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Operator: Good day, and welcome to the Synlait Milk Limited 2018 Fiscal Year Results call. Today's conference is being recorded. I would now like to turn the call over to Chairman, Graeme Milne. Please go ahead, sir.

Graeme Milne: Yes, good morning, everybody. Welcome to the FY18 results call for Synlait Milk. Graeme Milne, I'm the Chairman of the company. So just a very few brief summary intro comments from me. And then I'll hand over to Leon Clement, who is the new CEO of Synlait Milk, replaced John Penno about five weeks ago and he has quickly taken up the reins, and also to Nigel Greenwood, the CFO of the company.

So, very briefly, FY18 has been a busy and positive tenth year for Synlait Milk. We remain a growth company. The key financial highlights. The top line is up 16% to $877 million sales, $792 million last year. And the bottom line is up 89% to $74.6 million from $39 million the year before.

So, Leon and Nigel will go into the detail. But that's mainly due to infant formula with our investments in the new wetmix kitchen and the blending and packing line in Auckland coming on stream. But very briefly looking ahead, we are investing heavily, continuing to do so in both current and new sectors. A quick summary of announcements through the last few months is a new lactoferrin capacity, which Leon will go into; investing in a liquid everyday dairy milk plant at Dunsandel will come on stream April next year; a complete new site at Pokeno is under construction right now for opening about a year's time. And we announced this morning that we're entering a new sector in terms of cheese. And, of course, we recently announced a series of pretty ambitious sustainability targets.

So, you'll hear more detail about all of that. And, finally, the outlook. Finally, from me, the outlook for this current year FY19 is there'll obviously be growth in revenues but there'll also be growth in costs as we establish new activities. So, the bottom line is still expected to increase but not at the rate of FY18 over FY17.

So, I'll now hand over to Leon and Nigel, and they'll provide quite a bit of colour to that very quick overview. So, over to you, Leon.

Leon Clement: Thank you, Graeme. Good morning, everybody, and thank you for joining the call. Look, I just wanted to acknowledge the leadership that Graeme and his board and John Penno and the leadership team here have provided and producing this result. It's somewhat challenging for me to present some of the results for not having been part of it. But it is a real privilege to be joining the Synlait team in such a great position in such a strong time.

Graeme has already referred to some of the highlights that sit behind our result this year. Underpinning that is a really strong strengthening of the relationship with the A2 Milk Company. And some great work to start to diversified by the manufacturing base and our category concentration, which has historically been around infant nutrition. And as we've moved into everyday nutrition with our investment in the advanced liquid plant at Dunsandel, and we're announcing today further extension of that with the conditional agreement with Talbot Forest Cheese.

We're also making good progress on our lactoferrin capacity. And as Graeme mentioned, some strong momentum setting in behind the strong stance that Synlait has taken to lead New Zealand towards a more sustainable dairying future with our sustainability focus.

On the next slide, we just have referenced this in the past around where our core category focus is. We have ingredients, infant nutrition, and a chosen focus around everyday dairy and somewhat of a future focus around adult nutrition. We have started to change and think differently around our value chain in recent times. And wanted to make sure that we are signalling that we're taking a holistic approach to our value chain around environment, around people and around enterprise. So, our value chain exists around making sure we are [inaudible] for our environment and working with the land and our environment and thinking about it in a sustainable way.

We're doing the same around our value chain with our people in terms of bringing them into the organisation and growing them into strong leaders. And likewise, with our enterprise value chain, making sure that each point in our value chain creates value for our customers and our shareholders.

I'll just dive into some of the activity we've seen around those three areas. You'll see some of this in terms of how the mergers in our current and future annual reporting as well. Around the environment, many of you would have seen the strong commitment that Synlait has made to 2028 reductions and greenhouse gas emissions on-farm and off-farm, 35% and 50% respectively there. We're also committing to a 20% reduction on and off farm for water use, and reduction in nitrogen loss on waterways.

This year we're predicting to pay $1.3 million in PKE-free incentives. We are also making a bulk commitment to installing New Zealand's first large-scale electrode boiler at Dunsandel with our advanced liquid and dairy plant. And, again, we continue to drive environmental principles with our Lead With Pride programme with our suppliers.

Around the people aspects, some good progress around health and safety. We had a 28% reduction in injury-frequency rate there, and some really strong work around critical risks. We

acknowledge that we have continued to see some gaps here and opportunities to improve but it's great to see that our reporting culture is moving in the right direction and our injury-frequency rate and our severity rate continue to decline.

Some strong work that the team has developed in building engagement onsite. There has been a movement of moving from the 31st percentile to the 61st percentile of our peer group in that space. And you'll also see on our website, we've launched our diversity and inclusion policy, very topical for business in New Zealand at the moment. We're very committed to this and we've made some good advances in that space as well this year.

Lastly around our enterprise value chain. We made some announcements earlier this year that we'll be doubling our investment in R&D and bringing that in line with many of our peers to 1.5% of revenue. Our continued and ongoing focus in food safety and quality, making sure that this isn't just compliance but it's actually a core part of our value proposition moving towards a sustainable supply basis with our farmers, suppliers and customers and also aiming to become New Zealand's first NZX-listed B Corp in 2019.

