synlait™
making more from milk

TO:DAY

TO:MORROW

Synlait Milk Limited Annual Report FY18

IN 10 SHORT YEARS, SYNLAIT HAS CHANGED THE DYNAMICS OF MILK IN NEW ZEALAND.
NOW, AS WE EMBARK ON OUR NEXT ERA OF GROWTH, OUR PLAN IS TO EVOLVE HOW WE WORK AND WHAT WE ACHIEVE OVER FIVE KEY AREAS.

5

1: DIVERSIFICATION

YOU'LL SEE US BROADENING OUR APPEAL WITH NEW PRODUCTS THAT TARGET NEW CUSTOMERS IN NEW GEOGRAPHIES.

2: GROWTH

WE'LL CONTINUE TO ACHIEVE STRONG REVENUE GAINS.

3: TALENT

WE'LL BRING NEW PEOPLE INTO SYNLAIT TO PREPARE US FOR OUR FUTURE. WE WILL CONTINUE TO DEVELOP AND GROW EVERYONE IN OUR ORGANISATION.

4: CATEGORIES

WE'LL BUILD ON THE SUCCESS WE'VE ACHIEVED IN INFANT AND INGREDIENTS, AND CONTINUE TO INVEST IN EVERYDAY DAIRY AND ADULT NUTRITION.

5: SUSTAINABILITY

YOU'LL SEE US MAKE A REAL DIFFERENCE AS WE GROW AND CONTRIBUTE TO A SUSTAINABLE FUTURE FOR NEW ZEALAND, SO PEOPLE, LAND AND COMMUNITIES THRIVE.

CONTENTS

FY18 HIGHLIGHTS

INFANT NUTRITION SALES UP

FY17 SALES

18,776 MT

FY18 SALES

35,580 MT

PROFIT UP

FY17 NPAT

$39.5m

FY18 NPAT

$74.6m

GROWTH CAPEX DEPLOYED

$103.8m

LEON CLEMENT APPOINTED NEW CEO

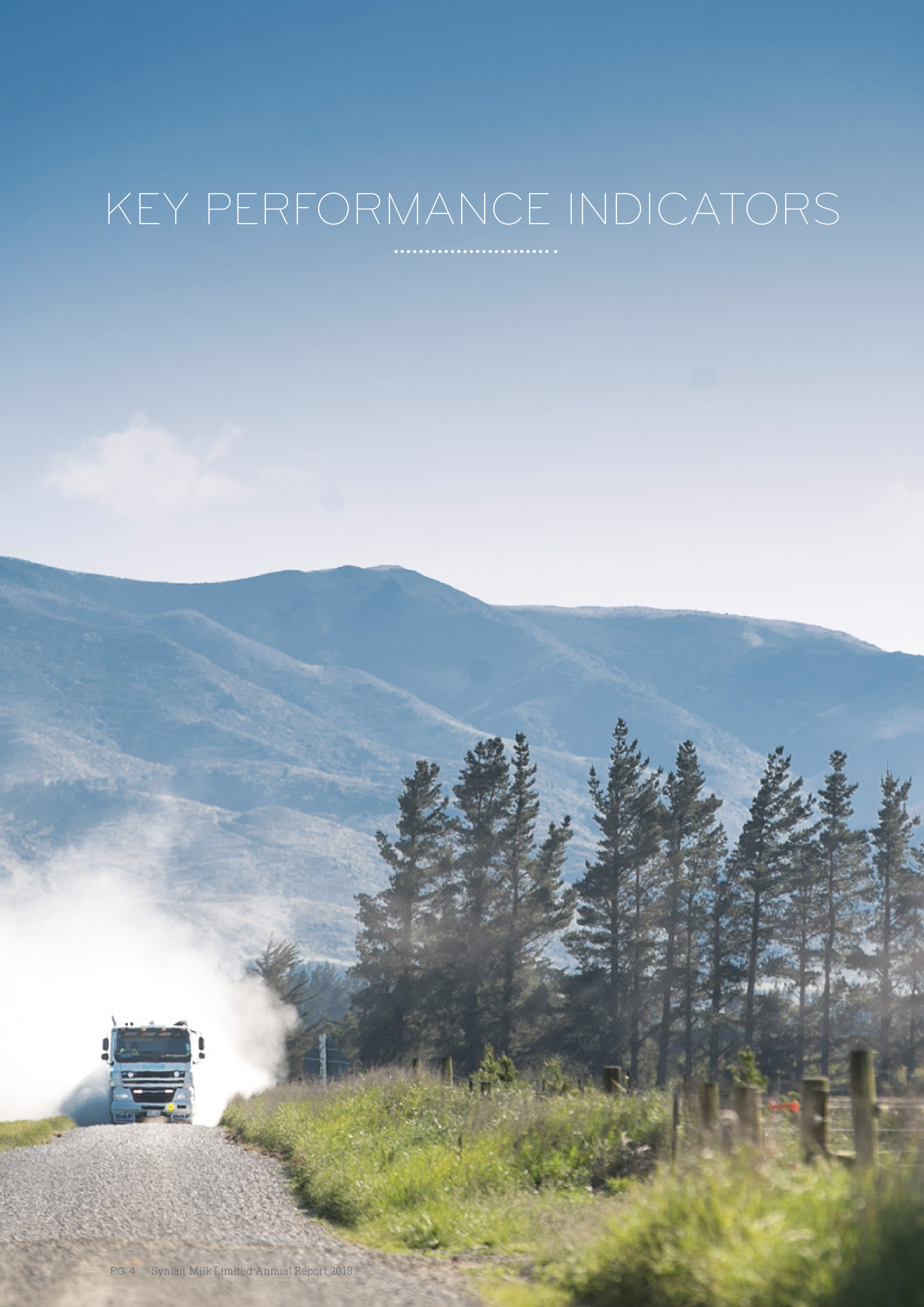
BALANCE SHEET EQUIPPED FOR GROWTH

STRENGTHENED RELATIONSHIP WITH THE A2 MILK COMPANY™

BOLD SUSTAINABILITY COMMITMENTS ANNOUNCED

GEOGRAPHIC AND CATEGORY DIVERSIFICATION INITIATED

KEY PERFORMANCE INDICATORS



Key Financial Metrics					
Currency as stated (in millions)	FY14	FY15	FY16	FY17	FY18
Income Statement					
Revenue	600.5	448.1	546.9	759.0	879.0
Gross profit	69.1	56.1	102.1	112.1	166.5
EBITDA	44.4	40.9	83.7	88.8	138.6
EBIT	33.0	26.9	62.9	67.6	113.1
NPAT	20.0	11.0	35.7	39.5	74.6
Revenue per MT (USD)	5,214	3,610	3,316	3,659	4,815
Gross profit per MT (NZD)	738	573	877	792	1,294
EBIT per MT (NZD)	353	275	540	478	879
Net cash from / (used in) operating activities	58.7	16.4	104.4	115.2	98.4
Balance Sheet					
Net operating assets[1]	311.8	323.2	455.2	423.5	493.3
Return on net operating assets	11.1%	8.5%	16.2%	15.4%	24.7%
Net return on capital employed (pre-tax)	11.8%	7.3%	14.5%	14.8%	22.7%
Debt / debt + equity (excl. derivatives)	46.1%	58.1%	48.7%	18.7%	20.9%
Net debt / EBITDA	3.4	6.4	2.5	0.9	0.8
Earnings per share	13.40	8.35	23.50	22.82	41.60
Average FX conversion rate (NZD:USD)	0.813	0.788	0.706	0.682	0.705
Base milk price (kgMS)	8.27	4.48	3.91	6.16	6.65
Total milk price (kgMS)[2]	8.31	4.54	4.02	6.30	6.78

Key Operational Metrics	FY14	FY15	FY16	FY17	FY18
Sales (MT)					
Powders and Cream	90,687	93,491	100,393	122,606	93,042
Consumer Packaged	2,955	4,305	15,999	18,776	35,580
Specialty Ingredients	2	7	10	11	16
Total sales (MT)	93,644	97,803	116,402	141,393	128,637
Production (Net Production)					
Powders and Cream	93,398	96,649	104,703	115,991	102,833
Consumer Packaged	3,093	5,021	16,043	19,403	36,651
Lactoferrin	4	12	8	12	12
Total production (MT)	96,495	101,681	120,754	135,407	139,496
Milk purchases (kgMS in thousands)					
Milk purchased from contracted supply	47,903	51,049	54,125	63,255	63,639
Milk purchased (sold) from other suppliers	2,033	2,549	3,573	1,700	(2,853)
Total milk purchases (kgMS in thousands)	49,936	53,598	57,698	64,954	60,785

[1] Net operating assets excludes capital work in progress.

[2] Total milk price for Synlait Milk suppliers on standard milk supply contract, includes special milk and seasonal premiums.

CHAIRMAN'S REPORT

Graeme Milne
CHAIRMAN

Welcome to our shareholders report on our 10th year of operations.

As another busy year came to a conclusion, we took some time to reflect on what has been achieved in our first decade and in doing so acknowledged the work and support of our staff and close stakeholders. One particularly special evening was an event we held for the farmers who supplied Synlait in our first year of production. Those farming families made the decision to change to a new and unproven company that was full of hope and promise but had no actual facilities. We wouldn't have been able to secure finance without their joint commitments. It was a courageous decision, but one that thankfully none have regretted.

In our first strategic planning session, some 11 years ago, we agreed a list of 10-year goals. Some have been diverted from and some have been superseded. In essence we aimed to create a New Zealand company focused on added value dairy that would "make more from milk" with an initial focus on ingredient and then infant formula opportunities in the growing Asian markets. Our 10-year targets were to achieve $1 billion in annual revenues and $1 billion in company value. As you can see in this report we have essentially reached those targets.

Our guidance for FY18 pointed to a substantial increase in profitability and that has been achieved. Top line revenue increased from $759 million to $879 million and bottom line profit after tax grew from $39.5 million to $74.6 million. That is a gratifying 16% growth in top line and an 89% growth in bottom line.

The key factors driving this improvement were an increase in finished infant formula sales, which were enabled by our investments in more capability at Dunsandel with our FY17 completion of a second wetmix kitchen and our investment in Auckland of a canning and blending facility. On the costs side we made considerable improvements in our production efficiencies at Dunsandel. Counter to that we continued to increase technical and research and development capability across the company as we grow into new and expanded product areas.

Looking at our business in broad strategic terms we have grown rapidly in key infant formula sectors but that has resulted in some concentration risk. Our long-standing, core customer relationship in finished infant formula is with The a2 Milk Company™ (a2MC). During the year we announced a further strengthening of our contractual position with a2MC and we expect that our mutually reliant and profitable position will continue to expand. We have however signalled before that Synlait needs to actively diversify our customer, market and product mix as we mature as a company.

To satisfy growing customer requirements within the infant formula category and to eliminate our single-site risk, we announced through the last 12 months the purchase of land at Pokeno and then the build start of a new infant-capable manufacturing site. This is a $280 million commitment and will see us entering the milk collection and processing market in the North Island of New Zealand.

The plant will initially manufacture powders within our current range and then infant formula base but the site is sufficient in area and resources to expand into other processing sectors. The Pokeno facility will operate synergistically with the already operating blending and canning operation at Richard Pearse Drive in Auckland.

The second major announcement during the year was the intention to build an advanced liquid dairy packaging facility at Dunsandel. This investment of $125 million follows our negotiation and contractual commitment to Foodstuffs South Island to manufacture a range of liquid milk products. The contract is long term and gives us the foundation on which to enter the fast-moving consumer goods market for the first time.

Our plant design is highly efficient and automated but flexible, and is capable of producing many existing products in the market, but more importantly, many product variants that are new or at least fast followers to global trends in these categories.

While we have adhered strictly to our B2B approach up until now, we did indicate in our previous report to shareholders that we would consider branded consumer product positions in selected categories as we saw opportunities, and in a way that did not compete with our existing customers. This plant is an important enabler in this strategic direction.

Meanwhile our customer base in existing categories continues to grow in volume and expand in number. We deal with all but one of the multinational infant formula manufacturers and we're working on making that "all the multinationals." Our business relationships with tier-two players are growing, in particular with Munchkin and New Hope. We are yet to receive product registrations and import permissions for these customer products into the U.S. and China. This is restricting business and we are working diligently with all parties to receive these permissions in the near future.

To enable all of the above, a further important announcement during the year was the establishment of the Synlait Research and Development Centre at Massey University in Palmerston North. Although only operating for approximately 12 months, we have assembled an impressive lineup of talent at the facility. We chose Massey as a partner due to their long and successful history in food technology and new product development, and the access that we gain to their extensive pilot plant facilities. We plan to spend 1.5% of revenue on R+D in FY19, which is equivalent to the typical spend in leading global food companies and represents a doubling of our commitment in recent years.

Our large and important ingredients business continues to focus on added value sectors and clients globally, but with an emphasis on tailor-made production and wraparound customer service.

The remaining strategic sector which has been previously signalled is adult nutrition. While we have not yet launched any finished products into this opportunity, the above-mentioned investments in both R+D and new plant will lead to progress in this important strategic initiative.

In terms of the financial strength to achieve this ambitious programme, our cashflows remain strong and despite the capital expenditure in the past year, our debt levels remain conservative. After a change in property, plant and equipment valuation back to a more conservative historical cost less depreciation policy, our equity to total assets ratio is at 53.5%. Combined with forecast cashflows this means that we have the financial launching pad to fund the plan without further assistance at this stage.

Growth in Synlait is not possible without a skilled, committed and diverse team.

We finished FY18 with 682 staff members and we plan to finish FY19 with 905. This is significant growth by any measure. Additions to the team continue to occur at all levels, but through this report several key senior appointments are highlighted. All bring great experience and skills to the company.

As a company grows, the culture within needs to mature and develop with that growth. There is considerable focus on our programmes to recruit, induct, train and reward all team members. A key part of this approach is reward. We do have a Long Term Incentive scheme for the senior team which is directly related to superior shareholder return. We do not have short term incentive plans at any level in the company. We pay our team fairly and rely on the positives of a clear plan and being part of a great company to provide the necessary incentive to strive and achieve our goals. We also need a diverse team. Diverse in not only experience and skills, but also in cultural background, gender and ethnicity. We sell into primarily a mother-dominated sector in an ethnically diverse market and we need a team that understands and identifies with their needs.

Several years ago we recognised the need to ensure our milk suppliers, who were facing environmental and other challenges, had access to a leadership programme which provided a pathway to excellence. This resulted in our Lead With Pride™ best practice system and it continues to be an industry exemplar.

This year we took further steps to evaluate the sustainability of our total supply chain and our place in an environmentally challenged world.

Water usage, care of our waterways, greenhouse gas (GHG) emissions, recyclability of packaging, and reduction of non-renewable resources are global challenges that responsible businesses must now take a lead on. We therefore announced a series of long-term goals looking to achieve substantial improvements. None will be easy, however we have already achieved one major step with the announcement that our next boiler at the Dunsandel site, which would otherwise have been coal fired, will be instead an electrode boiler - a new technology with real GHG emissions benefits. The response to our commitments, from farmers, customers, and to be fair, investors, has been extremely supportive and gratifying. Doing the right thing is rewarding.

With a share price at the end of last fiscal year at $4.44 and at the end of the FY18 year of $10.88, our total shareholder return this year has been 145%. This is a growth company. We continue to have a series of innovative ideas from our team which we believe will add considerable value. This means two things for shareholders.

Firstly, we intend to continue to reinvest profits back into the business. Therefore, the likelihood of dividends at least in the short term is minimal. And in fact, in the medium term we still see a strong investment pathway.

Secondly, this means risk. Our key risks are around our sensitive product range. We manufacture under the most rigorous standards for any food item. Infant formula is highly scrutinised and controlled. Any food safety issue in our product would impact company performance. We also have the risk of a relatively narrow product range and a reliance on the Chinese market. As we invest to introduce new products to new markets, as we will this year, we also bring new risks to the business. Overall, we believe that the strategy we have adopted will result in strong shareholder returns.

In November 2017 we announced that our CEO, Managing Director and one of the three original founders of Synlait, John Penno, would be standing down once a suitable replacement was found. John has made a truly remarkable contribution to the company. To proceed from an idea to a business with a market capitalisation in excess of $2 billion in a decade is exceptional. Of course, it was a team effort, but every team needs a leader and John has been that leader in every sense of the word. Fortunately, John is available to remain a director of the company so that we can still have access to his strong strategic intellect.

Our new CEO, Leon Clement, joined the company in mid-August 2018. Leon, an engineer by background, has 16 years' experience in the industry. His country management roles in Vietnam, Sri Lanka and more recently in New Zealand, make him the ideal candidate to lead Synlait on the next leg of the journey.

In terms of governance, with the continuation of John as a director and the reappointment of Bill Roest for another term last year, there have been no changes around the board table this year. The diversity within the group and the consequent willingness to challenge both old and new ideas has been vital to our success to date.

Finally, in terms of guidance for the year ahead, we plan to continue with the announced growth agenda. The advanced liquid dairy packaging facility will begin operations during the second half of FY19 but not in sufficient time to contribute in any significant way to the bottom line. Similarly, the Pokeno complex will incur setup costs but will not begin operations until September FY20. Profitability is therefore planned to continue to increase but not at the rate of FY18.

Graeme Milne
CHAIRMAN

OUTGOING CHIEF EXECUTIVE OFFICER'S REVIEW

Dr. John Penno
OUTGOING CHIEF EXECUTIVE OFFICER

As mentioned by Graeme, the year covered by this report was the tenth year of operations for Synlait Milk. It has been a year of both delivering on our promises and preparing for the future.

We signalled that we would continue to build out our manufacturing base to support our infant formula customers and create opportunities to grow into new high-margin dairy categories.

We also signalled that we expected to begin delivering tangible benefits from the operational excellence programs we had been running over the past few years.

In addition to increased profitability, we suggested that investors would see an increased proportion of earnings streamed towards new customer and product development as we accelerate into the future from the strong base we had built.

In what is my final report as CEO, I am pleased to report that we have delivered significant progress against each of these objectives.

MATURING INFANT FORMULA BUSINESS

Our relationship with The a2 Milk Company™ (a2MC) continues to grow and develop.

The a2 Platinum® brand of infant formula has enjoyed another strong year of growth in both Australia / New Zealand (ANZ) and China, which has driven our growth in canned infant formula volumes (IFC). Late in FY18 we extended our supply agreement with a2MC, providing for a five year minimum term to 31 July 2023, as their exclusive manufacturer of IFC for the ANZ and China markets (to agreed volumes). We also increased the dedicated manufacturing capacity available to a2MC for future growth.

Volumes to other IFC customers have been modest, particularly in the second half of the year as we work to secure product registrations for the key markets of China and the U.S. These have been slower than expected.

In the case of Akara and Pure Canterbury, our applications for brand registration are with the State Administration for Market Regulation (SAMR), the replacement for the China Food and Drug Administration (CFDA), and our team is working with them on their various queries. We anticipate these will be granted in due course and will sit alongside the registration we were issued for a2MC's infant formula in September 2017.

We have some way to go before gaining registration of the Munchkin's Grass Fed™ infant formula from the U.S. Food and Drug Administration (FDA) for sale in the U.S. market. Our commitment to continued support of Munchkin is evident in the close working relationship we have with them during this process. In the meantime, after two years in the market the product is beginning to see significant growth in the Australian market with national distribution in Coles supermarkets and increasing involvement in cross-border trade. We expect Munchkin's Grass Fed™ range will be our second largest IFC volume manufactured in FY19.

During the past year our relationships with our multinational customers, for whom we manufacture infant-grade milk powders and base powders, has continued to develop.

As we look forward, we have confidence that our ability to manufacture high quality paediatric milk powders at cost competitive prices will result in ongoing volume growth from existing and new customers.

To meet this expected demand, we have invested in a northern Waikato manufacturing site at Pokeno and begun to develop a new infant formula plant capable of 45,000 metric tonnes (MT) base powder per year. Over time, Synlait Pokeno will be capable of further infant formula development alongside other products. It brings access to New Zealand's largest milk pool in the Waikato region and high-quality winter milk supply.

