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Operator: Good day and welcome to the Synlait Milk Limited FY ’17 Annual Results Investor call. Today’s conference is being recorded. And at this time, I’d like to turn the conference over to Mr. John Penno, Chief Executive Officer. Please go ahead, sir.

John Penno: Right. Good morning everybody. John Penno here. I’ve got Nigel Greenwood with me and what we intend to do is to touch on some of the key points. There’s quite a substantial investor presentation that we’ve put out this year, trying to explain some of the ways in which the company’s changed and grown in the last 12 months in particular, and of course, the results that we’ve achieved. Nigel and I will touch on some of the highlights in the presentation and then I know there’s a number of you on the call, so we’ll turn it over for questions as early as we can.

First, we’re very pleased to announce a net profit for the year of $38.2 million, up 10% on last year. And underneath there’s a substantial investment in business development, building the team and preparing for the future, as we’ve signaled we would do, a year ago. On top of that or part of that I should say, is preparing the company for the future, by getting the balance sheet in check. And net debt reducing from $214 million down to $83 million for the period as the net debt is highlighted for us, and it’s something we’ve been focused on achieving.

Other key things that have happened during the year of course in addition to the capital raising it’s been signing up the New Hope infant formula agreement. That is an important agreement for us. It continues to balance the portfolio of customers that we have for our finished infant formula products. It’s underpinned by a threefold increase in volume that we expect to achieve during the life of that contract and we have seen that brand grow. As you’ll hear us talk about, we’re well into preparing the registration process to insure that product's on the market and we expect it to succeed alongside a limited number of other brands as they go forward in the market.

In the presentation there's also emphasis on building the team here at Synlait. Over the year we've had five key appointments to the senior team and are bringing a refresh in rebuilding of the team for the next phase of development of the company, to an end, at the moment. Moving to the strategic updates, it's worth remembering that the company was established 11 years ago, but actually we're heading into our tenth year of manufacturing now.

And not only has the company grown very substantially over those ten years, this company has changed very significantly over the course of the last three years or four years since the IPO. And we want to highlight that as part of this presentation as we move towards the future.

We have deepening partnerships with some leading brand owners and that is at both an ingredients level for the customers that we have for milk powders, infant formula, ((inaudible)) milk powders, our base powder and of course, our (finished) infant formula. We have very strong support from our 200 farmers who supply milk through the company.

We have a very high specification plant which is achieving high levels of utilization. And FY '17 has been a year where increased milk supply has brought our plant up to capacity. And then of course, we have very rigorous quality control and onsite testing through our laboratory and our quality control systems that run end to end through the organization.

We are growing our very well established infant formula business and we have an ongoing emphasis on this. And of particular importance, is working in close partnership with our brand owners, with A2 in particular, where we continue to think of that as our one business through two companies. We are pleased with this success and we expect it to continue and we will continue to support them as we move forward together. The New Hope Nutritionals business we expect to develop in the China market and in time, it is very important to us to continue to develop the Munchkin business.

Again, in this report, we're pointing to the amount we're investing in research and development. That (head)'s been growing strongly in the last few years. And we're not there yet but we expect to hit towards about 1-1/2% of revenue going forward. And the report points to the movement and I'll talk about that in a little bit more detail. We are looking to diversify both with our infant formula category and the Munchkin is a very important part of that. But also, and our ingredients business moving into sachet packaging for customers, so that we put more and more of our finished product into consumer packs.

And in developing new categories that will stand alongside our ingredients business and our infant formula business as we move forward. On the next slide of the diagram which shows what we offer to our customers as they work with their consumers - and we wanted to emphasize the breadth that the company covers.

Synlait is no longer just a manufacturing business and perhaps never has been. We have very strong relationships with the ingredient supplies we need to manufacture our products and none more important than the farmers we have, where we differentiate the milk supply to enable products like the A2 Platinum product, to be manufactured and to have a key point of difference. That's important.

We invest increasingly in research and development and category development and in product design and innovation. We have manufacturing excellence that we are very proud of and control all elements of the quality of the product while we optimize the use of these capital intensive plants. We are taking an increasing proportion of our products through to consumer packaging. That includes the state of the art packaging line that we have here, the infant formula planning impacting line we're building in Auckland and the decision to install high specification sachet lines at our Dunsandel site, so if we can move increasingly into milk powder products and sachets for the market.