You'll see on the map on the next slide, we have increasingly and over time started to expand our geographic footprint as well. This is part of making sure we're no longer reliant on one single site as part of managing our business continuity risk, as a part of our diversification strategy. And you can see from the map there that we're now making a broad contribution across New Zealand although maintaining our spiritual home in Dunsandel.

On the next slide around the value chain, we've, I think, shared this slide a number of times. And I think it's an important one because it does highlight where we believe we lock value and to make sure that the value we create is sustainable. Across each of those nodes or areas within that value chain, it's our role to continue to make sure we differentiate in those areas from milk

supply to how we procure, to what we do in terms of translation of products around manufacturing and what we do around regulatory and laboratory food safety and quality.

But some of those key aspects in those – each of those capabilities is what creates value for our customers and our consumers. And this has, and will continue to be a core focus for the organisation.

We've also just included in the pack here just an overview of how our manufacturing capacity, capability and geographic spread is changing. You can see in the value chain around what our capacity is moving to around Dunsandel. Within the past financial year, there has been an expansion of wetmix kitchens. We've also started to expand our lectoferrin capacity as referenced by Graeme, and the inclusion of the Auckland blending and canning plant means that we have consumer packing capacity of 70,000 metric tonnes.

As we've broken ground on Pokeno this year, we're also seeing an expansion of further wetmix capacity and drawing capacity that will contribute on an ongoing basis to making sure we're being prepared for future growth and expanding our geographic diversification as well.

Further to that, it's important that we continue to build a strong diversified portfolio of customers and brands that we support and translate our value proposition around our value chain and to key customer and consumer propositions. We have, in the top left there, a strong and significant and strategic relationship with A2. We're really exclusive provider for Australia, New Zealand and for China. We continue to look forward to building that relationship as both organisations go through transition around leadership and our strategic direction as well.

Very excited to see encouraging signs around how the Munchkin Grass Fed product and proposition is going in Australia and New Zealand. We'll continue to work with Munchkin on their FDA submission and working with them on their approval. That is taking some time longer than

expected. However, we are working closely with Munchkin as we move forward on that opportunity.

And then around the China domestic play. We have the bright Pure Canterbury brand, where we have SAMR submissions, which is the previous CFDA. And the Akara brand under New Hope. The Akara brand is being submitted and we hope to submit e-Akara later this calendar year.

Finally, from me before I hand over to Nigel, just some context for the announcement we're making today around our conditional agreement for the acquisition of Talbot Forest Cheese assets. We're very excited to be continuing our aspiration to expand into new categories with our everyday nutrition strategy and to be moving into the cheese category. For reference in New Zealand, the cheese category is as big as the milk category. And this acquisition we hope to finalise and settle by August 2019.

Our investment is in the range of $30 million to $40 million. That includes a cost to acquire the assets of the organisation, as well as to further future-proof and set ourselves up success, which we'll look to do in partnership with the existing owner through to August 2019.

It will give us 12,000 tonnes of very flexible cheese manufacturing capacity and also give us the complementary way-stream[?] which we can pull back into our site in Dunsandel. Talbot Forest is located in Temuka, so some good geographic complementary aspects there.

So, that's all from me in terms of Synlait. I'll pass over to Nigel, who can speak in more detail to our financial results.

Nigel Greenwood: Everyone. Good morning now from Nigel Greenwood. Good to talk to you again. I'm just working through the financial slides in the investor presentation deck. And I do encourage you all to – if you have time, to also have a closer look at the CFO report within the

annual report where further in-depth analysis is provided, and behind these presentation slides to give you a little bit more context than we're going to be able to give you on this presentation this morning.

So, with respect to the profitability, we've already covered that, substantial 89% increase year-on-year. And that has been primarily driven by infant formula growth, which equally has the same volumes of infant formula sales increased by 89%. Overall EBITDA also increased by 56% to $138.6 million.

In respect to sales volume, whilst our top line revenue has increased by $120 million to $879 million, that has been due to a combination of issues. Firstly, the increased sales of canned infant formula, which have a higher price point than our ingredient products. But also, the fact that commodity prices generally have increased year-on-year, and so as a consequence, our ingredient products have sold at a higher price point as well.

Having said that, our total volume of products sold in the year has reduced by 9% to 128,000 tonnes. The reason for that is as we produce more canned infant formula, we are able to process less milk through our site here at Dunsandel in the current environment. So, as a consequence, you'll see that we've actually had to sell some of our milk this year that we were unable to process. And so, actual processed milk will come to a little bit later.

It's worth pointing out that our closing inventory of finished goods has actually increased reasonably substantially year-on-year to just over 26,000 tonnes. And that is driven equally by the increase in infant formula sales because as we increase that product, we need to carry more bulk infant formula over year-end in order to make first-quarter production in the next financial years. So, you might expect that that particular trend will continue in future years.