We have also entered into a multi-year agreement for the supply of infant formula-grade lactoferrin with one of our multinational customers.

On the back of this agreement, and growing demand for lactoferrin in formulations for our IFC customers, we are now doubling the capacity of our lactoferrin manufacturing plant at Synlait Dunsandel alongside several upgrades to deliver increased throughput and reliability.

Over the year our ingredients milk powder business has contracted in response to the growing infant formula volumes. This resulted in overall sales volume falling, despite manufacturing volumes remaining similar to previous years, as growing sales volumes of IFC requires large increases in inventory to cover sales for the first part of the new year.

This reduction in sales and increase in inventory disguises significant improvements in plant throughput and reduced ingredients inventory, without which the magnitude of reduction in total sales volumes and increase in inventory would have been greater. These ongoing improvements will result in further operational efficiency gains in the coming year.

FARMERS AND MILK PRICE

It is pleasing to deliver another strong average milk price to our farmers of $6.78 kgMS, made up of a base price of $6.65 kgMS and average incentive payments of $0.13 kgMS.

I would like to acknowledge the strength of support from our 200 Canterbury milk suppliers.

Not only have they remained loyal to the company as we have developed, they have supported our strategy of integrating our supply chain by participating in our special milk programmes. This enables the manufacture of our most valuable products, such as a2 Platinum® and Munchkin's Grass Fed™ infant formula.

During the year we revised our Lead With Pride™ farm certification programme to target on-farm greenhouse gas emissions reductions, improved water use and improved water quality. These were released as part of a broader range of sustainability initiatives aligning what we are asking for on-farm, and what we are undertaking in our manufacturing and supply chain. You can read more about this on pages 18-25.

It is pleasing to report that our farmers have embraced this change and we are now on target to have 40% of our farm suppliers certified as Lead With Pride™ in the coming year.

With Synlait Pokeno due to commission early in FY20, the team are bringing together a new group of milk suppliers in the greater Waikato region.

With so much momentum building around our Lead With Pride™ programme, we will be actively targeting suppliers who meet the required standard, or who are capable of achieving certification in the near future.

EVERYDAY DAIRY

Everyday dairy are the dairy products we all enjoy with our families each day. While a relatively small market in New Zealand (worth over $2 billion at a wholesale level), it is a major market in the context of Synlait.

We identified this as a significant market opportunity given our strong relationships with our farmers, our dedication to manufacturing quality products through product formulation and world-class processes, and our close alignment to Kiwi's attitudes to dairying and the environment.

Our starting point is the ten-year agreement with Foodstuffs South Island to manufacture all their private label fresh milk and cream products from early 2019, announced in December 2017.

This agreement underpins our investment in a large-scale advanced liquid dairy packaging facility at Synlait Dunsandel.

At the same time, we doubled our commitment to research and development, which is expected to grow to 1.5% of revenue in the coming year. Included within this is the new partnership with Massey University, where we have established a Research and Development Centre at Synlait Palmerston North and are assembling a world class team of dairy scientists and product development specialists. They're working with a leading edge pilot-scale plant to develop products for the two-thirds of the capacity of our new facility not committed under the Foodstuffs South Island partnership.

Our new everyday dairy strategy opens up options to target high-returning, fast-growing pasteurised and long-life dairy beverages for export, develop domestic and export food service opportunities, and to grow our market share of the New Zealand everyday dairy category over time.

Investors can expect ongoing acquisition and organic growth as we develop these opportunities. Over time, we expect these opportunities will begin to balance our current reliance on the business to business (B2B) paediatric category.

TAKING OUR PLACE

As we move into our second decade, we have a growing sense of responsibility to apply our entrepreneurial DNA to building New Zealand's reputation as a nation of sustainable dairying. Our strong commercial focus means we will inevitably do this in a way that creates value for our consumers, customers, farmers and community.

I have no doubt global consumers increasingly expect this from the products they choose to buy, and are happy to pay premiums for those products resonating with their individual and family aspirations.

More detail on the commitments we've made to our customers, staff and community in partnership with our farmers on pages 18-25. These are not new in intent but are bold leaps forward to build on the way we have developed our business over the past decade.

OUR PEOPLE

Finally, let me acknowledge the great team we are building at Synlait.

I have lost count of the number of people telling me it's the best place they have ever worked, largely due to the fast-paced and vibrant culture we have developed.

We don't take this for granted and every year we increase our focus on making Synlait a rewarding, exciting and enviable work environment. Our results are the outcome of the great people we have in our team working hard throughout the year, so thank you for your contributions.

Our Senior Leadership Team (SLT) live and breathe the business and what we are working to achieve. They are each leading their areas with excellence, keeping our business as usual activities on target, building and developing their teams, and leading a culture of continuous improvement. They too contribute directly to the results we have achieved in the past year, as individual leaders and as a team. I would like to thank them all for their loyalty and support, and for the fun we have had along the way.

I can't think of a day I haven't looked forward to heading to any of our sites to work alongside the great people we've been lucky enough to attract and retain.

OUR BOARD AND CEO TRANSITION

As I have in the past, I can assure our shareholders that the SLT and shareholders are served well by a truly great Board of Directors. They are a very important part of the success of the business and I thank them on your behalf for their commitment to building our company.

Graeme Milne has been in the role of Chairman for the life of Synlait Milk.

Graeme works collaboratively, constructively and courageously with his colleagues on the Board and our SLT with every major decision we make.

It is with great pride that I hand what I believe can become an even greater New Zealand company to Leon.

As well as being a highly accomplished business leader, Leon brings significant experience in the areas of business Synlait's strategy is leading the organisation towards. The areas might be new to the company, but some of our team are very well placed to complement Leon's guidance in navigating new opportunities.

I would like to thank our shareholders for their support during my time as CEO and Managing Director. I remain deeply committed to Synlait and look forward to supporting Leon and the company from my governance role as Director.

John Penno

CO-FOUNDER, INAUGURAL CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

(2008 – AUG 2018)

INCOMING CHIEF EXECUTIVE OFFICER'S REVIEW

Leon Clement

INCOMING CHIEF EXECUTIVE OFFICER

WELCOME FROM OUR INCOMING CEO

Kia ora koutou,

I am honoured and excited to have joined Synlait as CEO at a pivotal time in the company's journey.

I've had a warm welcome from our team and I'm increasingly impressed by the energy, openness and aspiration within the business.

Since joining in mid-August, I've spent my first month getting to know our people, places and plans. As I've done this I've been reminded of the reasons why I chose to join the company and developed some initial observations on where we are at:

SYNLAIT HAS AMAZING POTENTIAL

I'm a proud Kiwi and our natural resources, combined with our world class farming expertise is the backbone of our economic and national prosperity. As an innovative dairy disruptor, Synlait is poised to tap New Zealand's true agricultural competitive advantage and take it to the world.

WE HAVE A STRONG PURPOSE TO GUIDE US

To achieve our potential, we must also take a stand and think more broadly about our role to help our land, our communities, and our people thrive in a sustainable way. Our recent commitments to a more sustainable environmental footprint are bold, and it will take more courage to bring this to life. But it also represents the opportunity for us to lead with pride and become kaitiaki (guardians) for our company, industry and New Zealand as a whole.

OUR PLANS WILL TAKE US INTO EXCITING NEW AREAS

This is an exciting growth business. There are strong foundations on which to grow, a healthy balance sheet, high-quality differentiated products, trusted customer partnerships, and capable people who believe in what we are doing.

As we move forward we are seeking to protect our core growth engine, while we diversify our profit pools into some exciting new growth areas.

IT'S A GREAT FIT

I'm passionate about growing people and organisations together; proud of New Zealand and our agricultural heritage; and determined to contribute to a more sustainable world. I can't think of a better company to serve, and I know I'll grow personally as we set out to achieve our goals.

> The investments and strategic choices made in the past year have set us up well. Graeme and John have clearly outlined the strong year we have had, as well as the concentration risk we see ahead.

Investments in FY18 have been made with this context in mind and we are actively addressing upcoming challenges. It's my role to work with our leadership team to clarify and focus our direction, and make sure we continue to deliver in a truly Synlait way: thinking big, acting fast and doing it right.

I look forward to our conversations and hearing your perspectives as I continue to build my understanding of our company and how we need to move forward. Thank you for being part of our journey so far and helping us take the next step towards an exciting future together.

Ngā manaakitanga,

Leon Clement

INCOMING CHIEF EXECUTIVE OFFICER

OUR SUSTAINABILITY STRATEGY

"At the heart of who we are is a vision for people, land and communities to thrive. We have an opportunity to make a real difference as we continue to grow and contribute to a sustainable future for New Zealand. We're just at the start of our journey, but we're sure we can make a difference."

John Penno
CO-FOUNDER, INAUGURAL CEO AND BOARD APPOINTED DIRECTOR

In June 2018 we announced our renewed commitment to sustainability across three pillars of activity: Environment, People and Enterprise.

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ENVIRONMENT

We recognise that the world's population and economies are operating in a state of ecological overshoot - we're consuming resources and creating waste at a rate beyond which our planet is able to regenerate and absorb each year. We accept that industry hasn't moved fast enough to address this global challenge. We're mobilising for change by making a deep commitment to operating our business in a manner that deeply respects Earth's natural systems.

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PEOPLE

We believe in a fair, equitable society that provides all with opportunities to thrive. Our refreshed commitment to sustainability puts the communities we touch - our staff, our farmers and their communities, our investors, our suppliers and customers - at the centre of all we do. We also recognise that building a fan base for our sustainability ambition, through our actions, will help us to achieve our goals.

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ENTERPRISE

We bring milk nutrition to millions around the world. As this demand from our customers increases, as we continue to innovate and grow our business sustainably, we have an opportunity to bring an economic, social and environmental glow to New Zealand.

ENVIRONMENT

OUR GOAL IS FOR SYNLAIT'S NET BUSINESS IMPACT TO BE POSITIVE FOR THE PLANET, WITH RESTORATIVE AND REGENERATIVE AGRICULTURE, MANUFACTURING AND SUPPLY-CHAIN PROCESSES.

ACHIEVING THIS GOAL MEANS RE-IMAGINING ALL ASPECTS OF OUR BUSINESS. ACTIONS ACROSS THREE PRIORITY AREAS ARE SET OUT HERE.

CLIMATE CHANGE

We're taking on climate change because we care about the ability for future generations to thrive. We also recognise New Zealand's commitment to the Paris Agreement and, as a major emitter, seek to make a meaningful contribution to that target.

On-farm action

Agriculture accounts for almost half of New Zealand's total greenhouse gas emissions. Farms supplying Synlait are a significant contributor to this. The consensus view has been that little can be done to reduce on-farm emissions. This view no longer holds true. Breakthrough technology paired with best practice management can result in substantial emissions reductions. Our staff and farmers are galvanised around leading change.

Our goals: 35% reduction in total greenhouse gases per kilogram of milk solids by 2028.

Off-farm action

Farms supplying Synlait represent approximately 86% of Synlait's total greenhouse gas emissions. The remaining 14% alone places us amongst a group of large emitters, primarily because of the energy intensive nature of our manufacturing processes and supply chain. We're re-imagining all aspects of our business for a low-emissions future.

Our goals: 50% reduction in total greenhouse gases per kilogram of milk solids by 2028.

We're installing New Zealand's first electrode boiler in our advanced liquids plant, due for commissioning in April 2019. Running on renewable electricity, this technology will prevent the emissions equivalent of 9,600 households per year versus a coal boiler.

ANIMAL HEALTH + WELFARE

We value our dairy animals as a sentient cornerstone of our healthy food products. Through exceptional farming stewardship we strive for all of our dairy cows to experience a life of great health and positive wellbeing. We support our supplier farmers in achieving and maintaining this goal.

The Animal Health and Welfare pillar of Lead With Pride™ is about setting stockmanship expectations, providing good farm infrastructure, and ensuring health protocols are followed to meet or exceed industry best practice outcomes. Measuring, recording, benchmarking and acting based on this measurement is critical to ensure the best productivity and animal health and welfare outcomes.

Lead With Pride™ is Australasia's only internationally accredited ISO/IEC 17065 dairy farm assurance system. To become certified members, our suppliers must demonstrate their skills and industry leadership, above and beyond the ordinary.

WATER

New Zealand citizens, NGOs, the private and public sector have all spoken loudly and clearly about their views of the industrial and commercial use of water and the current and likely future state of waterways. We recognise the challenges and are committed to playing a substantial role in better stewardship of water.

On-farm action

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

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.

Off-farm action

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

Our goals: 20% reduction in water use per kilogram of milk solids by 2028. 20% improvement in the quality of waste water.

We seek to support communities that are working to restore waterways and surrounding biodiversity in the catchment areas of our operations. During 2018 we will launch a programme consisting of financial support and mentoring for community groups that share our vision for greater respect and stewardship of water.

PEOPLE

WE'RE CREATING OPPORTUNITIES FOR ALL TO THRIVE. AND BY BUILDING A FAN BASE FOR OUR AMBITION, COMMITMENT AND ACTIONS, TOGETHER WE HAVE THE ABILITY TO TRANSFORM OUR INDUSTRY, BENEFIT OUR COUNTRY AND LEAVE A LEGACY FOR FUTURE GENERATIONS.

HEALTH, SAFETY + WELLNESS

Everything starts with care for our people. Synlait is committed to "Everyone Home Safe, Every Day". To do this we ensure that health, safety and wellness is integrated into daily life. Over the course of FY18, our monthly Total Recordable Injury Frequency Rate (TRIFR) decreased from 25.1 recordable injuries per million hours worked to 18.1, representing a year-over-year improvement of 28%.

We're focused on further improvements and have identified five critical risks as our top priorities. Progress on mitigation for each is reported on a monthly basis.

TRIFR

Down from 25.1 in FY17, to 18.1 in FY18

TALENT ATTRACTION + DEVELOPMENT

Building an engaged, capable, and passionate team underpins our performance. 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. We are now in the 61st percentile - 30 percentile points higher than 12 months ago.

We have also just launched our first Future Leaders programme, to meet the future leadership needs of the business. The aim is to fill a pipeline of high potential people, capable of leading the business now and in years to come.

DIVERSITY

Synlait aspires to employ and embrace a diverse range of talent to reflect the diversity of the consumer landscape in the markets that we serve. Attracting, developing and retaining those talents is crucial for the success of our business. We believe that our ability to innovate and grow is rooted in the diversity of thought and creativity of our people.

Our new Diversity and Inclusion Policy empowers and equips our people leaders to foster a diverse and competent workplace. We are committed to enhancing gender balance in our workforce and empowering women across the entire value chain.

Our Diversity and Inclusion Policy has been adopted and is available on our website.

THRIVING FARMERS + FARM WORKERS

The greatest potential on any farm lies in its people. We support our supplying farmers with a broad range of advisory assistance when it comes to social sustainability. High performing farms are made possible through robust management and the employment of engaged, motivated and well-trained teams. Our acclaimed Lead With Pride™ programme supports farms to set clear objectives, select the right people, train and develop them and keep the team safe.

In addition, we recognise that economic sustainability is crucial for farmers. Three sets of financial incentives reward farmers with payments above and beyond our base milk price. Farmers with a1 protein-free herds for supply to The a2 Milk Company™ receive additional payments, as do farmers following the Grass Fed™ standard for supply of Grass Fed™ certified milk to Munchkin Inc. Farms certified under our Lead With Pride™ programme also receive additional incentive payments.

THRIVING COMMUNITIES

Our dairy farmers and employees, alongside other New Zealanders, depend upon the rural communities they live in. Via our supplying farmers, we significantly contribute to the economic and social wellbeing of these communities.

The communities living within the catchment areas of our operations also care deeply about the environmental sustainability of their local natural systems, as do we. Our community investment programme will provide financial support and mentoring for local groups that share our commitment to local eco-systems such as river health and biodiversity.

We will establish a social investment fund to support local initiatives aligned with our sustainability goals.

ENTERPRISE

WE SERVE MILK NUTRITION FOR MODERN LIFE, WORLDWIDE. OUR PIONEERING MINDSET DRIVES US TO DO BIGGER THINGS, TO STAND FOR MORE, TO PLAY A BIGGER ROLE AND TO RETURN AN ECONOMIC GLOW TO NEW ZEALAND.

BUSINESS PARTNERSHIPS

We leverage our sustainability credentials and ambition to form deep partnerships with customers that share our purpose-led philosophy and vision for people, communities and land thriving. By demonstrating purposefulness everyday in running our business, we continue to build the depth and breadth of our customer base.

This year we renewed our long-term agreement with The a2 Milk Company™. The revised agreement provides for a new minimum term running to 31 July 2023. The contract also increases both committed production capacity and the number of products for which Synlait has exclusive supply rights.

INVESTMENT IN INNOVATION

Over the past 12 months we have significantly stepped up our focused research and development effort. This is supporting our existing ingredient and infant formula businesses, and is helping us prepare for new market opportunities. We're targeting investment in R+D of 1.5% of revenue in FY19.

INVESTMENT

Target for R+D of 1.5% of revenue in FY19.

SUSTAINABLE DEVELOPMENT GOALS

3 GOOD HEALTH AND WELL-BEING

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

FOOD SAFETY AND QUALITY

We are dedicated to manufacturing food products that provide genuine benefits for human health and wellbeing. Our factories uphold the highest of standards for quality and safety. We have invested heavily in a food safety strategy that mandates rigorous testing for the absence of microbial and chemical contaminants, and every can of finished infant formula is x-rayed to confirm the absence of foreign matter. Our people receive all relevant food safety and quality training so they can perform their jobs with care and confidence.

SUSTAINABLE SUPPLY

We work with supply chain partners that share and act upon our view of environmental, social and economic sustainability. Our supply chain begins with milk sourced from 200 farms within the Canterbury region, and ingredients and packaging sourced from suppliers that uphold the highest standards of ethics and sustainability. Our supply chain ends with the safe post-consumer disposal of packaging. Every step of the way we ensure we're working with the best companies, people and products.

ACCOUNTABILITY + TRANSPARENCY

We seek success beyond profit. We will follow our strategic partner, Danone, in seeking B Corp certification and in doing so will join a cohort of iconic companies such as Patagonia and Ben and Jerry's, all sharing a view that business should be a force for good in the world.

Certified B Corps meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. Becoming a B Corp will frame our performance against rigorous global standards. We anticipate being New Zealand's first NZX listed B Corp.

OUR AIM:
To be New Zealand's first NZX listed B Corp.

FINANCIAL REVIEW

Nigel Greenwood

CHIEF FINANCIAL OFFICER

OVERVIEW

Reported after tax earnings were a profit of $74.6 million, nearly doubling the profit of $39.5 million for FY17. While this is primarily due to an 89% increase in the volume of consumer packaged infant formula sales, we have also enjoyed an uplift in our ingredient margin performance.

FINANCIAL PERFORMANCE

SALES

Revenue in FY18 at $879.0 million is $120.0 million higher than FY17 ($759.0 million). This 15.8% gain reflects an increase in high value consumer packaged infant formula sales as well as an uplift in dairy commodity prices.

Total sales volume for this period, at 128,637 metric tonnes (MT), is 9.0% below last year's 141,393 MT. This reduction is attributed to a significant shift in product mix toward consumer packaged infant formula product. The increase in infant formula sales impacts our powders and cream sales by limiting the amount of milk we could process through the peak milk production months.

