 - 999	718	478,257	0.27
1,000 - 1,999	1,059	1,353,290	0.76
2,000 - 4,999	1,383	4,061,363	2.27
5,000 - 9,999	582	3,874,980	2.16
10,000 - 49,999	351	6,119,797	3.41
50,000 - 99,999	28	1,902,106	1.06
100,000 - 499,999	34	7,419,165	4.14
500,000 - 999,999	8	6,012,101	3.35
1,000,000 over	17	147,738,932	82.43
Rounding			0.00
Total	5,542	179,223,028	100.00

STATUTORY INFORMATION CONTINUED

14 CREDIT RATING STATUS

Synlait does not have a credit rating.

15 NZX WAIVERS

On 24 June 2013, Synlait was granted waivers from various NZX Listing Rules to allow our Constitution and the composition of our Board to reflect our non-standard governance arrangements. Those waivers were amended on 30 October 2018 to provide for changes to our corporate governance arrangements, and were relied on in the year to 31 July 2019. A summary of those arrangements is on pages 44-45. Copies of these waivers, and other waivers that we have obtained or relied on before 1 August 2018 can be found at: www.synlait.com/investors/. We have not obtained or relied on any other waivers in the year to 31 July 2019.

16 GENDER COMPOSITION OF DIRECTORS AND OFFICERS

Below is a breakdown of the gender composition of Synlait’s Directors and Officers as at 31 July 2019 with the composition as at 31 July 2018 in brackets:

Group	Female	Male	Total
Board	2 (2)	6 (6)	8 (8)
Officers	2 (2)	9 ¹ (8)	11 (10)

¹This figure includes 2 males who are reporting to the Chief Executive Officers temporarily, pending the appointment of a new employee who they will report to.

DIRECTORY

REGISTERED OFFICE

1028 Heslerton Road
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Email: info@synlait.com

AUDITOR

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Email: nzinfo@deloitte.co.nz

SHARE REGISTER

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Private Bag 92119
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159 Hurstmere Rd
Takapuna
Auckland 0622
Freephone (within NZ): 0800 467 335
Telephone: +64 9 488 8777
Email: enquiry@computershare.co.nz

MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your registered details including transactions, please visit www.investorcentre.com/nz

General enquiries can be directed to:
enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

OTHER INFORMATION

Please visit our website: www.synlait.com

Synlait