Production volume, I've already pointed to the fact that the production we did reduce year-on-year from 65 million kilograms last year to 61 million kilograms this year. And I've already talked to the background as to why that is.

Moving to profitability. This is a key metric that we always talk to at every investor presentation. And you can see that our gross profit per metric tonne across total product range has increased to just under $1,300 per metric tonne. That is a significant increase, and is influenced by the increase in product mix, if you like, in terms of the percentage of infant formula sales versus total products that we pointed to in the slide.

But it's also not only because of that, but we've also achieved improved margin performance on our ingredient products year-on-year as well. So, it's the story whilst it's predominantly influenced by infant formula volumes, it's also across the board improvement of our margin performance, which you can also see down at the bottom of the slide where we refer to our lactoferrin gross margin per tonne, making a significant contribution this year. And that's on the back of a combination of increased volume of sales up to 16 tonne this year but also because the price point for lactoferrin has increased materially over last year and that has enabled us to enjoy a substantial increase in our gross margin per tonne for lactoferrin.

However, as you might expect, this improved performance is as a consequence of Synlait's rapid growth strategy and investment into the capital investments that we make. And this can only be achieved through continuing to invest in our people. And by investing in people not only to deliver on our expectations in the current environment but to enable us to grow and develop into the future. So, you'll see that our overheads have increased to just over $54 million from just under $50 million last year and the substantial contributor of that increase is our investment in people with employee costs increasing by $6.5 million.

So, I guess this is an issue that we continue to point to our investor community that you should expect our investment and overheads to increase year-on-year, and you would also expect to see that going into FY19 as well as we continue to invest into the future and our new categories in particular.

Operating cash flow for the full year has dropped a little from last year down to just under $100 million. And the key cause of that is referenced earlier to increase in inventory. Overall, if you look at the finished goods and raw material inventory, that has increased by $62 million or just under $63 million, and that has impacted our operating cash flows for the year. But still a very strong performance, which you can see clearly on the net debt slide that follows where you can see in terms of our movement of net debt from just under $83 million to just under $115 million year-on-year, that we have invested – well, just under $120 million in total in capital expenditure.

Of that, $104 million of that capital expenditure is what we refer to our growth projects. So, again, a more detail around specifically how that has made up is set out in the CFO report in the annual report. But overall, you can see that we've had – we've maintained our net debt relatively close to last year.

And importantly, our balance sheet position remains very strong at the end of FY18. Our leverage ratio or net debt to EBITDA of 0.8 times compared to this time last year of 0.9 times. So, that leaves our balance sheet well-equipped to cope with the future growth that we have over the next 12 months in particularly but also beyond that point.

In terms of milk price, we have moved up our final milk price for the year at $6.65 as our base milk price, inclusive of additional premiums that our farmers receive of $0.13 per kilogram of book, sort of that brings our total milk price to $6.78 per kilogram of milk for FY18.

So, we also see in terms of our advance rates, we finished the year with our advance rates reflecting 74% of total payments versus 79% this time last year.

And with that, I finish my presentation and hand back to Leon to talk a little bit about the future.

Leon Clement: Great. Thanks Nigel. Look, what I thought I'd do here is just provide a bit of context to my initial observations of the organisation, as I'm starting to learn and come up to speed, and also where I see what our key challenges are and what we're trying to achieve and how – a bit of a framework for how we might go about doing that.

So, I've really enjoyed my time. Synlait is a very warm organisation to walk into. But when you look at the key sectors that I see, Synlait is a very fast, very strong and very strategic organisation. And I see that on multiple levels in terms of my initial observations. Fast in terms of its financial dimensions but also its culture. There is a very strong agile approach. And I note that the people are very quick to move on to new opportunities and to move towards implementation but doing things in a very robust way.

Synlait is also very strong. You've probably seen the results from Nigel around our balance sheet and it's great to have such a healthy balance sheet that gives us optionality. But I also believe culturally that the strong stance that's been taken around our sustainable platform and sustainability goals represents a very brave leadership position in terms of starting to take New Zealand towards a more sustainable focus for New Zealand dairy.

And then strategically my observation is that the decisions that have been made particularly around the Pokeno investment and the advanced dairy and liquids plant at Dunsandel, very robust thinking and have moved very quickly into strategic implementation. So, fast from a strategic is what I see and obviously great foundations for the strategic challenge we see ahead.

So, look, really what are we trying to achieve and what are the challenges to that? It's as simple as making sure that we maintain growth and rapidly diversify our organisation. And it may sound easier than it actually is, because I think there is an underlying tension in that statement. So, our goal and where we start to move forward is making sure we shore up our existing profit engine as we broaden into new profit pools.

Some of the challenges that I see going into the future around that is the obvious concentration risk that we've talked about. As we do more things, we've got a focus and an implementation risk. We're also going to need if we want to diversify rapidly to do some of this inorganically. That has an element of risk but we can certainly mitigate it. And we're also entering into an unpredictable environment both globally as we've seen recently with trade sanctions both across the US and China. But also in terms of our regulatory climate, we've seen some tightening and a movement towards a tighter regulatory control of China for our core categories.