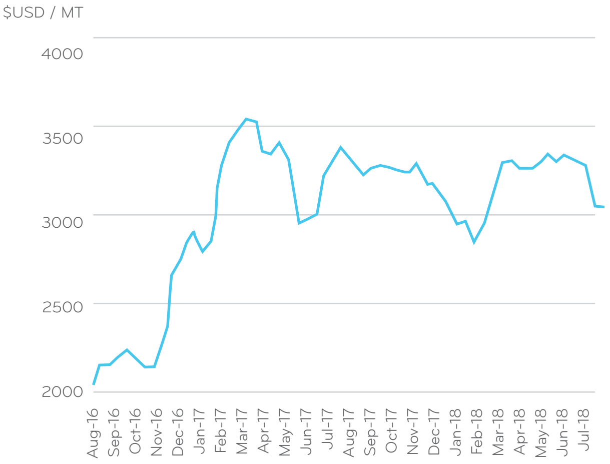
We received 63.6 million kilograms of milk solids (kgMS) from our contracted suppliers, 0.4 million kgMS more than FY17. However, in FY18 we processed 4.2 million kgMS less than FY17 (FY18: 60.8 million kg MS, FY17: 65.0 million kgMS) due to the shift in product mix towards consumer packaged product mentioned above. This shift in product mix meant that we had net milk sales of 2.9 million kgMS to other processors compared to FY17 where we purchased 1.7 million kgMS from other processors.

Both powders and cream and consumer packaged sales volumes are in line with the guidance we provided in our FY18 Interim Results Presentation, with consumer packaged infant formula sales growing 89% year on year.

Sales (metric tonnes)	FY18	FY17	Growth %
Powders and Cream	93,042	122,606	(24)%
Consumer Packaged	35,580	18,776	89%
Lactoferrin	16	11	45%
Total	128,637	141,393	(9)%

International dairy commodity prices have lifted by 10% over prices achieved in FY17. The commodity price movements are depicted in the chart below. This provided an average U.S. dollar (USD) commodity price in FY18 of $3,177 USD per MT, $293 USD per MT above FY17 $2,884 USD per MT. Although higher commodity prices have supported our revenue growth, they have also supported a $0.49 kgMS increase in our base farmgate milk price from $6.16 kgMS to $6.65 kgMS and therefore does not impact on the profitability of ingredient products.

Weighted average dairy commodity price



GROSS PROFIT PER METRIC TONNE (MT)

Our total gross profit per MT at $1,294 is $502 up on last year's $792. This is primarily driven by the increased volume of our higher returning infant formula sales in FY18 at 28% of total product sales compared to 13% in FY17.

Gross profit per MT for powders and cream has increased $369 over FY17. Gross profit in FY17 was affected by the sell down of carry over impaired inventory at little or no margin. The proportion of base infant formula sales to ingredient product sales (including product internally transferred to blending and consumer packaging) increased from 16.6% to 30.0%, improving the overall category gross profit per MT. Note that we sold 4,789 MT of external bulk infant formula in FY18 (5,318 MT in FY17).

Consumer packaged gross profit per MT has improved $44, generated from a higher utilisation of the Dunsandel consumer packaging facility, offset by the incremental costs associated with the commissioning of our Auckland consumer packaging facility in November 2017.

Lactoferrin margin per metric tonne has materially increased over FY17 due to increased demand driving higher market prices. Lactoferrin sales of 16MT increased 44% year on year and delivered $4.4 million of gross profit in FY18 (FY17: $0.8m).

Gross profit per MT has increased $502 year on year as a result of increased sales of consumer packaged infant formula.

MILK PRICE

Milk purchases remain our most significant cost when determining gross profit. Our final base milk price for FY18 is $6.65 per kgMS, compared to our FY17 base milk price of $6.16 per kgMS. In addition, we paid $0.13 per kgMS in seasonal and value added premiums (FY17 $0.14 per kgMS) to increase the average total milk price to $6.78 per kgMS compared with $6.30 per kgMS in FY17. Value added premiums are lower in FY18 as we did not pay autumn premiums (FY17: $0.01 per kgMS). This resulted in our contracted dairy farm suppliers receiving a total of $8.2 million in additional value added premiums in FY18, compared to $8.9 million in FY17.

Gross profit by category

	Sales Volume (MT)		Gross Profit ($m)		Gross Profit / MT	
	FY18	FY17	FY18	FY17	FY18	FY17
Powders and Cream[1]	93,042	122,606	134.4	97.4	1,065	696
Consumer Packaged	35,580	18,776	27.6	13.8	777	733
Lactoferrin	16	11	4.4	0.8	285,757	76,666
Total	128,637	141,393	166.5	112.1	1,294	792

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

OVERHEAD EXPENDITURE

In total our overhead expenses for FY18 at $54.2 million were up $9.6 million on FY17 at $44.6 million. Notable increases in these overhead costs include employee costs of $6.5 million, consultancy of $1.1 million.

As previously signalled, increases in overhead expenditure reflect accelerated investment into capability for research and development, business development and leadership, a key aspect of our strategy for continued growth and diversification.

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 2018 our share of the profits of this company were $0.4 million (FY17 loss of $0.6 million).

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) at $138.6 million increased 56.1% on the FY17 result of $88.8 million driven by the improved margins in FY18 as discussed earlier.

NET FINANCING COSTS

Net financing costs at $9.3 million decreased by 24% over FY17's $12.2 million.

	FY18	FY17	Var.
Gross term debt interest	(6.7)	(8.6)	1.9
Less capitalised interest	0.7	0.1	0.6
Net term funding interest	(6.0)	(8.5)	2.5
Working capital funding interest	(3.0)	(2.9)	(0.1)
Interest received	1.0	(0.0)	1.0
Loss on derecognition of financial assets	(1.3)	(0.8)	(0.5)
Net short term funding interest	(3.3)	(3.7)	0.4
Net finance costs	(9.3)	(12.2)	2.9

The $2.9 million decrease in net financing costs is split between a decrease in net interest costs associated with term debt financing of $2.5 million and a decrease in net interest costs associated with short term financing of $0.4 million.

Gross interest on term debt has decreased by $1.9 million to $6.7 million in FY18 due to lower average term debt over the year compared to FY17. Capitalised interest has increased due to the build of the nutritional spray dryer at Synlait Pokeno and the advanced liquid dairy packaging facility at Dunsandel. Term debt interest, net of capitalised interest, has accordingly reduced by $2.5 million to $6.0 million. 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.

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 United States Dollar (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 FY18 we achieved an annual average NZD/USD exchange rate of 0.705 (FY17: 0.682).

EARNINGS PER SHARE AND RETURN ON CAPITAL EMPLOYED

Our reported basic and diluted earnings per share (EPS) for FY18 was 41.60 cents against 22.82 cents in FY17.

Synlait also generated a pre-tax return on average capital employed of 22.7% in FY18 compared with 14.8% in FY17.

In the 12 months to 31 July 2018, Synlait's share price has appreciated from $4.44 to $10.88, generating a total shareholder return of 145% in FY18 (FY17 34%).

CHANGE IN ACCOUNTING POLICY

The Company made a voluntary change in accounting policy to more appropriately measure the value of property, plant and equipment, moving from a revaluation to a cost model. As a result, after tax earnings in FY18 improved $1.3m and this change was also applied retrospectively to all reporting periods back to FY12, when the first revaluation was applied. For further information on the retrospective application of the change in this accounting policy please refer to the statement of accounting policies set out in our Financial Statements section of this report on page 52.

$ Million	FY18	FY17	Movement
Unadjusted NPAT	73.2	38.2	35.0
Decrease in Depreciation	1.8	1.8	-
Increase in Tax Expense	(0.5)	(0.5)	-
Reported NPAT	74.6	39.5	35.0

FINANCIAL POSITION

OVERVIEW

FY18 saw Synlait continue the capital investment strategy announced in FY17 as part of the capital raise of $97.6 million completed in October 2016. During FY18 Synlait has invested $103.8 million into growth projects.

Despite this significant capital expenditure, Synlait maintained a very low leverage ratio at 0.8x EBITDA at 31 July 2018 (FY17: 0.9x EBITDA) and has a balance sheet well equipped to support continued capital expansion.

Our reported net profit after tax of $74.6 million, offset by the movement in reserves, has increased total equity to $424.7 million from $376.7 million as at 31 July 2017.

TRADE AND OTHER RECEIVABLES

At $47.1 million, these are down by $32 million on FY17 at $79.0 million. This is primarily due to a combination of an increase in receivables assignments year on year ($10.3m) as well as our internal focus on receivables collection.

INVENTORIES

Total inventory at year end at $145.4 million is up on last year's $82.7 million with finished goods increasing by $55.1 million to $122.6 million and raw materials increasing by $7.6 million to $22.8 million.

Finished goods inventory increased $55.1 million (82%) to $122.6 million driven by finished goods inventory quantities having increased by 78% since FY17. The majority of the increase in finished goods inventory is bulk infant formula that has been manufactured to meet forecast consumer packaged infant formula sales in the first quarter of FY19.

Raw material inventory increased by $7.6 million (50%) to $15.2 million. These raw materials are primarily made up of lactose and other ingredients for infant formula production as well as packaging and associated consumable items. The increase is the result of forecast growth in consumer packaged infant formula sales in FY19.

Both raw material and finished goods inventories were reviewed for impairment resulting in a stock impairment provision totalling $2.1 million (FY17: $1.8 million). Impaired raw materials and finished goods were written down to net realisable value. In addition we took up an onerous contracts provision of $1.3 million (FY17: $1.3 million).

PROPERTY, PLANT AND EQUIPMENT

During FY18 the Group changed its accounting policy for measuring property, plant and equipment from the revaluation basis to the cost basis as the cost basis is considered more reliable and relevant. This change has been applied retrospectively to 31 July 2012 being the effective date of the Group's first revaluation. The impact of this change in accounting policy is fully explained in the Changes in Accounting Policies Note in the financial statements, however the net decrease to the value of property, plant and equipment was $20.6 million.

Property, plant and equipment at $537.7 million, increased $89.6 million from FY17 at $448.1 million. The year over year increase is a consequence of total capital expenditure of $113.2 million less depreciation of $23.6 million. The capital expenditure primarily relates to five growth initiative projects totalling $103.8 million.

During FY18 we commissioned both the blending and consumer packaging facility at Synlait Auckland and the new wetmix kitchen at Dunsandel with with capital spend during FY18 of $13.4 million and $25.2 million respectively.

In December 2017, on the back of entering into an exclusive supply agreement with Foodstuffs South Island Limited for its private label fresh milk and cream, Synlait announced that it will invest $125 million to commission an advanced liquid dairy packaging facility at Dunsandel. The plant is expected to be commissioned in the first quarter of 2019. As at 31 July 2018 Synlait has spent $45.8 million constructing the plant.

In February 2018 Synlait 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 $250 million (excluding the cost of the land). Synlait has spent $12.7 million constructing the plant year to date. The Agreement for Sale and Purchase for the Pokeno land is now unconditional and Synlait has taken possession of the Pokeno land. Title to the Pokeno land has not yet transferred to Synlait as the vendor has additional obligations to complete. Accordingly, the Pokeno land is not included within the Group's property, plant and equipment.

In addition to the above, Synlait announced an $18 million expansion to its Dunsandel lactoferrin facility on the back of signing a multi-year supply agreement that will underwrite our investment. Year to date spend is $6.7 million.

$ Million	FY18	FY17
Blending and consumer packaging (Synlait Auckland)	13.4	37.0
Wetmix Kitchen (Synlait Dunsandel)	25.2	10.4
Liquid dairy packaging facility (Synlait Dunsandel)	45.8	-
Nutritional powder manufacturing (Synlait Pokeno)	12.7	-
Lactoferrin (Synlait Dunsandel)	6.7	-
Operational capital expenditure	9.4	11.3
Total	113.2	58.7

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. It was established with the support of New Zealand Trade and Enterprise. Other shareholders include a number of other New Zealand primary industry related companies.

As noted earlier 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 $2.0 million reduced the carrying value of our investment to $0.2m at 31 July 2017. Our current investment value is $0.6 million as New Hope Nutritionals experienced growth in FY18 and we shared $0.4m of their profits. This company owns and markets the Akara and e-Akara infant formula brands in the China market, which are exclusively manufactured by Synlait.

TRADE AND OTHER PAYABLES

Trade and other payables at $152.2 million is up $10.1 million on last year's balance of $142.1 million. This variance reflects three items.

The first is the increase in milk creditors and accruals which have increased from $80.0 million in FY17 to $94.2 million in FY18, a $14.2 million increase. This was caused by advance payments made to our dairy farm suppliers in the 2018 season being proportionately less than in the 2017 season (FY18: 74%, FY17 79%.)

The second driver is an increase in non-milk related payables of $13.7 million year on year.

These increases are offset by an $18.1 million decrease in revenue in advance year on year (FY18: $21.8 million, FY17: $39.9 million) driven by a proportionately higher application of deposits received to sales during the year.

TOTAL NET DEBT

Total net debt at year end, including both current and term debt facilities less cash on hand was $114.9 million, an increase of $32.3 million over the FY17 balance of $82.6 million.

$ million	FY18	FY17
Current debt	$49.3	$72.4
Term debt	$97.1	$83.6
Cash on hand	($32.1)	($73.8)
Loan facility fees	$0.6	$0.4
Total Net Debt	$114.9	$82.6

Cash spent on investing activities of $119.4 million (FY17: $60.1 million) during the financial period was offset by cash from operating activities of $98.4 million (FY17: $115.2 million), resulting in a free cash outflow of $21.1 million from operating and investing activities. This together with cash outflows from interest paid of $11.2 million (FY17: $21.1 million) accounts for the movement in net debt. Operating cash flows are discussed further below.

With Net Debt of $114.9 million, our gearing (Net Debt / Net Debt + Equity) is 20.9% (FY17: 18.7%) and our leverage (Net Debt / EBITDA) is 0.83x (FY17: 0.93x).

DERIVATIVES

As at 31 July 2018 we held $459.3 million USD in foreign exchange contracts as detailed in note 14 of the annual financial statements. These have been placed across a 24-month future period, in accordance with our Treasury Policy.

Given the recent depreciation in the NZD/USD exchange rate, we have mark to market unrealised losses associated with these contracts at year-end of $7.0 million after tax. 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 $108.5 million of interest rate swap agreements at year-end (FY17: $113.5 million) at various weighted average interest rates, generating an unrealised mark to market loss of $4.0 million after tax due to the fall in interest rates since these contracts were entered into.

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 $15.3 million NZD were in place at year end (FY17: $3.2 USD), with an unrealised mark to market gain of $0.1 million NZD after tax.

Year-on-year there was a $38.1 million reduction in the cash flow hedge reserve from $23.1 million in FY17 to ($15.0) million in FY18. This is primarily due to a softening of the NZD / USD exchange rate. At 31 July 2017 the Group held $300.5 million of foreign exchange derivatives. Due to the high NZD / USD spot rate of 0.75 at 31 July 2017, higher than the Group's average contracted rate on its foreign exchange derivatives at that date of 0.694, an unrealised gain of $29.3m was recognised as a derivative asset. At 31 July 2018 the Group held $459.3 million of foreign exchange derivatives. Due to the low NZD / USD spot rate of 0.68 at 31 July 2018, lower than the Group's average contracted rate on its foreign exchange derivatives at that date of 0.694, an unrealised loss of ($9.7) million was recognised as a derivative liability.

OPERATING CASH FLOWS

Operating cash flows at $98.4 million were $16.8 million down on FY17 at $115.2 million. The primary reason for this reduction was associated with the increase in inventory holdings at year end, described earlier in this report.

BANK FACILITIES AND COVENANTS

The company 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 $120.0 million. This is a dual currency (NZD & USD) facility. The facility limit increased to $225m effective from 21 August 2018.
2. Revolving Credit Facility A – matures 30 July 2021. A $45m facility limit with amortisation of $30 million on 1 August 2018. The limit increases to $150m on 29 March 2019 with amortisation of $30m on 31 July 2020.
3. Revolving Credit Facility B - matures 31 July 2023 with a fixed facility limit of $100m.

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 (FY18: 14.95x).
2. Minimum shareholders' funds – exceeds $295.5 million (FY18: $425.2 million).
3. Working capital ratio – at all times exceeds 1.50x (FY18: 4.52x).
4. Leverage ratio – no more than 3.5x (FY18: 0.82x).

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 company has renewed its facility arrangements with our bank syndicate as noted above.

Nigel Greenwood
CHIEF FINANCIAL OFFICER

BOARD OF DIRECTORS

Graeme Milne

CHAIR (INDEPENDENT)

Dr. John Penno

BOARD APPOINTED DIRECTOR

Sam Knowles

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Bill Roest

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Hon. Ruth Richardson

NON-EXECUTIVE DIRECTOR

Min Ben

BRIGHT DAIRY APPOINTED DIRECTOR

Sihang (Edward) Yang

BRIGHT DAIRY APPOINTED DIRECTOR

Qikai (Albert) Lu

BRIGHT DAIRY APPOINTED DIRECTOR

For more info visit our website www.synlait.com/about/key-people/

SENIOR LEADERSHIP TEAM

Left to Right:

Leon Clement
CHIEF EXECUTIVE OFFICER (ELT)

Nigel Greenwood
CHIEF FINANCIAL OFFICER (ELT)

Neil Betteridge
DIRECTOR, OPERATIONS (ELT)

Chris France
DIRECTOR, STRATEGY AND TRANSFORMATION (ELT)

Dr. Suzan Horst
DIRECTOR, QUALITY REGULATORY AND LABORATORY SERVICES (ELT)

Boyd Williams
DIRECTOR, PEOPLE, CULTURE AND PERFORMANCE (ELT)

Matthew Foster
GENERAL MANAGER, STRATEGIC PROJECTS

Rob Stowell
GENERAL MANAGER, SUPPLY CHAIN

Antony Moess
GENERAL MANAGER, MANUFACTURING

Callam Weetman
GENERAL MANAGER, SALES

Deborah Marris
DIRECTOR, LEGAL, RISK AND GOVERNANCE (ELT)

Hamish Reid
DIRECTOR, SUSTAINABILITY AND BRAND (ELT)

Martijn Jager
DIRECTOR, SALES AND BUSINESS DEVELOPMENT (ELT)

Roger Schwarzenbach
GENERAL MANAGER, INNOVATION AND TECHNICAL SERVICES

OUR GOVERNANCE

Our Board has continued to develop a best-in-class governance model for our shareholders. The governance of our company lies with our Board. Our Directors are committed to ensuring the company is well managed, focused on success and delivers value to our shareholders.

Our Senior Leadership Team (SLT) are highly skilled and committed to our vision of becoming the world's most innovative and trusted dairy company. The team is led by our CEO, Leon Clement, and consists of an Executive Leadership Team (ELT) and senior executives.

MEMBERSHIP

At the Annual Meeting of Shareholders (AMS) in November 2017, Bill Roest retired and was re-appointed in accordance with our Constitution. Graeme Milne will retire at the AMS this year. The independent directors are able to be re-appointed by shareholders upon returning, subject to the Director wishing to stand for re-election. More on how our Directors are appointed is detailed in section 2 of our Corporate Governance Report at page 40.

Governance highlights from 2018

- The Board held three strategic workshops this year (in November 2017, March 2018 and June 2018), in conjunction with the SLT where our purpose and vision were reviewed and our strategy and key initiatives were discussed. The Board and SLT value these sessions as they increase interaction and align thinking on the future direction of the business. In June 2018, the Board and some members of the SLT travelled to Europe as part of a focus on sustainability measures in dairy processing to view developments in Europe. The trip included visits to some of the leaders in sustainability including Danone, DWS and Tetra Pak.
- The SLT has expanded during 2018, and now includes three new members as detailed in the Senior Leadership Team page 35.
- Director and SLT succession planning was reviewed, updated and confirmed.
- During the year, Synlait expanded its focus on risk management appointing a Director of Legal, Risk, and Governance, Deborah Marris, to the ELT and a Senior Risk Manager, Curtis Morton.

OUR BOARD

Our Board is responsible for the overall corporate governance of Synlait Milk Limited, including strategic direction, determination of policy, approval of significant contracts and projects, capital and operating budgets and overall stewardship of our organisation. Our Board is committed to ensuring we make the most from milk, while efficiently and effectively managing the company to deliver on stakeholders' expectations.

We are a non-standard company in terms of NZX listing requirements with certain waivers from the NZX in this regard. More details on the NZX waivers are detailed in our Statutory Information section of this Annual Report (page 107), but generally the waivers concern the appointment of our Directors.

Our Board has up to eight Directors, and while our major shareholder Bright Dairy holds at least 37% of our shares (excluding shares issued under employee share schemes), Bright Dairy may appoint up to four of those Directors – one of whom must be ordinarily resident in New Zealand and who is an experienced listed company Director of standing in New Zealand. We are fortunate to have one of our long-serving Board members, the Hon. Ruth Richardson, to fulfil this role.

We also currently have a Director appointed by the Board, who cannot be a Bright Dairy Director, (John Penno) and three independent Directors (Sam Knowles, Graeme Milne and Bill Roest). Our independent Directors bring considerable expertise and experience to the Board.

Each of our Directors is profiled on page 34 of this Annual Report and also on our website (www.synlait.com/about/key-people/board-of-directors). A third of our independent Directors retire each year. Bright Dairy may appoint their Directors as they wish (but one must always be a New Zealand resident, experienced Director).

A detailed summary of the governance arrangements under the waiver is set out further in section 2 of the Corporate Governance Report on page 40.

More details can be found in our Constitution on our website (www.synlait.com/investors/corporate-governance/).

The Directors held the following meetings (including meetings in person or by conference call during the year):

- **Board:** Six meetings and two workshops (including one offshore).
- **Audit and Risk Committee:** Five meetings.
- **People and Governance Committee:** Three meetings.

OUR COMMITTEES

We have the following permanent Board Committees:

- **Audit and Risk Committee** – chaired by independent Director Bill Roest (other members are Qikai Lu and Graeme Milne). It is responsible for monitoring our internal control and risk management systems, financial reporting obligations, independent audit processes and ensuring we comply at all times with all applicable laws, regulations, listing rules and our own company policies and procedures.
- **People and Governance Committee** (formerly the Remuneration and Governance Committee) – chaired by Hon. Ruth Richardson (other members are Graeme Milne, Min Ben, Sam Knowles and Bill Roest). It is charged with ensuring our commitment to health and safety, best practice employment and that fair and proper remuneration is maintained at all times. The Committee is also responsible for ensuring all training and development, succession planning and proper governance structures are in place and are being properly used at all levels of the company.

Both Committees have Charters governing their operation, membership and remit to allow the company to be optimally managed and governed at all times. The Charters are available on our website (www.synlait.com/investors/corporate-governance/). Both Committees meet at least three times a year, but are also available at any stage to consider any issue within their responsibility.

We also have a Continuous Disclosure Committee:

- **Continuous Disclosure Committee** – chaired by the Board Chairman, Graeme Milne (other members being the Chief Financial Officer (CFO) and Chief Executive Officer (CEO), with the Chair of the Audit and Risk Committee as an alternate). It monitors compliance by the company and staff in relation to our Securities Trading Policy and Guidelines and oversees the disclosure of "material information" to the market in accordance with the requirements of the NZX Listing Rules and the cross-filing requirements under the ASX Listing Rules.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OUR CORPORATE GOVERNANCE REPORT

The Board and management of Synlait are committed to ensuring that the company adheres to best practice governance principles and meets all of its compliance obligations.

During this financial year, we have complied with the NZX Corporate Governance Code 2017 ('NZX Code') except where stated otherwise below. The NZX Code sets out eight fundamental principles ("Principle") designed to promote good corporate governance. Under each Principle, the NZX Code recommends areas of good practice applying a 'comply or explain' approach.

Below we have set out our compliance with each Principle.

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'.

High ethical standards are demanded from all staff and Directors at Synlait Milk Limited. This commitment is reflected in our Code of Ethics which applies to Directors and employees alike, and is also outlined within our Synlait Standards which apply to employees. Both of these documents are available on our website (www.synlait.com/investors/corporate-governance/).

These documents set out very clear expectations of the behaviours expected of our people. The Synlait Standards needs to be read in accordance with our employment agreements and Employee Handbook which each staff member receives on induction. Our Employee Handbook contains detailed whistle-blower provisions should these ever be needed. To date, there have not been any incidents where these procedures have been used.

We have reviewed both our Code of Ethics and Synlait Standards during the year as part of our annual policy review cycle.

The Synlait Standards were first launched in March 2015, and again we are pleased to report compliance across the business. It is reassuring that the ethical and cultural standards we have defined for ourselves as a company are shared among our 600-plus employees.

Synlait has a number of corporate policies including a Securities Trading Policy, Continuous Disclosure Policy and Guidelines and Related Party Transactions Policy. These policies are regularly referred to and form part of the Synlait Milk induction process for all employees.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

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

Under our Constitution, we have a specific structure and appointment regime for our Directors.

We are a non-standard company in terms of NZX listing requirements, with certain waivers from the NZX in this regard. More details on the NZX waivers are detailed in our Statutory Information section in this Annual Report (page 107), but generally the waivers concern the appointment of our Directors.

Our Constitution, as approved by the NZX, outlines the composition of the Board of Directors as follows (provided Bright Dairy continues to hold at least 37% of our shares, excluding shares issued under employee share schemes):

- There must be a minimum of three Directors and a maximum of eight Directors.
- Four Directors may be appointed by Bright Dairy (one of whom must be ordinarily a resident in New Zealand and be an experienced listed company Director of standing in New Zealand). All Bright Dairy Directors are required to have appropriate skills and expertise to ensure Synlait Milk Limited has a suitable mix of skills and experience on the Board.
- There must be at least three independent Directors.
- The Chair must be an independent Director (this also applies to the Chair of the Audit and Risk Committee) and the Chair of the Board has a casting vote except where two Directors form a quorum at a meeting of the Board.

- The Board must appoint a Managing Director who cannot be one of the Bright Dairy appointed Directors. The Managing Director 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.

At each AMS one third of the independent Directors must retire and will be eligible for re-election by the shareholders. The longest serving independent Director must be the one to stand down. None of the Bright Dairy Directors will be required to retire by rotation and are not subject to removal by an ordinary resolution. However, on Bright Dairy ceasing to have 37% of our shares, Synlait Milk Limited may require these Directors to retire by rotation at the next annual meeting even if they are not the longest serving on the Board.

In addition to the above, 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.

Each of our independent Directors meets the criteria required to be classed as "independent".

The Board has its own Charter which has been updated this year. This is available on our website (www.synlait.com/investors/corporate-governance/). It sets out the formal delegations. This is then enshrined in our internal Delegated Authorities Policy, which is available to all staff on our intranet.

We operate a formal review of all Directors (including our Chairman), their performance, tenure plans, capacity and training at least once every three years. We perform detailed reviews of the effectiveness and functioning of our Board (including the Board Committees) and the composition of the skill-sets and experience of our Directors.

We have established regular workshops for the Board and SLT to attend together. Three detailed workshops for Directors and our SLT were held during the year. Two of these workshops focused on strategy setting sessions. The Board spent a number of sessions with SLT working on a new corporate brand to reflect Synlait's move into the next 10 years. We hope to reveal this during 2019. As well as reviewing company values, strategy and initiatives, there was a focus on sustainability and health and safety management.

We have induction programmes and succession plans at Board and Committee levels. Due to our smaller size, relative to many other publicly listed entities, we do not have a separate standing Nomination Committee. However, the People and Governance Committee oversees nominations to the Board and undertakes the role of a Nomination Committee. For key appointments to our SLT, our Chairman, Managing Director and Director of People, Culture and Performance, interview candidates.

The Directors profiles are on our website (www.synlait.com/about/key-people/board-of-directors/) and are detailed on pages 34 of this Annual Report.

During this financial year we did not have any newly appointed directors. Moving forward, any newly appointed Director at Synlait will enter into a Director Appointment Agreement.

Diversity and Inclusion Policy

We have not had a formal, published diversity policy during the year, but we have finalised our Diversity and Inclusion Policy. We have made three key appointments to our Senior Leadership Team and will look to continue to build a diverse and inclusive community of great people throughout Synlait at all levels of the organisation. Our formal Diversity and Inclusion Policy has been adopted and is available on our website (www.synlait.com).

PRINCIPLE 3: BOARD COMMITTEES

'The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility'.

As mentioned above, both our Audit and Risk Committee and People and Governance Committee have formal Charters, which are reviewed for compliance each year. These Charters have recently been updated and can be found on our website along with membership details (www.synlait.com/investors/corporate-governance/).

Minutes are taken at meetings and all information is made available to Directors as required. We use the online portal tool "Board Papers", which is managed and securely hosted by Pervasent Inc. This means our Directors not only have the latest Board or Committee papers available to them, but also a library of reference material, past meeting minutes, resolutions and background papers available through the portal at any time.

Each Committee's recent proceedings are reported back by the respective chairman of the Committee at the next full Board meeting.

Our Audit and Risk Committee is chaired by independent Director Bill Roest, who is a member of the Chartered Accountants Australia and New Zealand and a fellow of the Association of Chartered Certified Accountants (United Kingdom). The majority of this Committee are independent Directors. Qikai Lu (a Bright Dairy appointed Director) is also a member. Qikai Lu brings considerable financial and business experience to the Committee, and is a former public accountant in China with one of the 'big four' chartered accounting firms.

Our People and Governance Committee is chaired by the Hon. Ruth Richardson, a Bright Dairy appointed Director. The majority of this Committee are independent Directors.

Our Strategic Remuneration Policy is available on our website (www.synlait.com/investors/corporate-governance/)

Each of the Directors' individual experience and qualifications are set out on our website (www.synlait.com/about/key-people/board-of-directors/).

We also have a Continuous Disclosure Committee. Further detail is provided in the following section.

Takeover Protocols

We recently introduced and formalised a Takeover Policy at the June Board meeting. Prior to establishing a formalised policy, we relied on our external legal counsel and advisors for advice. We are in the process of establishing more detailed takeover protocols as part of a Takeover Manual.

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'.

We are subject to the disclosure requirements of securities and other laws in New Zealand and Australia and comply with the NZX Main Board Listing Rules.

Continuous Disclosure Policy

We have a Continuous Disclosure Policy. This Policy is available on our website (www.synlait.com/investors/corporate-governance/).

Under this Policy, as previously mentioned above, the Board formed a Continuous Disclosure Committee chaired by Graeme Milne, our Chairman of the Board.

Meetings typically occur by email or phone as required, and have been very flexible and effective in considering issues of disclosure.

The Board takes very seriously its obligation of ensuring timely release of material information by Synlait Milk Limited to the NZX notifications platform as required by the NZX Listing Rules and the cross-filing obligations under the ASX Listing Rules. The Board can confirm that during the year its continuous disclosure obligations were complied with.

At each Board meeting, a detailed Compliance Report is presented to the full Board for review and discussion and is also considered separately by the Audit and Risk Committee. This report looks at regulatory matters and updates, continuous disclosure obligations around core headings and topics, earnings forecasts by analysts, core policy compliance, NZX disclosures issued during the period between meetings and a summary of where Synlait Milk Limited has been mentioned in the news.

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. BPR also measure forecasts against actuals, and explain the reasons for any variances – including whether these are timing differences or permanent variances.

At each Board meeting, the Business Performance Review (BPR) is reviewed in detail to understand the overall business performance.

In respect of the financial reporting for the interim and annual financial statements, the process is first governed by the Audit and Risk Committee. This Committee is charged with reviewing in significant detail the financial statements and accompanying material.

The Committee starts this process by receiving a report from our SLT – the Detailed Management Report. This Report considers the accounting policies used, preparation of the financial statements, accounting estimates, significant transactions, significant balances, additional disclosures, banking covenants and post-balance date events.

Specific specialised reports are also presented to the Committee for review, along with the complete set of draft financial statements (including notes to the accounts). For example, these reports may be in relation to treasury management functions and policies, stock and inventory provisions and underlying earnings.

An audit report also accompanies the financial statements from our auditors (currently Deloitte).

In order to support the robustness of the financial statements, our SLT provides written representations to the Directors in order for them to be satisfied with the internal systems and compliance within the organisation, which underlie the financial statement process.

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/).

Analysts are strictly dealt with according to our published Analyst and Media Policy, also on our website (www.synlait.com/investors/presentations/).

Key Governance Documents

All of our key Charters, Policies and Standards are available on our website (www.synlait.com/investors/corporate-governance/).

Non-Financial Disclosure

Previously, our Annual Report has focused on financial disclosure. During this financial year we have been establishing reporting frameworks to disclose material exposures to environmental, economic, social sustainability risks and other key risks at least annually. Furthermore, during 2018, we have set up a Steering Committee and Working Group to ensure that this information is properly collated and recorded in our Annual Report.

We have within this Annual Report reported on our sustainability initiatives and Health and Safety.

PRINCIPLE 5 - REMUNERATION

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

Our Directors' remuneration (including our Managing Director and CEO's remuneration) is set out in our Statutory Information section of this Annual Report on page 107.

Our Strategic Remuneration Policy is on our website (www.synlait.com/investors/corporate-governance/).

This Policy is reviewed each year to ensure it meets the strategic policy objective of attracting, rewarding and retaining staff with the requisite skills and capabilities to ensure our successful business outcomes. The Board has a structured approach to remuneration, focusing on performance equity, internal equity and external equity.

In addition, any change to remuneration is based on the consideration of five factors: job size, market movement, an individual's position in relation to the salary range, individual performance and eligibility for review.

The People and Governance Committee oversees the operation of our Remuneration Policy, and monitors the overall budgets for all employees. The Committee also recommends to the Board, for approval, the remuneration arrangements for our ELT and the CEO.

Our ELT and our employees' remuneration details are set out in our Statutory Information section of this Annual Report at page 107. We also assess our ELT's performance and the Directors' Fees annually.

We have the following share incentive plan in place for our senior staff:

Long Term Incentive Scheme

The current ELT has a Long Term Incentive (LTI) scheme which provides the opportunity of an award of shares in Synlait Milk Limited. The LTI share scheme is an annual scheme with Performance Share Rights (PSRs) granted to Board-approved participants each year. Participants receive PSRs which will be converted into ordinary shares in Synlait Milk Limited within 20 working days of the Board determining that the performance hurdles have been met during the assessment period, being the three financial years following the date of the award.

The employee must remain employed up to the determination date, otherwise the PSRs will lapse. 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.

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.

There are two performance hurdles, 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, with the degree of vesting in each case determined by a progressive vesting scale.

If our Total Shareholder Return (TSR) is greater than or equal to the 75th percentile of a Peer Group over the assessment period, 50% of the PSRs will vest. The Peer Group comprises the NZX 50 Index companies on the first day of the assessment period.

If our Earnings Per Share (EPS) over the assessment period equals the Board approved EPS target plus 10%, then 50% of the PSR will vest.

For either performance hurdle to be met, our TSR must be positive over the assessment period. 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.

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. PSRs are non-transferable and have no voting or other share rights and are otherwise subject to the rules of the LTI and individual award agreements.

The assessment period was slightly shorter for the first tranche of PSRs than three financial years due to the capital raising conducted between September and October 2016. Further, for the same reason, in calculating the number of PSRs, the closing price on the completion of the capital raising was used.

Participants are chosen in July each year that the plan is operational.

Short Term Incentive (STI) Scheme

We removed the STI from remuneration packages for salaried staff effective 1 August 2017 incorporating it into the base remuneration. We have now removed the STI from remuneration packages for waged staff with effect from 1 August 2018.

Other

We participate in Kiwisaver and pay the employer contribution of 3% to all employees participating in the Kiwisaver scheme as part of their fixed remuneration.

We also provide staff with, as part of their remuneration package, health insurance membership under the Southern Cross Wellbeing One policy. This cover 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 staff are also able to join the scheme at reduced rates.

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'.

To ensure that risks are managed appropriately and in a timely manner, the Audit and Risk Committee assists the Board by managing our risk through a robust enterprise risk management framework, which outlines the processes that are used to identify and manage potential and relevant risks for our business.

Our risk management framework incorporates the following:

- **Risk Management Policy:** This policy defines the purpose, objectives and principles which direct the implementation of risk management standards and guidelines, and defines clear roles and responsibilities for delivering on these objectives.
- **Risk Management Standard:** This standard describes in detail the requirements for meeting the objectives stated in our Risk Management Policy. This includes critical processes and functions which require detailed risk management practices, monitoring and reporting requirements, and standard definition and assessment criteria (including the Synlait Risk Matrix). This standard is supported by Risk Management Guidelines, which provide tools and guidance on how to best meet the requirements described in the standard.
- In addition, we are developing a refreshed Business Continuity and Incident Management Policy which promotes preparedness for effective response to significant disruptive events.

We have a clear incident management process and plans that ensure consistent and practical operational procedures are in place to manage significant events should they occur, including events categorised as crises.

We have tested our incident plan during the year.

The Board receives a Risk Report noting the top and emerging risks across the business. This report includes a summary of the company risk profile, highlights significant changes and emerging risks, analyses risk scenarios to quantify potential impact on objectives, and updates on the status of controls. This is then discussed in detail by the Board with senior management as required.

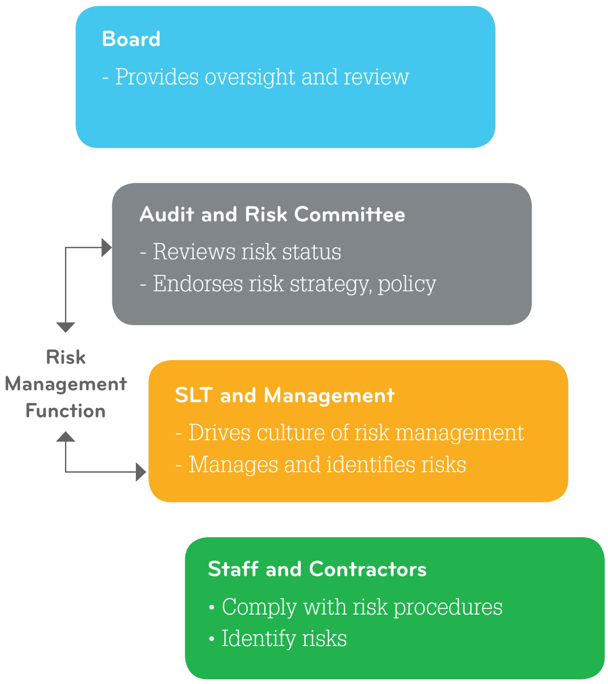
On a six monthly basis, the full Risk Register is presented to the Audit and Risk Committee as part of this process.

Risks are assessed in a consistent way, considering both the probability of the event occurring and the potential outcome(s) of the event. Outcome is a combination of the significance of consequence and the likelihood of that consequence being realised, given our current controls.

Our consequence categories by which risk is assessed are:

- Health, Safety and Wellbeing
- Food Safety and Quality
- Financial
- Operational (including Information Services, Manufacturing, Supply Chain, Research & Development)
- Legal and Compliance
- Environmental
- Reputation

Our risk management structure is set out below. The structure illustrates that risk is everyone's responsibility and must be supported at all organisational levels.



To enable the Board to properly assess risk within our business, we are developing a formalised reporting structure to capture enterprise-wide risks and also recognise the inter-dependencies between different functional areas in terms of risk management.

The risk management reporting responsibilities are summarised as:

RISK MANAGEMENT REPORTING RESPONSIBILITIES	
Board	- Review reports - Communicate risk information issues back to the company - Identify new and emerging risks
Audit and Risk Committee	- Review reports - Communicate risk information issues back to the company - Communicate key risk issues to the Board - Identify new and emerging risks
SLT and Management	- Review reports - Communicate key risk issues to the Audit and Risk Committee - Closely monitor extreme risks - Identify new and emerging risks
Risk owners	- Monitor and review the risks which they own - Prepare reports for the risks which they own - Provide their respective managers with information on the risks which they own - Identify new and emerging risks
Risk Management Function	- Prepare reports - Gather risk information, for example from risk owners - Identify new and emerging risks
Staff and contractors	- Provide risk information to those that request it - Monitor and review risks within their areas - Identify new and emerging risks

PRINCIPLE 7 – AUDITORS

'The Board should ensure the quality and independence of the external audit process'.