So, those are some broad reflections on what I see in terms of what we have, what we're trying to achieve and the challenges we see going forward. And really when I look at the outlook, I want to frame as not as a strategic plan but a framework for how we look at the activity we need to create within our strategic plan.

And if you look at the chart on the left of this slide, current customers and new customers on the bottom axis, on the horizontal axis, current categories and new categories as we move outwards. So, clearly, we have a core profit engine that sits around current customers and categories. We referred to some concentration risk there, but it's also a very strong core profit engine for us and we want to make sure that we shore that up.

And one of the first things we can do to start to diversify that risk both for us and our customers is make sure we work really closely with our customers on the opportunities that we're seeing and help grow them into the new categories that we're establishing. That is partly why we're starting

to invest very heavily in the research and development side and the innovation capability, but also the new capabilities around manufacturing that we're investing in.

The second part of our challenges to build a broader more strategic and complementary portfolio of customers around our core category of infant nutrition. There was a slide earlier that referred to our activity in that space and we look forward to continuing to do that and making sure that we achieve a greater diversity around the adjacencies that we see.

So, numbers one and two on the slide are really around starting to move away from our core profit engine into some adjacent growth aspects. We already have capability in either a customer relationship that's strategic that we continue to grow forward or expertise around categories. And that allows us to manage the risk as we start to diversify.

The third area is what I call our expansion engine. And that's moving into new profit pools with new customer and category groupings. A good example of this is what the organisation has already laid the foundation for with the announcement to enter into the advanced liquid and dairy categories and everyday nutrition, underpinned by a strong new customer relationship with Foodstuffs South Island.

So, you'll expect to see the organisation start to continue to look for good opportunities with strong synergies that complement what we're trying to do across the organisation. And the key here across one, two and three is not to make sure we're favouring one over the other but that our strategic activity has a balance in what we're trying to achieve, so that we continue to take an appropriate risk appetite to our growth focus.

To achieve our growth aspirations, we also need to make sure we focus on capabilities. As I go around the business, I see a real opportunity for Synlait to leapfrog our competitors in the space and really build world class capabilities quite quickly. I can see that in terms of what we're

starting to do around research and development and innovation. We've already made some strong and bold commitments around sustainability and we look forward to that being a strong purposely a differentiator for the organisation.

I talked also before about making sure that our food safety and quality is more than just compliance but actually something that our customers really value, and is a competitive advance for us. We've got some great programmes underway around moving towards low-cost manufacturer and cost leadership in our manufacturing excellence using the integrated work systems programme that we are using, and continuing to differentiate our milk supply; and as I said, we've already done some great work in that space.

And finally, we must continue to grow our people with the organisation and we'll look to engagement, talent and building strategic capabilities in those spaces.

So, that's broadly the framework we'll start to look to use. As I said, it hasn't got all of the depth of the strategic decisions, but I think it's a nice way to frame how we're going to go about addressing the opportunities and challenges that we see ahead.

I'll conclude the presentation here. And I think we move – apologies. I've got one more slide. Thank you, Nigel. Look, I wanted to give some indication of outlook. Graeme referenced the fact that we're looking forward to continuing to grow our profitability, but perhaps not at the same rate as we've seen in F18. That's indicated in this slide with what we're forecasting in terms of our outlook for infant formula sales. We are currently suggesting a range of 41,000 to 45,000 metric tonnes for that key category.

And what's in that assumption is our belief that we'll continue to grow volumes with A2 and we expect to see growth from New Hope and Bright's brands, as well as continue to see the encouraging signs we're seeing from Munchkin Grass Fed sales in Australia and New Zealand.

So, that's the outlook slide. Apologies for almost forgetting the most important part. But we'll open to questions from here.

Operator: Thank you very much.

Speaker: [Inaudible] Sorry, go ahead.

Operator: I am sorry. If you would like to ask a question over the phone, please press star one on your telephone keypad. If you're using a speakerphone today, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one at this time to ask a question.

Speaker: Currently no questions online. So, at this moment we'll pause for phone questions.

Operator: Okay, then. We'll take our first question from Arie Dekker with First NZ Capital. Please go ahead.

Arie Dekker: Good morning, gentlemen. Nigel, just a question for you first on the approach to R&D investment in the account side. I think you signalled about $7 million of investment in '18 and I think there is a reference to targeting 1.5% of revenue in '19. So, perhaps growing to circa $15 million. Is that all being capitalised? I know intangible investments $9 million in the year. And is that the approach you're going to be taking to R&D in '19 as well?

Nigel Greenwood: Actually, interesting enough, the relationship between those two numbers is not that close, Arie. So, the intangible – increase in intangibles year-on-year was not predominantly driven by R&D investment at all. Most of that has been expensed – well, the very much the majority of it has been this year was expensed; and we expect that the spend next year will also

be expensed, so will form part of overheads generally. So, yeah, so, the growth in intangibles relates to other investments that we've made and what we consider to be intangible assets over the course of the last 12 months.

Arie Dekker: Well, that's helpful guidance on the R&D. Thank you. So, into OpEx, the increase – the $9 million, can you just call out the key things that comprised that?