External Auditors

Our external auditors are presently the firm of Deloitte Limited. The lead audit partner on the engagement is Andrew Dick. More on Andrew can be found at (www2.deloitte.com/nz/en/profiles/andick.html).

Deloitte was originally appointed prior to the first AMS to provide auditing services to us as they are also the auditors used by Bright Dairy in China, and there are significant savings and administrative advantages in having both firms contracted in New Zealand and China, as Bright Dairy performs a consolidation of our accounts for their reporting purposes on the Shanghai Stock Exchange.

Each year both Directors and SLT review and assess the performance of our external auditors through an internal questionnaire reviewed by the Chair of the Audit and Risk Committee. This survey looks at all aspects of the services supplied by Deloitte to us including audit, relationship management and other professional services.

Any services provided by Deloitte outside of their audit function are carefully monitored. The Chair of the Audit and Risk Committee is consulted by management where there could be a perception that Deloitte's independence could be threatened. Where there is any doubt or risk to Deloitte's appearance of independence, then the required work is provided by another firm.

This has continued to be an area of focus for us this year. We do stress that we have never had a situation where we believe Deloitte's independence was actually ever in question.

In both March and September 2018, Deloitte provided us with an Independence Report, where all fees charged to Synlait Milk Limited were examined in detail to ensure there has been no actual threat, or any appearance of a threat, to the independence, integrity and objectivity of their role as our external auditor. These reports have not highlighted any areas for concern.

The work performed by Deloitte during FY18 is as follows:

AREA	OVERVIEW OF WORK INVOLVED	BASIS OF DECISION TO INVOLVE DELOITTE	INVOICED FEES
Taxation	Various engagements including income tax return review, GST review, payroll 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 cleared with the Audit and Risk Committee	$114,000

The above matters were closely examined by management and the Chair of the Audit and Risk Committee prior to engaging Deloitte on the tasks, to ensure the objectivity and independence of Deloitte as our external auditor was not compromised.

There is a good relationship between the Audit and Risk Committee (on behalf of the Board) and Deloitte. Separate sessions are held between the Directors and the audit partner to ensure there is no undue pressure or other issues in relation to the conduct of the audit engagement and reporting. If there were any complaints from our auditors, these could be directly raised with the Board, the Chair of the Audit and Risk Committee, or the Audit and Risk Committee itself.

Our auditors attend every Audit and Risk Committee meeting which is considering our Financial Statements, and also are asked to attend our AMS each year. Shareholders can ask our auditors any questions during the open AMS forum.

All fees paid to our auditors are also disclosed in our financial statements, and are in summary as follows (1 August to 31 July):

	FY18	FY17
Audit Work	$208,000	$154,000
Taxation compliance and accounting advice	$114,000	$41,000
Percentage (non-audit / audit)	55%	27%

In accordance with section 207T of the Companies Act, Deloitte will be automatically appointed at our AMS in November 2018 unless there is a resolution to the contrary. Our shareholders will be asked at the AMS whether or not they approve the Board to fix the auditor's fees and expenses for the current financial year (FY18) in accordance with section 207S of the Companies Act.

Internal Audit

During the year, we have undertaken substantial work to refresh our risk management framework and processes. As part of this refresh, we are in the process of establishing an Internal Audit Function which will primarily focus on risk assurance. We are implementing a Self-Assessment Assurance Programme with respect to ensuring good quality management, information security management, privacy and compliance.

PRINCIPLE 8 - SHAREHOLDER RIGHTS AND RELATIONS

'The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer'.

Our Continuous Disclosure Policy (discussed under Principle 4) and Shareholder Communications Policy are designed to ensure that the NZX, ASX, shareholders and other stakeholders are kept updated on our activities and all major developments which affect us. It is of the utmost importance that we deliver this information in a timely and easily accessible way. Both policies can be found on our website (www.synlait.com/investors/corporate-governance/).

Access to Information

On our website we have an Investor Relations section (www.synlait.com/investors). Here shareholders will find:

- A live feed of our share price, with historical pricing and trading data.
- A complete set of all announcements and releases made by us to the NZX and ASX, and the general media.
- Key dates in the investor schedule, such as our AMS, financial statements release dates, planned announcements or updates.
- Copies of our Annual Reports and Interim Reports (including our initial offer document).
- All investor presentations.
- Shareholder information relating to our share register and how to contact our registry service provider (Computershare – see their details inside the back cover of this Annual Report).
- Our Corporate Governance section – with all our key governance documents available.
- Our analyst and media policy.
- FAQs.
- Contact details for investor matters.

This area is regularly updated by our Investor Relations and Communications teams.

Our AMS will be held this year in November in the early afternoon, in the Christchurch area, unless otherwise advised. All shareholders are warmly invited to attend and actively participate in the meeting.

As mentioned above, our auditors are requested to attend the AMS and the shareholders are given an opportunity to ask any questions of our auditors in an open session, chaired by the Chairman of the Board.

Stakeholder Interests

In alignment with Global Reporting Initiative recommendations, in FY18 we undertook a review of material sustainability topics, with input from internal stakeholders from across Synlait's business and operations. These are topics with the most material relevance to our stakeholders and the greatest significance to Synlait's Environment, People, and Enterprise impacts.

As a publicly listed company, we have important relationships with our key stakeholders including our investors, employees, customers, dairy farmers, suppliers, bankers, creditors, site neighbours, local communities and the wider regions in which we operate.

We depend heavily on the professionalism and competence of our milk suppliers and support them through Lead With Pride™ (LWP). LWP is our best practice dairy farming certification programme. LWP recognises and financially rewards milk suppliers who achieve dairy farming best practice. It is transformational and guarantees the integrity of pure natural milk produced on certified dairy farms.

There are four pillars to LWP: milk quality, environment, animal health and welfare, and social responsibility. The outputs of these programmes on farm are designed to benefit not only the milk suppliers, but their staff, their neighbours and the wider community in Canterbury, New Zealand.

Each year, all of our milk suppliers are invited to our Suppliers Conference in June. We also invite a range of customers, rural and financial professionals and Synlait staff. At this year's Supplier Conference we announced our focus on creating a sustainable future with bold targets aimed at reducing our environmental impact significantly as set out on pages 18-25. At the conference, we held our 2018 Dairy Honours Awards ceremony and recognised the achievements of our milk suppliers with nine major awards focused on best practice dairy farming. In addition, a number of suppliers were inducted into the LWP honour roll.

We also work very closely with all our ingredient suppliers, transport partners, temporary staffing agencies, engineering partners, and contractors. We have contracts with each of them to regulate our relationships fairly, and to clearly define and detail our expectations of the highest quality products and services.

All of our key ingredient suppliers are thoroughly audited and reviewed on a regular basis by our Procurement Team in addition to the continual quality monitoring programming which we have in place throughout our supply-chain and production process.

We value our relationship with iwi and remain a party to a Cultural Advisory Group with Te Taumutu Rūnanga which was established in FY16 to further our strategic relationship. This Cultural Advisory Group aims to improve collaboration and strengthen our relationship by providing a mechanism to engage outside Resource Management Act processes where consultation has traditionally occurred.

Being a good member of the community is important to Synlait. We hand deliver our 'In the Loop' newsletter to our neighbours when we have news to share. This newsletter is a key tool in keeping our neighbours informed about our operations, our upcoming plans and gives the opportunity speak to them in person to ensure our relationship remains strong.

In FY18 we also continued to sponsor our local rugby club (Dunsandel-Irwell Rugby Football Club Inc.) via a sponsorship valued at $12,500. We are active supporters of farming and agricultural activities, conferences, workshops and programmes throughout rural Canterbury.

Our Milk Supply team regularly makes its BBQ trailer available to grassroots fundraising and community events.

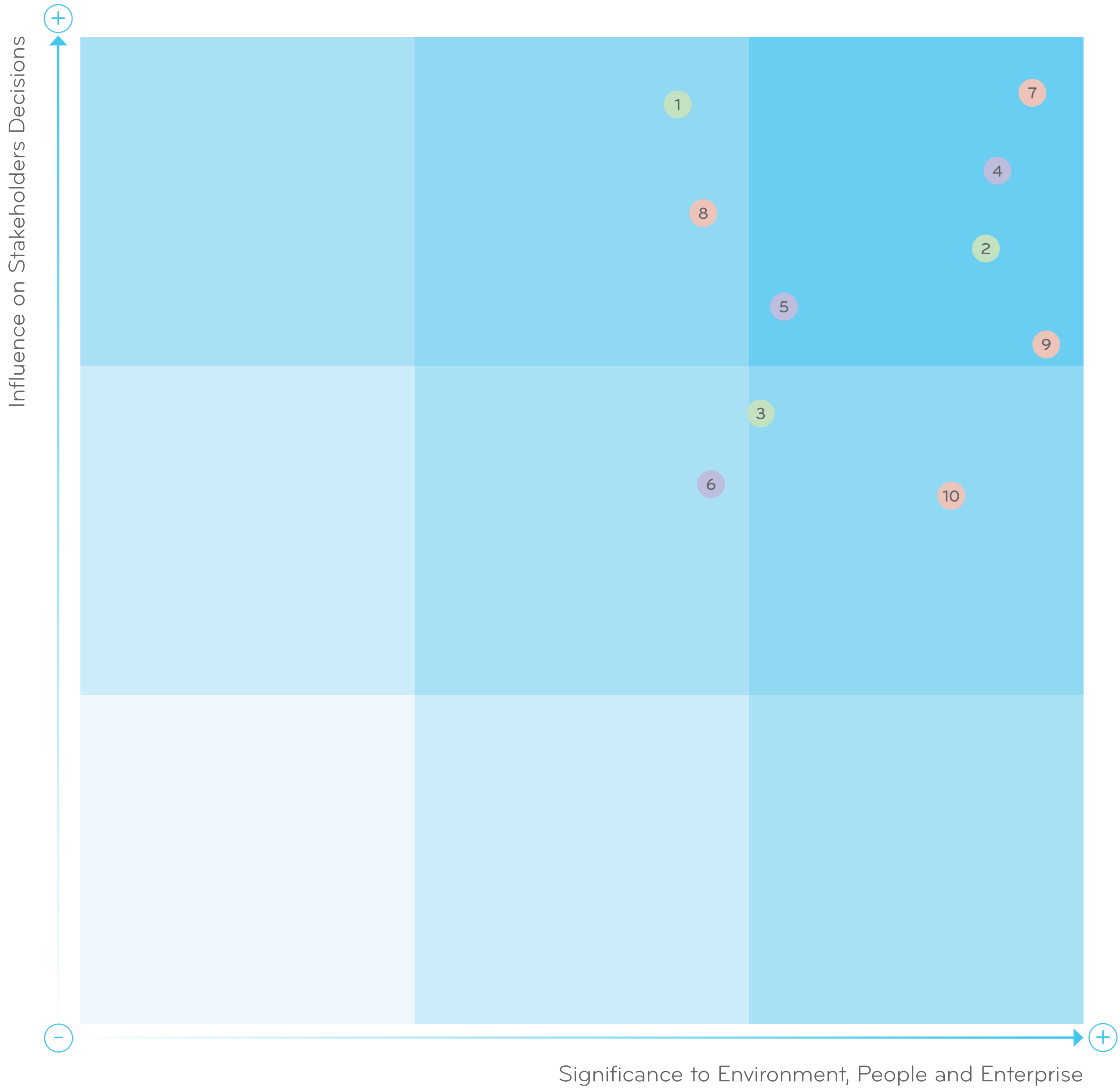
Our own staff are well served with regular communications. On a quarterly basis our staff newsletter Vantage is distributed, and on a monthly basis a business update is communicated to all staff at a team level. This is on top of noticeboards, regular team meetings, an active intranet portal and several events during the year to bring teams and the company together for work and social purposes.

Our social club is very active and makes sure a variety of events and activities are available for staff and their families throughout the year. This included barbeque events at the Dunsandel site, movie and theatre nights, pub quizzes, an annual ski day, an All Blacks rugby trip, and more.

We also have policies governing all our interactions with these various stakeholders which establish a framework for acting fairly towards them, and this is enshrined at Board level within or Code of Ethics and within our Synlait Standards. Copies of both documents are on our website (www.synlait.com/investors/corporate-governance).

The Board assess compliance with these policies annually.

MATERIALITY MATRTIX



ENVIRONMENT

1 Climate Change
2 Animal Health and Welfare
3 Water Management

PEOPLE

4 Employee Health, Safety and Well-being
5 Sustainable Supply Chain
6 Thriving Farms and Farm Workers

ENTERPRISE

7 Food Safety
8 Innovation
9 Industry Leadership
10 Talent Attraction and Development

OUR FINANCIAL STATEMENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2018

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DIRECTORS' DECLARATION

31 JULY 2018

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, and Eighty Nine Richard Pearse Drive Limited (together "the Group") as set out on pages 52-101 for the year ended 31 July 2018.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2018 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
18 September 2018

Willem Jan (Bill) Roest
INDEPENDENT DIRECTOR
18 September 2018

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2018

	Notes	2018 $'000	2017 $'000 (restated)
Revenue	1	879,001	758,994
Cost of sales	2	(712,533)	(646,942)
Gross profit		166,468	112,052
Other income	1	430	680
Share of profit/(loss) from associates	17	426	(560)
Sales and distribution expenses	2	(20,603)	(16,558)
Administrative and operating expenses	2	(33,636)	(28,021)
Earnings before net finance costs and income tax		113,085	67,593
Finance expenses	9	(8,969)	(11,429)
Finance income	9	1,023	18
Loss on derecognition of financial assets	4,9	(1,329)	(802)
Net finance costs	9	(9,275)	(12,213)
Profit before income tax		103,810	55,380
Income tax expense	16	(29,257)	(15,850)
Net profit after tax for the year		74,553	39,530
Earnings per share			
Basic and diluted earnings per share (cents)	11	41.60	22.82

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2018

	Notes	2018 $'000	2017 $'000 (restated)
Profit for the period		74,553	39,530
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	14	(38,081)	3,597
Income tax on other comprehensive income	16	10,663	(1,007)
Total items that may be reclassified subsequently to profit and loss		(27,418)	2,590
Other comprehensive income for the year, net of tax		(27,418)	2,590
Total comprehensive income for the year		47,135	42,120

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2018

Group	Notes	Share capital $'000	Employee benefits reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total equity $'000
Equity as at 1 August 2016 (restated)		172,247	435	14,032	52,453	239,167
Profit or loss for the year (restated)		–	–	–	39,530	39,530
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		–	–	4,265	–	4,265
Movement in time value hedge reserve		–	–	(668)	–	(668)
Income tax on other comprehensive income		–	–	(1,007)	–	(1,007)
Total other comprehensive income		–	–	2,590	–	2,590
Issue of new shares	11	95,409	–	–	–	95,409
Employee benefits reserve	12,13	–	19	–	–	19
Capitalisation of employee benefits reserve		418	(418)	–	–	–
Total contributions by and distributions to owners		95,827	(399)	–	–	95,428
Equity as at 31 July 2017 (restated)		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)
Net change in fair value of cash flow hedges transferred to profit and loss		–	–	–	–	–
Income tax on other comprehensive income		–	–	10,663	–	10,663
Total other comprehensive income		–	–	(27,418)	–	(27,418)
Employee benefits reserve	12, 13	–	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

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2018

	Notes	2018 $'000	2017 $'000 (restated)	2016 $'000 (restated)
Current assets				
Cash and cash equivalents		32,129	73,827	2,045
Trade and other receivables	4	47,145	79,028	37,793
Goods and services tax refundable		6,536	5,080	656
Income accruals and prepayments		4,340	2,862	2,446
Inventories	5	145,404	82,695	73,885
Derivative financial instruments	14, 15	2,906	14,995	33,049
Other current assets		1,375	–	–
Total current assets		239,835	258,487	149,874
Non-current assets				
Property, plant and equipment	7	537,669	448,114	409,635
Intangible assets	8	11,051	3,246	4,140
Goodwill	8	3,643	3,643	–
Other investments	17	690	264	824
Derivative financial instruments	14,15	793	17,431	1,729
Total non-current assets		553,846	472,698	416,328
Total assets		793,681	731,185	566,202
Current liabilities				
Loans and borrowings	10	49,321	72,448	46,546
Trade and other payables	6	152,199	142,084	55,598
Current tax liabilities		27,391	13,894	11,702
Derivative financial instruments	14,15	7,783	3,904	6,737
Total current liabilities		236,694	232,330	120,583
Non-current liabilities				
Loans and borrowings	10	97,065	83,637	168,908
Deferred tax liabilities	16	24,364	33,486	28,990
Derivative financial instruments	14, 15	10,814	5,017	8,553
Total non-current liabilities		132,243	122,140	206,451
Total liabilities		368,937	354,470	327,034
Equity				
Share capital	11	268,074	268,074	172,247
Reserves	13	(9,866)	16,658	14,467
Retained earnings		166,536	91,983	52,453
Total equity attributable to equity holders of the Group		424,744	376,715	239,168
Total equity and liabilities		793,681	731,185	566,202

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2018

		2018	2017
	Notes	$'000	$'000
Cash flows from operating activities			
Cash receipts from customers		893,618	738,042
Cash paid for milk purchased		(494,695)	(401,065)
Cash paid to other creditors and employees		(285,163)	(207,578)
Goods and services tax (payments)		(1,456)	(4,055)
Income tax payments		(13,914)	(10,169)
Net cash inflow from operating activities	3	98,390	115,175
Cash flows from investing activities			
Interest received		1,023	18
Acquisition of property, plant and equipment		(110,416)	(33,057)
Proceeds from sale of property, plant and equipment		(168)	19
Acquisition of intangible assets		(9,873)	(226)
Acquisition of subsidiaries, net of cash acquired		–	(26,906)
Net cash outflow from investing activities		(119,434)	(60,152)
Cash flows from financing activities			
Receipt of cash from issue of shares (net)	11	–	95,409
Drawdown/(repayments) of borrowings		13,700	(92,405)
Net movement in working capital and trade finance facilities		(23,126)	25,902
Interest paid		(11,228)	(12,147)
Net cash (outflow) / inflow from financing activities		(20,654)	16,759
Net (decrease) / increase in cash and cash equivalents		(41,698)	71,782
Cash and cash equivalents at the beginning of the financial year		73,827	2,045
Cash and cash equivalents at end of year		32,129	73,827

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

STATEMENT OF ACCOUNTING POLICIES

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, and Eighty Nine Richard Pearse Drive 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').

The financial statements were authorised for issue by the directors on 18 September 2018.

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, standard costs used for measuring inventory, the industry milk price, impairment of land, buildings, and plant and equipment, the derecognition of financial assets, and the assessment of impairment of goodwill.

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 property, plant and equipment.

P = Accounting policies

E = Accounting estimates

STATEMENT OF ACCOUNTING POLICIES

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 2018 but which the Group has not early adopted:

- *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, classifications and impairment of financial assets. The Group has previously early adopted NZ IFRS 9 (2013) effective from 1 August 2014. NZ IFRS 9 (2014) is the final replacement of IAS 39 and consolidates previous issuances of NZ IFRS 9. This standard will be effective from the Group's 2019 financial year.

  Based on preliminary analysis, the Group will be required to adopt the new single forward-looking impairment model on a holistic view based on a full lifetime expected loss basis of trade debtors. The directors do not anticipate that the implementation of NZ IFRS 9 (2014) will have a significant impact on the financial performance of 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. This standard will be effective for the Group's 2019 financial year.

  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. Based on preliminary analysis, the directors do not anticipate that the implementation of NZ IFRS 15 will have a significant impact on the financial performance of the Group.

- *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, similar to current finance lease accounting. This standard will be effective from the Group's 2020 financial year. This standard is unlikely to have a material impact on the Group's financial statements.

- *NZ IFRS 17 'Insurance Contracts' (effective 1 January 2021)*

  NZ IFRS 17 provides a consistent framework for accounting for insurance contracts. This standard will be effective from the Group's 2022 financial year. The impact of this standard has not yet been determined.

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

The Group adopted a policy of revaluing its property, plant and equipment in 2009 with the first revaluation applied with an effective date of 31 July 2012. The Group has relied upon independent valuations of such assets for determining fair value. As dairy processing assets are specialised in nature and there is a limited market for trading them in New Zealand revaluations have been prepared on a depreciated replacement cost basis to determine the fair market value.

STATEMENT OF ACCOUNTING POLICIES

The Group has elected to make a voluntary change in accounting policy in relation to the measurement basis for property, plant, and equipment and move to a cost basis as it is reliable and more relevant. The cost basis is considered a reliable basis for measurement of property, plant, and equipment as the Group has maintained its fixed asset register with comprehensive records of the cost and accumulated depreciation of all assets. Cost will become increasingly relevant as the Group continues to expand into new business segments in multiple geographical locations. Cost aligns with both local and global dairy industry practice for similar long lived core operating assets. Cost also aligns with the policy of the Group's largest shareholder, Bright Dairy & Food Co., Ltd.

During FY18 the Group has signalled a significant change to its business, announcing the construction of the liquid milk plant, to be commissioned during FY19, which is its first move into the fast moving everyday dairy consumer goods business, with further strategic growth in this area expected. Furthermore, during FY18 the Group commissioned its Auckland blending and canning plant, opened its Palmerston North R+D centre, and announced the build of its Pokeno spray drying operation (due to be commissioned during FY20). Further investments into production capacity and at new locations is expected over time. Due to the Group's organic growth and anticipated growth into the everyday dairy and adult nutrition categories, management considers that FY18 is the appropriate juncture to change its accounting policy.

The change in accounting policy has been applied retrospectively to the year ended 31 July 2012 which is the effective date of the first revaluation the Group applied to its property, plant, and equipment. The Group has maintained detailed cost records which have allowed for property, plant, and equipment to be restated at actual historical cost less subsequent accumulated depreciation in each of the previous fiscal years dating back to 31 July 2012.

The change in accounting policy has had the following impacts on the current and prior years presented in these financial statements:

	2018	2017	2016	2015	2014	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Decrease in depreciation	1,816	1,816	1,816	599	599	599	-
Increase in income tax expense	(508)	(508)	(508)	(168)	(168)	(168)	-
Increase in profit for the year	1,308	1,308	1,308	431	431	431	-
Decrease in property, plant and equipment	(20,621)	(22,438)	(24,254)	(26,071)	(9,859)	(10,458)	(11,056)
Decrease in deferred tax	5,562	6,071	6,579	7,088	2,713	2,880	3,048
Decrease in asset revaluation reserve	(20,276)	(20,276)	(20,276)	(20,276)	(8,008)	(8,008)	(8,008)

	2018	2017	2016	2015	2014	2013	2012
Increase in basic and diluted earnings per share ($)	0.008	0.008	0.009	0.003	0.003	0.004	0.000

PERFORMANCE

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

1 REVENUE RECOGNITION AND SEGMENT INFORMATION

SALES OF GOODS

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the associated costs and possible return of goods can be estimated reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

	2018	2017
	$'000	$'000
Dairy products	879,001	758,994
Other sundry income	430	680
Total income	879,431	759,674

DESCRIPTION OF SEGMENTS

The Group operates in one industry, being the manufacture and sale of milk powder 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.

Although the Group sells to many different countries, the Group operates in one principal geographical area being New Zealand.

Revenues of approximately 69% (2017: 48%) are derived from the top three external customers.

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

	2018	2017
China	8%	8%
Rest of Asia	24%	37%
Middle East and Africa	9%	19%
New Zealand	30%	15%
Australia	26%	18%
Rest of World	3%	3%
Total	100%	100%

2 EXPENSES

	2018	2017
	$'000	$'000
The following items of expenditure are included in cost of sales		
Depreciation and amortisation	22,354	18,416
Employee benefit expense	42,948	29,674
Export freight	9,141	13,686
Rent	540	541
Increase / (decrease) in inventory provision	393	(1,441)
(Decrease) / increase in onerous contract provision	(12)	376
The following items of expenditure are included in sales and distribution		
Depreciation and amortisation	1,640	1,436
Employee benefit expense	8,964	6,582
Rent	2,450	2,389
The following items of expenditure are included in administrative and operating expenses		
Depreciation and amortisation	1,562	1,344
Employee benefit expense	17,141	12,974
Directors fees	601	498
Share based payments expense	588	21
Deloitte services included in administrative and operating expenses		
Statutory audit fee	168	125
Half year accounts review	40	29
Taxation compliance	114	30
Accounting advice and other consulting	–	11
Total Deloitte services	322	195

Export freight has decreased by $4.5m due to changes in customer mix.

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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

	2018	2017
	$'000	$'000
Profit for the year	74,553	39,530
Non-cash and non-operating items:		
Depreciation and amortisation of non-current assets	25,556	21,196
Loss / (gain) on sale of fixed assets	168	(19)
Write off intangibles	175	64
(Gain) / loss from associate	(426)	560
Non-cash share based payments expense	588	19
Interest costs classified as financing cash flow	9,001	11,429
Interest received classified as investing cash flow	(1,023)	(18)
Loss on derecognition of financial assets	1,297	802
Deferred tax	1,846	3,489
Gain / (loss) on derivative financial instruments	323	(420)
Movements in working capital:		
Decrease / (Increase) in trade and other receivables	31,884	(41,236)
(Increase) in prepayments	(1,477)	(416)
(Increase) in inventories	(62,709)	(8,810)
(Increase) in other current assets	(1,456)	(4,424)
Increase in trade and other payables	6,592	92,432
Increase in current tax liabilities	13,498	2,192
Working capital items acquired	–	(1,197)
Net cash inflow from operating activities	98,390	115,175

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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

P 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.

The recoverable amount of the Group's receivables which are carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

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.

For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experienced in portfolios with a similar amount of days overdue.

	2018	2017
	$'000	$'000
Trade receivables	46,566	77,550
Provision for doubtful receivables	–	(13)
Net trade receivables	46,566	77,537
Other receivables	579	1,491
Total receivables	47,145	79,028

(a) Impaired receivables

As at 31 July 2018, trade receivables of $1.4m were overdue but not impaired (2017: $1.6m). All of the overdue receivables have since been collected.

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

	2018	2017
	$'000	$'000
Over due by		
0 to 30 days	1,025	732
30 to 60 days	223	855
Over 60 days	124	48
Total overdue trade receivables	1,372	1,635

(b) Allowance for bad and doubtful receivables

The Group has recognised a loss of $nil in relation to unrecoverable trade receivables during the year (2017: $20,000).

(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$45.8m (2017: $77.1m) of USD denominated trade receivables.

(d) Derecognised financial assets

E 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 $68.5m of receivables as at 31 July 2018 (31 July 2017: $58.2m).

The Group has assessed its continuing involvement in the assigned receivables and determined that the fair value of continuing involvement is immaterial. The Group reassesses the facility for qualification for derecognition at each reporting date, when the terms of the facility are amended, and assesses each new customer at the initial assignment of a receivable. There have been no new customers 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 $6,320 per day 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 $1.3m arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

5 INVENTORIES

P 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.

E 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. Reviewing the net realisable values is carried out by management on a periodic basis and any reduction to cost is provided by way of stock provision.

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.

The estimate of the industry milk price is a key assumption applied by management in the financial statements. This industry price is used for milk purchased or received from other processors during the year..

	2018	2017
	$'000	$'000
Raw materials at cost	22,833	15,249
Finished goods at cost	94,881	54,930
Finished goods at net realisable value	27,690	12,516
Total inventories	145,404	82,695

The Group has increased its inventory holdings, particularly bulk infant formula, to meet forecast consumer packaged infant formula sales in the first two quarters of the 2019 financial year.

The total inventory provision as at reporting date was $2.1m (2017: $1.8m) of which $1.9m related to finished goods and $0.2m related to raw materials.

The total onerous contracts provision as at reporting date was $1.3m (2017: $1.3m).

6 TRADE AND OTHER PAYABLES

P 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.

	2018	2017
	$'000	$'000
Trade payables	55,328	34,986
Accrued expenses	91,985	103,590
Employee entitlements	4,886	3,508
Total trade and other payables	152,199	142,084

Payables denominated in currencies other than the functional currency comprise NZ$0.2m (2017: $0.4m) 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:

7 PROPERTY, PLANT AND EQUIPMENT

P 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.

P 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.

P 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.

E 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.

	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
Cost	3,499	117,858	349,868	5,641	6,036	482,902
Balance as at 1 August 2016	3,499	117,858	349,868	5,641	6,036	482,902
Additions	68	–	–	–	27,403	27,471
Acquisitions through business combinations	3,890	8,510	–	1,044	17,794	31,238
Reclassification / transfer	–	558	7,474	1,700	(9,732)	–
Disposals	–	–	(413)	(1)	–	(414)
Balance as at 31 July 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
Accumulated depreciation						
Cost	–	10,813	59,131	3,316	–	73,260
Balance as at 1 August 2016	–	10,813	59,131	3,316	–	73,260
Depreciation	–	3,669	15,395	858	–	19,922
Disposals	–	–	(103)	(1)	–	(104)
Balance as at 31 July 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
Carrying amounts						
As at 31 July 2017	7,457	112,442	282,505	4,209	41,501	448,114
As at 31 July 2018	7,457	118,351	327,002	4,184	80,675	537,669

(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 $80.7m is significantly greater than 2017 ($41.5m) due to the construction of the liquid dairy packaging facility, Synlait Pokeno, and the lactoferrin capacity expansion.

(c) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $0.8m (2017: $0.1m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset. Borrowing costs are currently being capitalised for the liquid processing and packaging plant, Synlait Pokeno, lactoferrin capacity expansion and the enterprise resource planning systems upgrade.

(d) Pokeno land deposit

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 Agreement for Sale and Purchase for the Pokeno land is now unconditional and Synlait has taken possession of the Pokeno land and begun construction of the nutritional spray drying facility, $12.7 million having been added to capital work in progress. Title to the Pokeno land has not yet transferred to Synlait as the vendor has additional obligations to complete. Accordingly, the Pokeno land is not included within the Group's property, plant and equipment.

8 INTANGIBLE ASSETS

E **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.

P

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 three to ten 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 first recognised as a deduction against revaluation reserves if the asset is measured using the revaluation model and then recognised in the profit or loss component of the statement of comprehensive income once those reserves have been exhausted. Impairment losses in relation to assets valued using the cost model 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.

	Goodwill	Computer software	Patents, trademarks and other intangibles	Intangibles in progress	New Zealand Units	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 31 July 2017						
Opening net book amount	–	3,520	340	280	–	4,140
Additions	–	49	–	431	–	480
Acquisition through business combination	3,643	223	–	–	–	3,866
Development costs recognised as an asset	–	277	45	(577)	–	(255)
Amortisation charge (note 2)	–	(1,240)	(38)	–	–	(1,278)
Asset disposals	–	–	(64)	–	–	(64)
Closing net book value	3,643	2,829	283	134	–	6,889
Year ended 31 July 2018						
Opening net book value	3,643	2,829	283	134	–	6,889
Additions	–	3,448	–	6,802	2,967	13,217
Development costs recognised as an asset	–	270	123	(3,736)	–	(3,343)
Amortisation charge (note 2)	–	(1,840)	(54)	–	–	(1,894)
Asset disposals	–	(175)	–	–	–	(175)
Closing net book value	3,643	4,532	352	3,200	2,967	14,694

Intangibles in progress of $3.2m at balance date is predominantly constituted of project to date spend on systems and process development. During the year $0.3m of software and other intangibles were determined to no longer meet the definition of an asset and were written off.

(a) Impairment tests for goodwill

As at 31 July 2018 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 five year future cash flows based on a Board approved business plan. Based on projected future cash flows within each model, 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% 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 any reasonably possible change in the key assumptions used in the calculation 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:

9 FINANCE INCOME AND EXPENSES

P 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.

	2018	2017
	$'000	$'000
Interest income on bank deposits	1,023	18
Total finance income	1,023	18
Interest and facility fees	(9,627)	(11,479)
Capitalised borrowing cost	658	50
Total finance costs	(8,969)	(11,429)
Loss on derecognition of financial assets	(1,329)	(802)
Net finance costs	(9,275)	(12,213)

10 LOANS AND BORROWINGS

P 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.

	2018	2017
	$'000	$'000
Working capital facility USD	49,321	72,448
Total current liabilities	49,321	72,448
Non-current liabilities		
Revolving credit facility	97,700	84,000
Loan facility fees	(635)	(363)
Total non-current liabilities	97,065	83,637

(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 $45m maturing 30 July 2021, with amortisation of $30m on 1 August 2018, subsequently increasing to $150m on 29 March 2019 (subject to conditions), and subsequently amortising $30m on 31 July 2020.
- A secured revolving credit facility (Facility B) of $100m maturing 31 July 2023.
- A secured working capital facility of NZD$120m with a USD$80m sublimit (sublimit ending 2 August 2018) maturing 21 August 2018.

The Group recently increased the working capital facility to $225m and extended it in August 2018 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 2018 and 31 July 2017.

	Nominal Interest rate %	Financial year of maturity	Carrying amount 2018	Carrying amount 2017
Secured revolving credit facility (Facility A) - ANZ / BNZ	2.96%	2021	15,000	84,000
Secured revolving credit facility - ANZ / BNZ	3.06%	2023	82,700	–
Secured working capital facility - ANZ / BNZ	2.98%	2018	49,321	72,448

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.

11 SHARE CAPITAL

P Ordinary shares are classified as equity.

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

During the year ended 31 July 2017 the Group successfully completed an accelerated rights issue and raised $97.6m of new share capital ($95.4m net of costs). The capital raise was represented by the issue of 32,519,239 new ordinary shares.

During the year ended 31 July 2017 362,592 new ordinary shares were granted to participants of the IPO incentive scheme as a result of share options vesting and being converted to ordinary shares. These shares were issued to the participants at no cost. $0.4m was capitalised from the employee benefits reserve to share capital.

	2018	2017	2018	2017
(a) Share capital	Shares	Shares	$'000	$'000
Ordinary shares				
On issue at beginning of period	179,223,028	146,341,197	268,074	172,247
Rights issue	–	32,519,239	–	95,409
IPO incentive scheme	–	362,592	–	418
On issue at end of period	179,223,028	179,223,028	268,074	268,074

The weighted average number of shares during the year of 179,223,028 (2017: 173,204,858) is used to calculate Earnings per Share.

(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.

P 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.

12 SHARE BASED PAYMENTS

(a) LTI share scheme

P 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:

	2018	2017
Outstanding 1 August	253,685	–
Granted during the year	253,154	276,070
Forfeited during the year	–	(22,385)
Exercised during the year	–	–
Outstanding 31 July	506,839	253,685

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:

	2018 PSRs	2017 PSRs
Risk free rate	2.54%	2.40%
Volatility	28.53%	32.70%
Share price at entitlement date	$4.53	$3.25
Share price at grant date	$7.65	$3.75
Total value of options granted at grant date ($000's)	1,779	733

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:

	2018	2017
	$'000	$'000
Expenses for equity settled share based payment transactions	588	19

13 RESERVES AND RETAINED EARNINGS

(a) Retained earnings

Movements in retained earnings were as follows:

	2018	2017
	$'000	$'000
Balance 1 August	91,983	52,453
Net profit for the year	74,553	39,530
Balance 31 July	166,536	91,983

(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 is comprised of the cumulative share based payment expense for share options not yet vested, and the related movement in deferred tax asset.

(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:

14 FINANCIAL RISK MANAGEMENT

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.

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 New Zealand 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 2018, the Group has hedged 50% of its exposure to foreign exchange risk on sales, and 15% of its exposure to foreign exchange risk on payables, over the following two 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 three years, 20% to 60% of the risk that matures between three and five years, and 0% to 40% of the risk that matures between five and ten years.

P **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:

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

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

Credit risk

The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. 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:

	2018		2017	
	USD	AUD	USD	AUD
Statement of financial position exposure before hedging activities	$'000	$'000	$'000	$'000
Trade receivables	31,222	–	57,912	–
Trade payables	(139)	(3)	286	8
Working capital / trade finance facility	(33,647)	–	(54,383)	–

The Group's exposure to foreign currency in the period ended 31 July 2018 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:

	2018		2017	
	Weighted average exchange rate	Nominal balance	Weighted average exchange rate	Nominal balance
		USD'000		USD'000
Exports				
Less than 1 year	0.6916	274,800	0.7034	172,100
1 to 2 years	0.7008	210,000	0.6915	168,200
Imports	–	–	–	–
Less than 1 year	0.7163	(25,531)	0.7232	(39,830)

(ii) Interest rate risk

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

	2018		2017	
	Weighted average interest rate	Nominal Balance	Weighted average interest rate	Nominal Balance
	%	$'000	%	$'000
Less than 1 year	4.45%	79,000	4.75%	84,000
1 to 2 years	4.23%	79,500	4.45%	79,000
2 to 3 years	4.40%	45,000	4.23%	79,500
3 to 4 years	4.36%	40,000	4.40%	45,000
4 to 5 years	4.20%	30,000	4.36%	40,000
5 to 6 years	4.20%	30,000	4.20%	30,000
6 to 7 years	3.56%	10,000	4.20%	30,000
7 to 8 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.

	2018		2017	
	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000
1% increase in interest rate	–	3,032	–	3,729
1% decrease in interest rate	–	(3,184)	–	(3,937)
5% increase in exchange rate	–	30,349	–	18,532
5% decrease in exchange rate	–	(33,878)	–	(20,336)

(iv) Commodity derivatives

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

Liquidity risk

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

	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
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
At 31 July 2017					
Working capital facility	72,448	–	–	–	72,448
Trade and other payables	142,086	–	–	–	142,086
Loans and borrowings	–	–	83,637	–	83,637
Derivative financial instruments	3,903	1,584	2,495	939	8,921
Total	218,436	1,584	86,132	939	307,090

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 2018						
Foreign exchange risk						
Forward exchange contracts (USD)	429,269	3,125	12,633	(9,508)	–	(9,508)
Foreign currency collars (USD)	30,000	273	427	(67)	(87)	(154)
Interest rate risk						
Interest rate swaps (NZD)	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)
31 July 2017						
Foreign exchange risk						
Forward exchange contracts (USD)	250,470	26,733	1,883	24,851	–	24,851
Foreign currency collars (USD)	50,000	5,353	885	4,480	(12)	4,468
Interest rate risk						
Interest rate swaps (NZD)	113,500	–	6,154	(6,154)	–	(6,154)
Commodity price risk						
Dairy commodity futures (USD)	3,200	341	–	341	–	(80)
Total		32,427	8,922	23,518	(12)	23,085

Upon realisation of the hedged transaction, the intrinsic value and time value of vanilla options at that date will be reclassified to profit or loss. As foreign currency collars are zero cost collars their time value will be nil upon realisation of the hedged transaction and the intrinsic value is reclassified to profit or loss.

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.

Effects of cash flow hedges on statement of comprehensive income	2018 Hedging gains / (losses) recognised in other comprehensive income	2018 Hedge ineffectiveness recognised in profit or loss	2017 Hedging gains / (losses) recognised in other comprehensive income	2017 Hedge ineffectiveness recognised in profit or loss
	$'000	$'000	$'000	$'000
Foreign exchange risk				
Forward exchange contracts	(34,359)	–	16,953	–
Foreign currency options	–	–	–	–
Foreign currency collars	(4,622)	–	(18,643)	–
Interest rate risk				
Interest rate swaps	616	–	5,367	–
Commodity price risk				
Dairy commodity futures	284	–	(80)	–
Total	(38,081)	–	3,597	–

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

	2018	2017
Opening balance	16,621	14,032
Movements attributable to cashflow hedges:		
Change in value of effective derivative hedging instruments	(35,535)	29,410
Reclassifications to the income statement as hedged transactions occurred	(2,546)	(25,814)
Tax expense / (credit)	10,663	(1,007)
Total movement	(27,418)	2,589
Closing balance	(10,797)	16,621

15 FINANCIAL INSTRUMENTS

P 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.