Nigel Greenwood: Yeah, in the intangibles?

Arie Dekker: Yeah.

Nigel Greenwood: Yeah. So, part of it was the intangible balance related to goodwill associated with the acquisition of the New Zealand Dairy Company is sitting in there. We've also seen investment – we referred historically to the IWS[?] programme that we're undertaking and increasing the efficiencies and the performance of our manufacturing processes across the business. We consider that to be also an intangible asset because that brings long-term benefits to the business. So, we've been capitalising that. So, that are two of the key contributors to that growth in that particular asset.

Arie Dekker: Thank you. On the smaller customers, I guess you guys have someone on the ground on China that's pretty linked in on that. The New Hope and Bright Dairy, what are you sort of seeing there? I mean, is there a chance that they may fall victim to that desire of the regulatory prices to rationalise down the number of brands in the market or is it just the process thing?

Leon Clement: Well, it's a good question, Arie. Look, I think we are seeing a tightening around – listen, I think, as an organisation, we're looking at this in two ways. There is some risk but there is also some opportunity in terms of [inaudible]. So, we do expect that what we're seeing is a tightening that may result in weeding out of unregistered brands, but we're still very confident in our team's

ability to continue to work with on capability that we've got in our organisation to secure those registrations.

Arie Dekker: Sure. And then just on the CNCA for Auckland. I know you commissioned the plant in November, still waiting for the approval. I guess two questions. I'm sure you're confident in getting that approval and clearly there have been some changes in China that have impacted timing. I mean, at what point is this an issue for A2 volumes and to China via Australia? When sort of a drop-dead date, and is that one of the reasons you sort of built up inventory at the back end of the last financial year?

Nigel Greenwood: Not connected to building up inventory. That's just a function of the mix as we need to hold more base powder to convert that for the season. So, the inventory level is a function of the milk as opposed to anything else. Regarding the registration for the factory, CNCA are working through existing renewals first. Obviously, there is some resource constraints. We've just completed our renewal audit for our Dunsandel site and we expect that we'll be moving towards registration and audits for the Auckland site from then on. So, yes, we're watching that carefully. We're also seeing some efficiency gains on our Dunsandel site, which give us a little bit of headroom. But look, we are expecting that we'll be getting that registration this year.

Arie Dekker: Sure. I'll let someone else ask on Munchkin. Just turning to the cheese acquisition and you have to forgive me because my knowledge of the business is virtually zero. I guess a few questions. What sort of sales do these guys currently have? Do they have much of an export presence for the brand like the expansion they're doing, how is that – or have recently done, how does that sort of fit in with their base rate of sales and the brand? Was it a significant expansion or quite incremental to what they're already doing? Just kind of keen to sort of get a bit more understanding around whether this is sort of a new organic opportunity for you guys with a long

growth path ahead of it or whether you're taking a business that's already sort of humming[?] and then whatever you guys decide to do with it?

Leon Clement: It's the former, Arie. It's probably more focused on strategic assets and capability and capacity for a new category. Talbot Forest has been growing in the New Zealand market and is relatively unique in that it's got some great flexible manufacturing capability. The sales profile isn't strong growth. But we're not really buying the existing sales pipeline. We see it more as the capability within the manufacturing asset. And over the transition period as we settle in August 2019, there'll be a little bit of additional investment to make sure we realise the opportunities that we see both in New Zealand and for export.

Arie Dekker: Two quick last questions from me. Obviously, you're less constrained on base IF[?] volume now that you've got the second wetmix kitchen on board and you're guiding to sort of circa 45,000 tonnes of finished. So, should we expect to see a material step-up in FY19 base IF volumes, or do you think it will still take a bit longer and it will still stay around that sort of 5,000 tonne level?

Leon Clement: I think we've given that indication in the outlook, Arie.

Arie Dekker: Thanks[?].

Leon Clement: It's different product mix. Yeah. Look, at this stage, I think our messaging historically over the recent times has been that we have a number of opportunities that we're currently working with some customers on that may convert into IFB[?] opportunities later in the year. But at this stage, they are not yet certain. So, I think that if you are asking the question from a perspective of your modelling, I'll be more implying to assume relatively stable volumes of our IFB product sales.

Arie Dekker: You know the approach. Last one just gross margin per metric tonne. Just to the extent you can the impact because clearly there is not going to be a lot of mix shift in '19 given that liquid milks coming in from April, which is pretty late in the year. So, the mix could be reasonably similar bit of growth in finished IFC[?]. So, what sort of gross margin per metric tonne impact might we see from the renewed A2 contract – how should we think about that?

Nigel Greenwood: Look, I think you're right about the product mix. We might expect with the volumes the way they are going, Pokeno and online, that affect we get a higher percentage of fully finished infant formula in terms of – so that you should expect I would think that the gross margin per tonne should certainly be similar to if not a little higher than last year, simply because of the improved product mix.

Arie Dekker: Yeah, that's helpful. Thanks Nigel.

Speaker: We'd like to sort of move onto any other questions that may be online.