P 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.

E FAIR VALUE ESTIMATION

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

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

All financial instruments held at fair value are included in level 2 of the valuation hierarchy as defined in NZ IFRS 13.

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 OFFSETTING FINANCIAL INSTRUMENTS

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

P IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective 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 is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets.

DERIVATIVE FINANCIAL INSTRUMENTS – HEDGE ACCOUNTING

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

Derivatives are initially recognised at fair value at the date the derivative 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.

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

(i) Hedge accounting

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

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

(ii) Cash flow hedge

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

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(a) Financial instruments by category

Financial assets	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
	$'000	$'000	$'000	$'000
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
At 31 July 2017				
Cash and cash equivalents	73,827	–	–	73,827
Derivative financial instruments	–	–	32,426	32,426
Trade and other receivables	79,028	–	–	79,028
Investments in equity	–	264	–	264
Total	152,855	264	32,426	185,545

Financial liabilities	At amortised cost	At fair value through profit or loss	Total
	$'000	$'000	$'000
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
At 31 July 2017			
Derivative financial instruments	–	8,921	8,921
Working capital facility	72,448	–	72,448
Trade and other payables	142,086	–	142,086
Borrowings	83,637	–	83,637
Total	298,170	8,921	307,092

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:

16 INCOME TAX

P 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.

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.

		2018	2017
		$'000	$'000
(a) Income tax expense			
Current tax expense:			
Current tax on profits for the year		(27,358)	(14,402)
Current tax on prior period adjustments		(54)	1,533
Total current tax		(27,412)	(12,869)
Deferred tax expense:			
Temporary differences		(1,842)	(1,815)
Tax losses to carry forward		111	184
Other prior year adjustments		(114)	(1,349)
Total deferred tax		(1,845)	(2,980)
Income tax (expense) / benefit		(29,257)	(15,850)

(b) Reconciliation of effective tax rate			
Profit before income tax		103,810	55,380
Income tax using the Group's domestic tax rate - 28%		(29,067)	(15,506)
Other non deductible costs		(22)	(527)
		(29,089)	(16,033)
Other prior year adjustments		(168)	184
Income tax (expense) / benefit		(29,257)	(15,850)

(c) Imputation credits			
Imputation credits available directly and indirectly to the shareholders of the Group		53,079	25,308

(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 2018			
Cash flow hedges	(38,081)	10,663	(27,418)
Other comprehensive income	(38,081)	10,663	(27,418)
31 July 2017			
Cash flow hedges	3,597	(1,007)	2,590
Other comprehensive income	3,597	(1,007)	2,590

(e) Deferred taxation

	2018	2017
	$'000	$'000
Deferred Taxation		
The balance comprises temporary differences attributable to:		
Assets		
Other items	1,260	1,046
Tax losses carried forward	294	184
Derivatives	4,199	–
Other items	27	–
Total deferred tax assets	5,780	1,230
Liabilities		
Property, plant and equipment	(30,144)	(28,222)
Derivatives	–	(6,463)
Other items	–	(31)
Total deferred tax liabilities	(30,144)	(34,716)
Total deferred tax	(24,364)	(33,486)

Movements - Group	Balance 1 Aug 2016	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Prior year adjustment	Balance 31 July 2017
	$'000	$'000	$'000	_	$'000	$'000
Property, plant and equipment	(25,222)	(2,183)	–	_	(817)	(28,222)
Derivatives	(5,457)	–	(1,007)	_	–	(6,464)
Other items	1,689	54	–	_	(728)	1,015
Tax losses carried forward	–	184	–	_	–	184
Total	(28,990)	(1,945)	(1,007)	_	(1,545)	(33,486)

	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
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	(33,486)	(1,852)	10,663	305	8	(24,364)

17 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.

	2018	2017
	$'000	$'000
Equity securities	110	110
Investment in associates	580	154
Total other investments	690	264

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	
			2018	2017
			%	%
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. Limited (Associate)	China	Ordinary	25	25

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:

	2018	2017
	$'000	$'000
Gain/(Loss) from continuing operations	426	(560)
Total comprehensive income	426	(560)

The carrying value of the investment in New Hope Nutritionals was $0.6m at balance date (2017: $0.1m):

	2018	2017
	$'000	$'000
Opening balance	154	714
Share of gains / and (losses)	426	(560)
Carrying value of investment	580	154

18 RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.04% of the shares issued by Synlait Milk Limited (2017: 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.

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 2018. The total short-term benefits paid to the key management and personnel is set out below.

	2018	2017
	$'000	$'000
Short-term benefits	5,061	5,082
Share based payments expense (note 12)	588	19

During the year the Group has continually invested in its Senior Leadership Team. The Senior Leadership Team has 14 members for the year ended 31 July 2018.

(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 2018 (2017: $nil).

(ii) Other transactions and balances

Directors of Synlait Milk Limited control 3.5% of the voting shares of the company at balance date (2017: 3.5%)

(b) Transactions with other related parties

	2018	2017
	$'000	$'000
Purchase of goods and services		
Bright Dairy and Food Co Limited - Directors fees	176	141
Sale of goods and services		
Bright Dairy and Food Co Limited - Sale of milk powder products	584	2,698
Bright Dairy and Food Co Limited - Reimbursement of costs	(150)	(157)
Sichuan New Hope Nutritional Foods Co. Limited - Sale of milk powder products	7,301	16,371

(c) Outstanding balances

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

	2018	2017
	$'000	$'000
Current receivables (sales of goods and services)		
Bright Dairy and Food Co Limited - Sale of milk powder products	1	1,364
Bright Dairy and Food Co Limited - Reimbursement of costs	(129)	(102)
Sichuan New Hope Nutritionals Limited - Sale of milk powder products	217	1,039

19 CONTINGENCIES

As at 31 July 2018 the Group had no contingent liabilities or assets (2017: $nil).

20 COMMITMENTS

(a) Capital commitments

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

	2018	2017
	$'000	$'000
Pokeno processing plant	163,824	–
Liquid dairy packaging facility	74,040	–
Lactoferrin capacity expansion	9	–
Second wetmix kitchen	–	22,052
Auckland blending and canning plant	–	12,569
Total capital commitments	237,873	34,621

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

P **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.

	2018	2017
	$'000	$'000
Less than one year	1,416	1,716
Between one and five years	5,164	450
Greater than five years	1,612	–
Total	8,192	2,166

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

21 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 18 September 2018, Synlait Milk Limited entered into a conditional agreement to acquire selected assets of Talbot Forest Cheese Limited and Talbot Forest Properties Limited (the Vendor) with settlement expected in August 2019. Prior to the 2019 settlement date, Synlait is providing the Vendor with a secured loan facility. This loan facility enables the Vendor to complete a capital works programme and satisfy other aspects of the conditional agreement.

22 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 Limited.

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

Deloitte.

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

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 2018, and the consolidated statement of financial performance, 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 52 to 101, present fairly, in all material respects, the consolidated financial position of the Group as at 31 July 2018, 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 taxation compliance, 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.

AUDIT MATERIALITY

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.

We determined materiality for the Group financial statements as a whole to be $5,000,000.

KEY AUDIT MATTERS

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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Sales to international customers	
The Group's revenue primarily consists of the sale of dairy products which totalled $879 million for the year ending 31 July 2018. As outlined in Note 1 of the financial statements approximately 70% of sales are to customers outside of New Zealand. The contract terms for international customers, which determine the point at which the significant risks and rewards of ownership transfer and revenue should be recognised vary by customer. 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. 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.	We have evaluated the application of sale contract terms for international customers to recognise revenue by performing the following: - 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 2018 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. We have found that revenue has been appropriately recognised in the correct years.

Derecognition of trade receivables

The Group has purchase agreements relating to trade receivables of certain customers with two banks. Subject to certain criteria, the Group sells individual invoiced amounts such that the cash received from these customers belong to the banks and the related receivable is derecognised by the Group. This arrangement is explained in Note 4 of the consolidated financial statements. The total trade receivables derecognised from the consolidated financial statements as at 31 July 2018 were $68.5 million.

Significant judgements and estimates are required to conclude whether substantially all the risks and rewards of the relevant trade receivables have passed to the respective bank in order for the Group to derecognise the amount from the consolidated financial statements. The judgements and estimates include the customer's estimated credit risk, the timeliness of customer payments and consequences of default – all of which factor into management's assessment of the Group's continued involvement in the assigned receivables.

We have included the derecognition of these trade receivables as a key audit matter due to the significance of the amounts derecognised from the consolidated financial statements and the significant judgements and estimates required to determine whether substantially all the risks and rewards of the trade receivables have passed to the banks.

We have evaluated the appropriateness of derecognising trade receivables by performing the following:

- We obtained and read:
  - the agreements for the assignment of receivables between the respective banks and Synlait; and
  - management's assessment of why substantially all of the risks and rewards of ownership of assigned trade receivables has transferred at 31 July 2018.
- We evaluated management's assessment against the requirements of the appropriate accounting standards in relation to the key terms of the agreements.
- We tested the mathematical accuracy of management's quantitative analysis of whether substantially all the risks and rewards have been transferred.
- We compared the inputs used by management to independent sources and market information (for applicable inputs) and performed retrospective reviews of each individual customer historically assigned.
- We confirmed with the respective banks the quantum of trade receivables that had been purchased as at 31 July 2018 and whether any late payment fees were incurred and compared their responses to management's analysis.

We found the accounting treatment to derecognise assigned trade receivables to be reasonable.

Change in Accounting Policy

As detailed in the Statement of Accounting Policies the Group has elected to make a voluntary change to its accounting policy in relation to the measurement basis for property, plant, and equipment and move to the cost basis from the previously applied revaluation model.

The Group has made the change in in accounting policy having determined that the cost model now provides more relevant and reliable information to users of the consolidated financial statements for the reasons set out in the note.

We have included the change in the accounting policy as a key audit matter due to the judgement involved in determining that the cost model provides more relevant and reliable information to users of the consolidated financial statements.

We have obtained and evaluated management's accounting paper and support setting out the basis for the change in accounting policy by performing the following:

- Challenging the key assumptions behind management's determination that the cost model provides more relevant and reliable information than the revaluation model;
- Considering the feedback obtained by the Group from key stakeholders on whether the cost model is more relevant and reliable; and
- Examined the disclosure of the change in accounting policy for compliance with NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

We found that there was a reasonable basis to support the change in accounting policy.

OTHER INFORMATION

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.

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

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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

AUDITOR'S REPORT CONTINUED

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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

www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

RESTRICTION ON USE

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.

Andrew Dick
Partner for Deloitte Limited
Auckland, New Zealand
18 September 2018

Deloitte Limited

STATUTORY INFORMATION

STATUTORY INFORMATION

STOCK EXCHANGE LISTING

Our shares are listed on the Main Board operated by NZX Limited (NZX) and on the Australian Securities Exchange (ASX). 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 to the extent specified in ASX Listing Rule 1.15.

SHARES ON ISSUE

As at 31 July 2018 there were 179,223,028 ordinary shares on issue.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2018 are as follows:

Rank	Name	31-Jul-2018	% S/O
1	Bright Dairy Holding Limited	69,968,944	39.04%
2	The a2 Milk Company (NZ) Limited	16,334,119	9.11%
3	Mitsui & Co., Ltd.	9,011,849	5.03%
4	John Penno	6,120,755	3.42%
5	Mitsui & Co (Australia) Ltd	6,007,901	3.35%
6	Munchkin, Inc.	5,000,000	2.79%
7	Custodial Services Limited - Various Private Holdings	2,436,444	1.36%
8	Eley Griffiths Group Pty. Ltd.	2,387,486	1.33%
9	Regal Funds Management Pty. Ltd.	2,360,754	1.32%
10	Renaissance Smaller Companies Pty. Ltd.	2,330,171	1.30%
11	Pendal Group Limited	2,207,107	1.23%
12	Paradice Investment Management Pty. Ltd.	2,180,619	1.22%
13	Realindex Investments Pty. Ltd.	1,805,002	1.01%
14	New Hope Dairy (HongKong) Trading Co Ltd	1,792,300	1.00%
15	UBS Asset Management (Australia) Ltd.	1,565,593	0.87%
16	First NZ Capital Custodians Limited (Various Private Investors)	1,532,646	0.86%
17	FIL Investment Management (Australia) Limited	1,351,825	0.75%
18	Ellerston Capital Limited	1,174,761	0.66%
19	Paul and Bronwyn Lancaster	1,085,623	0.61%
20	Janus Henderson Investors	940,373	0.52%
Total Top 20 Holders of Ordinary Shares		137,594,272	76.77%
Total Remaining Holders Balance		41,628,756	23%

STATUTORY INFORMATION CONTINUED

SUBSTANTIAL PRODUCT HOLDERS

As required under section 293 of the Financial Markets Conduct Act 2013, the substantial product holders of the company as disclosed under section 280(1)(b) of that Act as at 31 July 2018 are as follows:

	Fully Paid Ordinary Shares	Percentage of Paid Capital
Bright Dairy Holding Limited	69,968,944	39.04%
The a2 Milk Company (NZ) Limited	16,334,119	9.11%
Mitsui & Co., Ltd.	15,019,750	8.38%

As at 31 July 2018, there were 179,223,028 fully paid ordinary shares on issue.

DISTRIBUTION OF SHAREHOLDERS

As at 31 July 2018, our shareholding is distributed as follows:

Range	Table Holders	Units	% of Issued Capital
1 – 99	214	10,332	0.01%
100 – 199	259	33,791	0.02%
200 – 499	524	167,546	0.09%
500 – 999	635	425,147	0.24%
1,000 – 1,999	929	1,204,427	0.67%
2,000 – 4,999	1,377	4,066,786	2.27%
5,000 – 9,999	578	3,794,277	2.12%
10,000 – 49,999	393	6,858,724	3.83%
50,000 – 99,999	31	1,987,861	1.11%
100,000 – 499,999	29	6,777,911	3.78%
500,000 – 999,999	6	4,108,727	2.29%
1,000,000 – 999,999,999	16	149,787,499	83.58%
Rounding Total (+0.01)	4,991	179,223,028	100.00%

VOTING RIGHTS

Clause 16 of our Constitution states that a shareholder may vote at any meeting of shareholders in person or through a representative. Where voting is by a show of hands or voice, every shareholder present (or through their representative) has one vote. On a poll, every shareholder present (or through their representative) has one vote per fully-paid up share they hold. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes.

More detail on voting can be found in our Constitution on our website (www.synlait.com/investors/corporate-governance/).

STATUTORY INFORMATION CONTINUED

TRADING STATISTICS

Synlait Milk Limited listed on the NZX on 23 July 2013 at an initial share price of $2.20 and was admitted to the Official List of ASX Limited as a foreign exempt issuer under a compliance listing on 24 November 2016, with trading commencing on 25 November 2016. The trading range for the period 1 August 2017 to 31 July 2018 is as follows:

	2018	2017
Minimum:	$4.40 (1 August 2017)	$2.95 (14 December 2016)
Maximum:	$11.65 (3 July 2018)	$4.46 (11 July 2017)
Range:	$4.40 - $11.65	$2.95 - $4.46
Total Shares Traded:	61,096,093	22,945,251

DIVIDEND POLICY

Our Board has a dividend policy to determine whether it is appropriate to declare a dividend for shareholders in any financial year. The policy provides that any decision to pay a dividend will depend on, amongst other things:

- Current and forecasted earnings.
- Internal capital requirements in light of the company's current and forecasted growth plans.
- Availability of tax imputation credits.
- The company's debt / equity position.

Any dividend can only be declared by the Board if the requirements of the Companies Act 1993 are also satisfied. The Board has determined no dividend will be payable for the period ending 31 July 2018.

NZX WAIVERS

The following waivers from the NZX Listing Rules were granted to us or relied upon by us during FY18 (any defined terms in this section carry the same meaning as in the NZX Listing Rules):

On 24 June 2013, we were granted a waiver from various NZX Listing Rules to allow our Constitution and composition of our Board to reflect our non-standard governance arrangements. A summary of those arrangements is set out in section 2 of the Corporate Governance Report on page 41. Full details of this waiver can also be found at the following link (http://www.nzx.com/files/attachments/178616.pdf)

On 22 August 2016, we were granted a waiver from NZX Listing Rule 9.1.1 to allow one of our wholly-owned subsidiaries to enter into a Nutritional Powders Manufacturing and Supply Agreement with a wholly-owned subsidiary of The a2 Milk Company Limited (being an agreement that may amount to a series of related transactions with a value of greater than 50% of the average market capitalisation of Synlait Milk Limited) without having to obtain shareholders' approval.

On 19 September 2016, we were granted a waiver from various NZX Listing Rules in connection with our accelerated renounceable entitlement offer of ordinary shares (New Shares) launched on 19 September 2016 (Offer). A condition of that waiver is that the waiver, its conditions and effects are disclosed in this Annual Report. Set out below is a summary of those terms and conditions (categorised by NZX Listing Rule):

- NZX Listing Rule 7.3.1(a), so that Synlait Milk Limited is not required to obtain shareholder approval for the issue of New Shares in connection with the Offer. This waiver is subject to the conditions that the issue be conducted in accordance with NZX Listing Rule 7.3.4(a) (read in conjunction with NZX Listing Rules 7.3.4(d) to 7.3.4(h)), except that the entitlement to subscribe for New Shares (Entitlement) need not be renounceable and Synlait Milk Limited ensures that the institutional bookbuild and retail bookbuild, described under the Offer document, occur.
- NZX Listing Rule 7.10.1, to enable eligible institutional shareholders to be notified of their Entitlement prior to the record date for the Offer and to enable that notification to occur by means other than physical letters of entitlement.

- NZX Listing Rule 7.10.2, to the extent it would otherwise require the institutional entitlement component of the Offer to remain open for 12 Business Days, subject to the condition that Synlait Milk Limited's announcement of the Offer, and the Offer document, clearly state that a shorter than usual offer period will be available to eligible institutional shareholders under the institutional entitlement component of the Offer.
- NZX Listing Rule 7.10.8, to the extent it would have required Synlait Milk Limited to notify NZX of the Offer five Business Days prior to the ex date for the Offer, subject to the condition that the Offer is notified to NZX in accordance with NZX Listing Rule 7.10.8 no later than the ex date for the Offer.
- NZX Listing Rule 7.11.1, to the extent that it would require allotments of New Shares to be made to Bright Dairy Holding Limited (Bright) within five Business Days of closing of the institutional entitlement component of the Offer, subject to the condition that allotment to Bright occurs in part on the institutional component settlement date and in part on the retail component allotment date.
- NZX Listing Rule 9.2.1, so that Related Parties of Synlait Milk Limited (including Bright and Synlait's Directors and Senior Leadership Team) can participate in the Offer without shareholders' approval. This waiver is subject to the conditions that:
  - the Independent Directors certify, in a form acceptable to NZX, that:
  - the terms of the Offer are fair and in the best interests of Synlait Milk Limited shareholders, other than the Related Parties or Synlait Milk Limited shareholders that are Associated Persons of the Related Parties;
  - Synlait Milk Limited will pay and receive fair value under the Offer;
  - Synlait Milk Limited was not influenced in its decision to enter into the Offer by the interests of the Related Parties; and
  - the Related Parties will derive no benefit as a result of the Related Party relationship, over and above the Takeovers Code benefit to Bright allowing it to participate pro-rata in the Offer without breaching the Takeovers Code;
  - the allotment of New Shares to Bright occurs, in part, on the allotment date for the institutional entitlement component of the Offer, and in part, on the allotment date for the retail entitlement component of the Offer; and
  - the Offer is conducted in accordance with the condition to the waiver from NZX Listing Rule 7.3.1(a) set out above.

On 14 August 2017, we were granted a waiver from NZX Listing Rule 9.2.1 to allow us to enter into new supply arrangements with Sichuan New Hope Nutritional Foods Co., Ltd (a related party of Synlait Milk Limited as Synlait Milk Limited owns 25% of its shares) (New Supply Arrangements) without seeking shareholder approval as would otherwise have been the case because the contract had the potential to have a market value in excess of 10% of Synlait Milk Limited's Average Market Capitalisation, being approximately NZ$825m at that time.