Operator: Sure. And we will hear next from Adrian Allbon with Craigs Investment Partners. Please go ahead.

Adrian Allbon: Good morning, team. A couple of questions please. Just when I look at your IFC outlook, it doesn't appear that you're assuming any sort of major dislocation and volumes from your main or your major customers in that mix. Against that context, would you be able to just share, given your investment and the Chinese regulatory process and your own people on the ground, just what the sort of lighter sort of detail is around the sort of – yeah, I guess the implementation of the new Chinese e-commerce laws and potentially the ending of the [inaudible] grace period and sort of are there any potential implications we should be thinking about in terms of change of labels and stuff like that from English label?

Leon Clement: I can have a go, Nigel. Adrian, thanks for the question. Look, I think that our broad message on some of the movements around the regulatory direction [inaudible] we support any changes that are going to be improving the safety of infant formula products. So, principally, we do see that there is an alignment and tension around us. We do expect there will be some changes. And like I said before, I think there is both risk and opportunity for the organisation around each of those.

But in terms of specifics around what we are seeing, I'm not sure that we are – we're not that clear ourselves until they are announced. But I think the direction [inaudible] around the cross-border e-commerce was reflective of, I think, a regulatory authority continuing to try to manage that risk and increase safety for products.

Nigel Greenwood: Yeah, look, Nigel here. Look, I would endorse Leon's comments there. In our outlook – in the volume outlook, we have made it clear that we – in those numbers, we have an underlying assumption that we would expect to receive regulatory approval of the New Hope and Bright brands at some time during the course of this financial year.

We have always made it clear that we don't – we're not specific about what the mix of that volume is between our various branded customers. The regulatory environment here in China is it continues to tighten but we consider that and we remain to consider that as being more beneficial to Synlait than not because of the partners – people whom we're partnering with and the quality of our own facilities and what we do as an organisation.

I think the delays that we're – the reason for the delays are reflective of the statements we have made earlier. We have made significant changes going on within the regulatory bodies within China, and you'll see we referred to a new name or type of what we used to be referred to as CFDA and CNCA. So, there are reflective of the changes that are going on there that are just causing some delays in the timeline around getting these approvals in place.

We've got no reason to believe at all. We've been given now indication that there are any concerns or any likelihood that the brands will not be approved. I think we're just seeing some delays as a consequence of the changes that are going on within the new environment up there. So, I think that's probably the best we can sort of answer that at the moment, so Adrian.

Adrian Allbon: Yeah. So, sorry, just to be clear, I was sort of least concerned about, if you like, the Bright and New Hope my registrations. I was sort of more interested in what comments you sort of had around potentially like the CB[?] grace period ending whether there was a potential requirement to sort of introduce into your label as opposed to just English label that was sort of more of the thrust of the question I suppose.

Leon Clement: Okay, well, look, I think our position on that is that there is nothing – you're asking us that likely outcome sometime in the future. Well, you could argue with a bit of who knows. We do see continuing tightening of the regime in China, so it's possible. But it certainly hasn't been signalled at this point that that would be a requirement. So, I know it's not answering your question perhaps in the way you had liked but it's what we have to work with.

Adrian Allbon: No, that's fine. I was just – [inaudible] that's an open question. I was just interested in the additional detail given you have got a lot of resource in to that regulatory space. That's all. So, thank you for that.

Just related to Arie's question around the renewed A2 milk pricing construct[?]. Just for modelling purposes, is there anything materially different that we should be considering from the old to the new? I appreciate that you can't give any specific detail. But just in terms of the approach we should take vis-à-vis to understanding of the old versus the new?

Leon Clement: Yeah, Adrian, I'll have a go because, obviously, we're not going to disclose specifics there. But I think if I was modelling this, it would be basically looking at where the – where is the tension or the path within the relationship around the negotiation we've just completed. And obviously, we – as an organisation, we've secured supply certainty and that gives us confidence around how we can move forward. On the other side, we have also continued to strengthen the value proposition that we have and we're in a strong position because we have the license for the China and Australia and New Zealand.

So, I think you can work through what you think may have been the value exchange between parties there. That will be fair to assume that I think that for us to secure supply certainty what was a good vote of confidence in how we move forward, and we'd expect that to continue forward. So, I know that's a little lesser than you may be expecting. But if you were standing back and looking at the forces between that negotiation, I think you can make some assumptions around the direction of travel there.

Adrian Allbon: Okay. Thank you.

Operator: And we'll hear next from Nick Mar with Macquarie. Please go ahead.

Nick Mar: Hi guys. Just wanting to clarify, the canned guidance or the consumer package guidance, does that – I'm not assuming that Munchkin gets FDA approval during the period?

Leon Clement: Yeah, we're not – I think it's fair to say that there could be some volumes for Munchkin US in there but they're just simply not substantial. And so, we've not necessarily pointed that, because there still remains some uncertainty as to when that FDA approval will come to pass. So, I think probably the best way you can think about it, Nick, is not to assume that there are any sort of significant volumes built into that all forecast range associated with volume going to the US for Munchkin.