A condition of this waiver was that in addition to disclosing the fact and implication of the waiver above, the other condition of the waiver also has to be disclosed in this Annual Report. This condition required the Directors of Synlait Milk Limited, excluding John Penno (who is also a director of Sichuan New Hope Nutritional Foods Co., Ltd) and any other Director interested in the New Supply Arrangements to certify to NZX Regulation that:

- the New Supply Arrangements have been entered into, and negotiated on, an arm's length commercial basis;
- in their opinion, the entry into the New Supply Arrangements is fair and reasonable to, and in the best interests of Synlait Milk Limited and its shareholders who are not related to, or Associated Persons of, Sichuan New Hope Nutritional Foods Co., Ltd;
- John Penno has not exercised any undue influence over the Board in its decisions in respect of the New Supply Arrangements; and
- John Penno did not vote and will not vote on any decisions of the Board in relation to entry into the New Supply Arrangements.

On 13 February 2018, we were granted a waiver from NZX Listing Rule 9.2.1 to allow us to enter into new supply arrangements with Bright YouYou, a related party, without seeking shareholder approval as would otherwise have been the case because the contract had the potential to have a market value in excess of 10% of Synlait Milk Limited's Average Market Capitalisation, being approximately NZ$1.18 billion at that time.

A condition of this waiver was that in addition to disclosing the fact and implication of the waiver above, the other condition of the waiver will be disclosed in this Annual Report. This condition required the Directors of Synlait Milk Limited certify to NZX regulation that:

- The Directors of Synlait Milk Limited appointed by Bright Dairy (together, the Interested Directors) will not participate in any Synlait Milk Limited deliberations on, and will not vote to enter into, the Supply Agreement;
- The Directors of Synlait Milk Limited not appointed by Bright Dairy (together the Non-Interested Directors) certify to NZX that:
  - The Supply Agreement has been entered into, and negotiated on, an arm's length commercial basis;
  - In their opinion, the entry into the Supply Agreement is fair and reasonable to, and in the best interests of Synlait Milk Limited and its shareholders who are not related to, or Associated Persons, of Bright Dairy;
  - The Interested Directors will not participate in any Synlait Milk Limited Board deliberations on, and will not vote to enter into, the Supply Agreement, and have had no influence on the decision of the Non-Interested Directors to enter into the Supply Agreement

On 5 July 2018, we were granted a waiver from NZX Listing Rule 9.1.1 to allow one of our wholly-owned subsidiaries to enter into a variation to an existing Nutritional Powders Manufacturing and Supply Agreement with a wholly-owned subsidiary of The a2 Milk Company Limited (being an agreement that may amount to a series of related transactions with a value of greater than 50% of the average market capitalisation of Synlait Milk Limited) without having to obtain shareholders' approval.

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors (and past Directors) for services to the company and the subsidiaries* for the year ended 31 July 2018 were as follows (including comparative figures for 2017):

Director	Class	Position	Retired / Appointed	2018 – Total Remuneration[1]	2017 – Total Remuneration[1]
Graeme Milne	Independent	Chairman		136,667	115,333
Bill Roest	Independent	Audit and Risk Committee Chair		85,333	71,333
Sam Knowles	Independent	Director	Retired and Reappointed 29 November 2016	73,333	63,333
John Penno[2]	Board Appointed	Managing Director		967,582	1,200,188
Hon. Ruth Richardson	Bright Appointed	People and Governance Chair		85,333	71,333
Yang Sihang	Bright Appointed	Director		73,333	63,333
Lu Qikai	Bright Appointed	Director		73,333	63,333
Ben Min	Bright Appointed	Director	Appointed 29 November 2016	73,333	43,667

*Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, and Eighty Nine Richard Pearse Drive Limited. Note that the Directors do not receive any additional remuneration as Directors of the subsidiaries.

[1]From 1 April each year Director fees are updated, so these reflect the eight months at the old rates and four months at the new rates. Full year Director Fees at the new rates are as follows: Chairman of the Board $150,000, Chair of Committee $92,000 and Director $80,000.

[2]As Managing Director, John Penno did not receive Director's Fees. His remuneration listed above constitutes payment for his position as Managing Director and Chief Executive Officer. In the year to 31 July 2018 his remuneration was made up of fixed remuneration of $967,582 with no bonus component. In the year to 31 July 2017, his remuneration was made up of fixed remuneration of $925,388 and performance based bonus of $274,800 (Each year the remuneration of the Managing Director and CEO are recommended by the Remuneration and Governance Committee and approved by the Board (excluding the Managing Director).

STATUTORY INFORMATION CONTINUED

John Penno was granted 225,341 performance rights under the previous Group's IPO incentive scheme. In the year ended 31 July 2017, 75,114 performance rights vested. The remaining 150,277 performance rights were forfeited in the first two years of the IPO incentive scheme due to performance conditions not being met. John Penno was a participant of the company's long term incentive scheme which commenced in June 2017. 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. Details on the IPO incentive scheme and the long term incentive scheme are disclosed in section 5 of the Corporate Governance Report on page 44 and in Note 12 in the financial statements on page 80.

For the purposes of NZX Listing Rule 10.4.5(m) the Bright appointed directors are the Directors appointed under NZX Listing Rule 3.3.8 (subject to the waiver granted on 24 June 2013).

DIRECTORS' INTERESTS

In addition to the disclosures made elsewhere in this Annual Report, the Directors have disclosed under section 140(2) of the Companies Act 1993 the following interests in the Interests Register of the company and the subsidiaries (Synlait Milk Finance Limited, The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited, as at 31 July 2018):

Nature of Interest
Graeme Milne
Member University of Waikato Council
Chairman Terracare Fertilisers Limited
Trustee Rockhaven Trust
Partner G R and J A Milne
Chairman of Nyriad Limited
Director Alliance Group Limited
Director Elviti Holdings Limited and subsidiaries
Director PF Olsen Group Limited and subsidiaries
Director FarmRight Limited
Chairman Rimanui Farms Limited Advisory Board
Chairman Pro-Form Ltd Advisory Board
Chairman Synlait Milk Limited
Chairman Synlait Milk Finance Limited
Chairman The New Zealand Dairy Company Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Hon. Ruth Richardson
Chair Kula Fund Advisory Committee
Director Ruth Richardson [NZ] Limited
Chair SYFT Technologies Limited
Chair New Zealand Merino Company
Chair Kiwinet
Director Bank of China (NZ)
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Bill Roest
Director Fisher & Paykel Appliances Limited
Director Housing Foundation Limited
Trustee New Zealand Housing Foundation
Trustee WJ & IJ Family Trust
Director Metro Performance Glass Limited
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Qikai Lu
Director Ba'emek Advanced Technologies Limited
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

STATUTORY INFORMATION CONTINUED

Sam Knowles

Director Trustpower Limited

Director Rangatira Limited

Director Fire Security Services

Director Umajin Limited

Chairman OnBrand Limited

Chairman Adminis Limited

Director Magritek Limited

Trustee Ruby Family Trust

Trustee WWF NZ

Director Com Investments Limited

Director Growthcom Limited

Director Habourside Rentals Limited

Director of Montoux Limited

Trustee Com Trust and Ian Samuel Knowles Children's Trust

Director Synlait Milk Limited

Director Synlait Milk Finance Limited

Shareholder in Synlait Milk Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

John Penno

Trustee John Penno Trust

Director Sichuan New Hope Nutritional Foods Co., Limited

Managing Director Synlait Milk Limited

Director Synlait Milk Finance Limited

Director Okuora Holdings Limited

Shareholder in Okuora Holdings Limited

Director Thorndale Dairies Limited

Shareholder in Thorndale Dairies Limited

Shareholder in Synlait Milk Limited

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Sihang Yang

Director Synlait Milk Limited

Director Synlait Milk Finance Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Min Ben

Director Synlait Milk Limited

Director Synlait Milk Finance Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

Directors did not acquire or dispose of any of their relevant interests in shares in the company during FY18.

The Directors' respective shareholding in Synlait as at 31 July 2018 is as follows, with comparative figures for 2017:

	2018	2017
John Penno	6,120,755	6,120,755
Graeme Milne	72,753	72,753
Hon. Ruth Richardson	56,222	56,222
Sam Knowles	55,000	55,000
Bill Roest	27,750	27,750
Min Ben	0	N/A
Qikai Lu	0	0
Sihang Yang	0	0

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2018:

1. Synlait Milk Finance Limited

Directors: Graeme Milne, Bill Roest, Sam Knowles, John Penno, Hon. Ruth Richardson, Sihang Yang, Qikai Lu, Min Ben (appointed on 29 November 2016) and Li Ke (resigned 8 September 2016).

2. The New Zealand Dairy Company Limited

Directors: Graeme Milne and Nigel Greenwood.

3. Eighty Nine Richard Pearse Drive Limited

Directors: Graeme Milne and Nigel Greenwood.

The shares in The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited were acquired by Synlait Milk Limited on 31 May 2017.

DIVERSITY

We are committed to hiring and retaining the best people for the job – regardless of gender, age, disability, religion, race, sexual orientation, family circumstances, politics and / or ethnicity. We pride ourselves on having an inclusive working environment that promotes employment equity and workforce diversity at all levels from our Board table down.

In accordance with NZX requirements, our reported gender breakdown at Senior Leadership Team and Board level as at 31 July 2018 is:

	Female	Male	Total	% Female
Board	2	6	8	25%
Senior Leadership Team	2	12	14	14%

Our reported gender breakdown as at 31 July 2017 was:

	Female	Male	Total	% Female
Board	2	6	8	25%
Senior Leadership Team	0	12	12	0%

In addition, we have the following alternative measures of diversity which may be of interest to investors. As at 31 July 2018:

Ethnicity: Based on the place of birth

	New Zealand	Asia	Other
Board	4	3	1
Senior Leadership Team	9	-	5

Domicile: Based on the place of current residence

	New Zealand	Asia	Other
Board	5	3	-
Senior Leadership Team	14	-	-

Languages spoken

	English only	Two languages	Three or more languages
Board	4	4	-
Senior Leadership Team	10	1	3

Highest qualifications held

	Bachelor degree	Post-graduate degree
Board	2	6
Senior Leadership Team	10	3

STATUTORY INFORMATION CONTINUED

HEALTH, SAFETY AND WELLBEING

We continue to utilise the Gallup Q12 Survey, a globally recognised tool that measures the most important elements of employee engagement. The Q12 Survey scores questions on a scale of 1-5 (1 being strongly disagree and 5 being strongly agree) and displays the overall engagement score as a grand mean of individual scores.

In FY18 Synlait's grand mean employee engagement increased from 3.70 to 3.95, representing a substantial improvement from the 31st to 61st percentile of New Zealand, Australia, and Oceania companies in our benchmark.

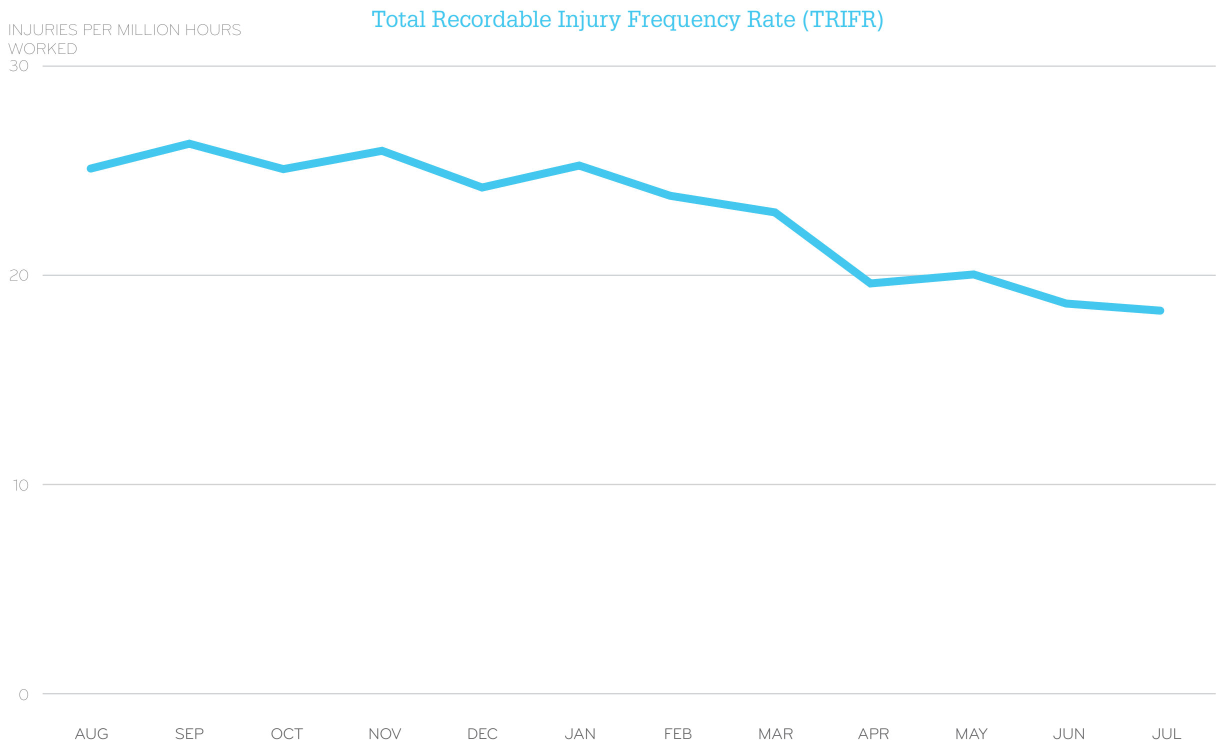
EMPLOYEE SAFETY

We have identified five critical safety risks: working at heights, working in confined spaces, working with hazardous gases, material handling equipment, and State Highway 1 at our Dunsandel plant. These are hazards we consider to be a high or extreme risk, and we therefore need to focus specifically on managing them. We have initiated projects for these hazards and are working through improvements to lower each risk.

Synlait calculates Total Recordable Injury Frequency Rate (TRIFR) as the total recordable injuries that occur in a period divided by the hours worked in a period, multiplied by 1,000,000. Total Recordable Injuries is composed of:

- Lost Time Injuries (LTI) – any injury or illness resulting in an individual being unable to work their scheduled hours other than the shift/day on which the injury occurred
- Medical Treatment Injuries (MTI) – any injury requiring more than first aid treatment by a physician or other licensed health care professional
- Restricted Work Injuries (RWI) – any injury that requires restriction of work time and / or duties, i.e. unable to do normal work duties

Over the course of FY18, Synlait's monthly TRIFR decreased from 25.1 recordable injuries per million hours worked to 18.1, representing a significant year-over-year improvement of 28%.



STATUTORY INFORMATION CONTINUED

EMPLOYEE REMUNERATION

During the year ended 31 July 2018 the following employees and former employees received individual remuneration over $100,000 (with comparative figures for 2017).

Note that Synlait Milk Limited now has three subsidiary companies: Synlait Milk Finance Limited, Eighty Nine Richard Pearse Drive Limited, and The New Zealand Dairy Company Limited.

Remuneration range	2018	2017
	Number of employees	Number of employees
$100,000 – $110,000	35	20
$110,000 – $120,000	32	9
$120,000 – $130,000	12	13
$130,000 – $140,000	16	9
$140,000 – $150,000	11	11
$150,000 – $160,000	10	7
$160,000 – $170,000	6	7
$170,000 – $180,000	11	3
$180,000 – $190,000	8	1
$190,000 – $200,000	2	0
$200,000 – $210,000	7	1
$210,000 – $220,000	2	0
$220,000 – $230,000	1	1
$230,000 – $240,000	0	0
$240,000 – $250,000	0	0
$250,000 – $260,000	1	0
$260,000 – $270,000	0	0
$270,000 – $280,000	0	0
$280,000 – $290,000	0	0
$290,000 – $300,000	0	0
$300,000 – $310,000	0	3
$310,000 – $320,000	2	1
$320,000 – $330,000	1	0
$330,000 – $340,000	1	1
$340,000 – $350,000	0	1
$350,000 – $360,000	2	1
$360,000 – $370,000	1	0
$370,000 – $380,000	0	1
$380,000 – $390,000	3	0
$390,000 – $400,000	0	0

Two employees were between $440,000 - $450,000 in 2017. One employee was between $400,000 - $410,000 in 2018. Two employees were between $440,000 - $450,000 in 2018.

STATUTORY INFORMATION CONTINUED

DONATIONS

Synlait's sponsorships and donations are detailed in our Corporate Governance Report on page 50.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

In accordance with 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 from their position. This is through the company and the Directors entering into Deeds of Access, Insurance and Indemnity. Details are maintained in the company's Interests Register. This cover does not apply to any liabilities arising from criminal or reckless acts by our Directors or Officers.

CURRENCY

Within this Annual Report, all amounts are in New Zealand dollars unless otherwise specified.

CREDIT RATING

We do not have a credit rating.

ANNUAL SHAREHOLDER MEETING

Our annual shareholders meeting will be held on Wednesday 28 November 2018 in Christchurch, unless otherwise notified. We will confirm the time and location details for the meeting by notice to all our shareholders nearer to that date.

ANNUAL REPORT

Our Annual Report and all our past Annual Reports and Interim Reports are all available on our website (www.synlait.com/investors/corporate-governance).

We will email our Annual Report to those shareholders who have opted for e-communication with us and our share registry. We prefer to communicate with our shareholders by email without using up valuable printing resources and postage costs, but any shareholder who does request a hard copy of our Annual Report will be sent one in the regular post.

FURTHER SHAREHOLDER INFORMATION ONLINE

This Annual Report, all our core governance documents (our Constitution, most of our key policies and all relevant Charters), our Investor Relations policies and plan, and all our Announcements can be viewed on our website: (www.synlait.com/investors/corporate-governance).

DIRECTORY

REGISTERED OFFICE

1028 Heslerton Road
Rakaia, RD13
New Zealand
Telephone: +64 3 373 3000
Email: info@synlait.com

BOARD OF DIRECTORS AS AT 31 JULY 2018

Graeme Roderick Milne (Chair of the Board) – Independent Director

Willem (Bill) Jan Roest (Chair of the Audit and Risk Committee) – Independent Director

Ian Samuel (Sam) Knowles – Independent Director

John William Penno – Board Appointed Director

Qikai (Albert) Lu – Bright Dairy Appointed Director

Sihang (Edward) Yang – Bright Dairy Appointed Director

Min Ben – Bright Dairy Appointed Director

Hon. Ruth Margaret Richardson (Chair of the People and Governance Committee) – Bright Dairy Appointed Director

SENIOR LEADERSHIP AS AT 31 JULY 2018

John Penno – Chief Executive Officer and Managing Director*

Nigel Greenwood – Chief Financial Officer

Neil Betteridge – Director, Operations

Chris France – Director, Strategy and Business Transformation

Martijn Jager – Director, Sales and Business Development

Boyd Williams – Director, People, Culture and Performance

Hamish Reid - Director, Sustainability and Brand

Deborah Marris – Director, Legal, Risk and Governance

Suzan Horst - Director, Quality Regulatory and Laboratory Services

Matthew Foster - General Manager, Strategic Projects

Robert Stowell - General Manager, Supply Chain

Antony Moess - General Manager, Manufacturing

Callam Weetman - General Manager, Sales

Roger Schwarzenbach - General Manager, Innovation and Technical Services

*Leon Clement became Synlait Milk CEO on 13 August 2018. John Penno has retained a role as Board Appointed Director from the same date.

AUDITOR

Deloitte Limited
151 Cambridge Terrace
Christchurch 8013
New Zealand

LAWYERS

MinterEllisonRuddWatts
Lumley Centre
88 Shortland St
Auckland 1010

BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2, 159 Hurstmere Rd
Takapuna, Auckland 0622
Freephone (within NZ): 0800 467 335
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787

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 us at our website www.synlait.com

TO:BE CONTINUED

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