Nick Mar: [inaudible].

Speaker: Sorry, Nick. I was just going to [inaudible]. Go ahead.

Nick Mar: I was saying if they did get approval, would there be a reasonable kind of bump initially as they stop the channel?

Leon Clement: That would probably lift the expectations if we got approval quickly. But we are not – we haven't seen that and we are expecting some delays in approval. We had expected it sooner. However, we are working closely with Munchkin and looking to take a little more control over the process and have some input into it. I suspect if we did receive quick approval, that may force us to have a more positive outlook on the forecast.

What we're seeing is perhaps a softening of what we expected through the US but we're positive around what's happening in Australia and New Zealand. So, one is offsetting the other around what Nigel said is a small bucket of that outlook.

Nick Mar: And then just separately on the cost side. Second half obviously was up quite a bit. How do we look at FY19? Are we annualising the second half netting a bit? Any guidance you can provide around that?

Nigel Greenwood: Look, I think if I'm being open about that, Nick, I think you might assume that we will be significantly increasing our investment in what we refer to as overheads or SG&A cost year-on-year. So, I think that approach that you are just thinking about might end up with sort of a softer expectation than reality we're likely to deliver in FY19 for our overheads. And the reason is that – partly Arie has already pointed to one of them. There is – he has reflected it and he is right that we are expecting to double our investment in R&D year-on-year. That is a substantial

increase alone without also increasing our investment in building the categories, the categories that we're into to the everyday dairy in particular.

So, I think you might want to take a little bit more of a conservative approach with respect of what you're thinking about in terms of our overhead growth year-on-year.

Nick Mar: Sure thing. And then just talking about the milk price, couple of questions there. Had you guys benchmark your $6.65 against say what funds you're paid and what the theoretical price was which was $6.74? And, obviously, you guys have flexibility around that but thinking about what you give to farmers, this is what you take through the P&L?

Nigel Greenwood: Yes, we do all that.

Nick Mar: Yeah, so with [inaudible]. I'm just trying to understand what was your decision point about not watching it up $6.69 or a different number.

Nigel Greenwood: All right. Of course, I mean, well, look, remembering that from Synlait's point of view, we always see it as what we refer to as a Synlait milk price. And we've seen the milk price based on what we consider to be an appropriate price for the milk based on our own interpretation of the various variables that are going into setting the milk price within New Zealand.

Now, of course, we are conscious of what we are – Fonterra's milk price might end up at the end of the year. And generally speaking, by the way, it will be that Fonterra did announce earlier this year. By the time we set our milk price, we've set that milk price without full insight as to where Fonterra's milk price is going to land. So, we set it on a basis of what we think the milk price ought to be, not necessarily what Fonterra's milk price will be when you do that comparison.

So, what we do say about farmers, and we're consistent with that, is that we will leave our farmers better off over time. So that will result in occasionally – when you do your comparison between entities, that sometimes we're a little bit above, sometimes we're a little bit below. And then we also need to think about the benefits our farmers get from all the premiums that they receive in addition to the base milk price, which also supports the relationship that we have with them and keep that relationship very strong.

So, in terms of doing the internal dynamics around why that they might be different and doing all that modelling, of course, we do all that, but just to give us some internal insights not necessarily for how we set our milk price.

Nick Mar: That's great. And then just on those premiums; of the $8.2 million, how much of it roughly have you recovered from customers through what they have paid you versus what is just borne as a cost through say Lead With Pride and the likes?

Nigel Greenwood: I have to think about that off the top of my head. I don't have that number off the top of my head but if I'm thinking about it out loud, I would just guess that probably about somewhere between around 70-80% is recovered through customers versus the balance being incurred internally; somewhere in that sort of range.

Nick Mar: Great. Thanks a lot.

Nigel Greenwood: Thank you.

Operator: And we'll hear next from Marcus Curley with UBS. Please go ahead.

Marcus Curley: Good morning guys. Just two quick ones from me. I just wondered if you can talk a little bit more about your cheese acquisition in terms of how you think you're going to build the volume

out. So, is it going to be driven of the existing brand? Are you going to be looking to manufacture for other cheese brands? Are you planning on adding your own brands – to the brands into that business?

And secondly, can you talk a little bit about the return profile? So, by the sounds of things, it sounds pretty mature in terms of likely the level of profitability to begin with, or I could be reading that wrong?

Leon Clement: Yeah. Okay, I can answer that. I mean, answer to your first question, I think all of the above. I mentioned before the main driver wasn't the brand but it could be useful and [inaudible]. And overtime we may well look to introduce our own thinking around our brand composition into that. And that's work that we still need to look at and to finalise. But look, the opportunities in terms of fulfilling the available capacity there would be both for domestic and for export cheese and starting to look at both retail and food service or B2B channels for that demand. So, we see good opportunities. There is a good profile already within the existing business. But we think that as we complement what we're starting to do in fresh milk and other liquid products that we start to build a stronger portfolio and compare that out with customers.

So, in short, multiple channel, certainly we would look at potentially contract packing or working with other key customers to build their brands with the facility and in time potentially our own brand activity. So, all options are available to us at the moment and in part, that's why we've done this strategic move because it gives us lots of options to continue to diversify as per the framework that I presented.

In terms of the return profile, look, a little bit too difficult to disclose the specifics. But you're right, there is an initial capital investment that goes in. As we fill the plant, we'll start to see returns come back over time. So, yeah, it's heavy in the front but comes back as we fill the facility.

Marcus Curley: And then secondly, maybe for you, Nigel. Can you talk a little bit about what you're seeing in price premiums in the ingredients business and how you think about that looking forward?

Nigel Greenwood: When you refer to price premiums in the ingredients business, effectively I suppose the way we think about that is the sort of the premium we get out of the GDP pricing. Is that effectively what you're talking to?

Marcus Curley: Yeah, correct. So, yeah, whether you've seen a competition impact there in the last 12 months, how do you see it playing out in the next 12 months?

Nigel Greenwood: Well, [inaudible] enough, the dynamics are actually working beneficially for Synlait and that we – as we actually reduce the volume of our ingredient manufacture, as we increase the volume of our infant manufacture, we are actually – enabled us to be even more discerning in terms of the customers that we choose to work with. That enables us to ensure that we do catch higher premiums on our ingredient product sales. And that has certainly assisted us in our year-on-year improvement in overall ingredient margin performance.

But as I point to – you might recall at the interim results presentation that we did that we also pointed to other performance issues that enabled us to generate a better return there and that relates to the volume of our improved throughput through the manufacturing facilities here. So, it's actually a combination of improvements and efficiencies and improved pricing or GDP pricing that we're getting that enable us to deliver an improved performance on our ingredient sales.

So, it's not just one thing. It's a number of factors that we're focused on that enabled that outcome.

Marcus Curley: Okay. Thank you.

Operator: And once again, that is star one if you'd like to ask a question on today's call. We'll hear next from Alan Williams with New Zealand Farmers Weekly. Please go ahead.

Alan Williams: Thank you. With your milk price, can you say just how many of your 200 or so suppliers are receiving premium payments against just the base price covering your Lead With Pride and seasonal premiums and what the numbers might be for the PKE? And also, attached to that, will price – the anticipated lift in commodity prices, what might be the factors driving that?

Leon Clement: Look, I'm sorry, I just missed the first part of your question again. Specifically, what are you wanting to know?

Alan Williams: Just the – of your suppliers, how many of those are on the premium payments for the various schemes, the seasonal and Lead With Pride and [inaudible] part of it.

Leon Clement: Yeah, I understand the question. Well, over 50% of our current [inaudible] suppliers are receiving some form of premium, whether it be any one of the above that you just referred to. Regarding – and you also talked about the PKE offering that we've introduced in FY19 and it's really early days on that one at the moment. So, we've had, obviously, engagements with our farmers to support base around that and they welcomed it, and we're currently working with them because for a number of those farmers it's a matter of helping them transition away from PKE use to another form of use at the same time as receiving the enhanced response from us.

But we have actually built into our financial results for the year – sorry, FY19 and assumed allowance for that payment that would be an incremental payment that we will be making to our farm suppliers. Does that help?

Alan Williams: Yes, it's good. Thank you. And the fact that's driving your belief that the commodity prices will increase or improve over the year?

Leon Clement: Look, that's a matter of market dynamics. I mean, in terms of our announced $6.75 forecast price for this year, it does require commodity prices to increase from where they are today in the upturn period. Why do we think that is a likely outcome? Well, that's really to do with supply and demand dynamics internationally. We're seeing certainly significant pressures on milk suppliers in Europe and in Australia and in the US, and we're also hearing signals that of China that suppliers somewhat constrained up there as well. So, whilst we are seeing good production volumes coming out of New Zealand right now, internationally that's not necessarily the dynamic that will play out into the upturn period. So, that could well play out and we are assuming that it will play out in the future, which will drive an increase in commodity prices and therefore milk price.

However, we are obviously cautiously signalling that effect does not happen, then our milk price may well change as we work through the season.

Alan Williams: Okay. Thank you.

Speaker: We do have one more question in to wrap up with today. We'll take one from online from Heather Chalmers, a reporter at Stuff.co.nz regarding, is the Pokeno site line scheduled and what is the processing start date?

Leon Clement: Thanks Heather. We are building momentum and getting back to schedule and expect to remain on schedule. We're not quite there yet. There's been some supply shocks through the whole construction industry through our progress of Pokeno. We're well on track down at Dunsandel. Pokeno is a little bit behind but we're building strong momentum as those supply

shocks wash through and we secure some of the key materials that we need to keep moving forward.

So, the team are reasonably confident that we'll get pull that back and we remain confident that we'll be on track for both time and the quality of build that we require.

So, the second question around when we expect to establish that; we're currently saying within the 2019-2020 season, more likely to be in the first half.

Speaker: Very good. Well, then with that, thank you for joining the earnings call today and we'll see you soon.

Operator: Once again, that does conclude today's conference. Thank you for your participation.