Product testing and laboratory is a very important part of what we do as we will make enough infant formula in the next 12 months to feed a million children, a million babies for the year. And of course working with the most regulated product in the world, we need to enable our customers to continue to put their products in the market and have regulatory approval for that. We did partner with our customers who own the brand, who promote and distribute the products in the market and sell through to the consumers. Now there are a number of strategic targets that we wanted to point to in various areas of the business, showing the progress that we've made against the things that we've said we would do last year.

But none are more important than making sure we have an infant formula brand registered in the China market. So I'll ask you to flip to the next slide. What we are dealing with is the most regulated food product in the world and that's because it's the only food provided to some infants during their first year of their life.

So it is - it's just - we can't stress the importance of the regulation and quality control of these products. Over time we've learned to work very closely with the regulators both here in New Zealand and in markets. And the last 12 months you've seen us establish an office in Beijing to work side by side with the regulators for the all-important China market, to insure that the brands and products of our customers are registered.

But it's worth remembering that those products are registered to us as a company and us as a manufacturer, because we are the point at which the quality is controlled and that is the reason that those products are regulated. So as far as the regulator is concerned, we own the brands. They are brands that are associated with us and should they be a problem it is our responsibility to manage that. It is our responsibility to insure that the children who consume those products, are always safe and that's something that we take very seriously.

As we have spoken about for some time, we have increased the capacity to continue to meet the demand of our customers both now and going forward. And that capacity is both plant and equipment, but also people. And we have put a huge effort into building a world class team here at ((Inaudible)) and in Auckland, on our new site. in the 12 months our team has grown from 436 people to 500 and there's also been a continual refreshing of some of the key management and technical staff as we have moved through the year, but continue to deliver on our strategy.

That's meant additional people on our consumer packaging facilities, technical roles in our laboratory and their support in terms of the planning that is so important to the business and to our customers. And it is making sure that our people will have the experience they need in projects and technology and finance, which underpin our ability to change and grow as an organization.

This starts with the senior leadership team and we've made a number of key appointments. Now Boyd Williams in People and Culture; Antony into General Manager of Manufacturing; and Roger Schwarzenbach in particular, who is leading technical and innovation for us. People who bring many, many years of experience to our business and that we're very much enjoying working with. So with that, I'm going to hand to Nigel who will touch on some of the key financial highlights. And then I'll come back and talk a little more about the year ahead.

Nigel Greenwood: Good morning. ((Inaudible)). Nigel Greenwood ((inaudible)) on slide number 18, just dealing with the profit growth. Obviously John has already pointed to our ((inaudible)). And look, we've got, as you might expect, these are two key drivers. One was that and that was our overall gross (profit) in dollars increased by $10 million year on year, predominantly driven by the increase of the infant formula (bargain) from 16,000 tons to just over 18-1/2 thousand tons.

On the other hand, we've increased our overhead expenditure which we did signal - you'll recall last year, that we did signal that we would be investing in our ((inaudible)). It's referred to overhead, but actually we see them as investments into the future of the business. John's already pointed to Roger Schwarzenbach as the investor for making research and development, but also our capability within the business, in order to enable us to manage a growing business and also allow us to invest in future strategic opportunities that present themselves through the business. And we will be ((inaudible)) in announcing over time.

Moving to slide 19, the financial success - that slide just really calls out a number of the key issues. Obviously one that's near and dear to shareholders of the company as the total shareholder returns over the financial period, that is actually July to July, 34.1%. I should imagine if we did the calculation today, that would probably look a little bit higher than that. But nevertheless, we are very proud and pleased to be delivering these (thought)s of returns to investors. As a growth company, this is one of the key measurements that an investor will look to.

Other call outs on that page is obviously around (med tech). We've got a slide coming on that, to demonstrate how we - (med tech) reduced from $(214) million down to $83 million. Obviously gearing as well, down to 18%, but really is positioning the company with an extremely strong balance sheet through support in future growth that we've talked about at the time we did the capital raise in October this year. And whilst we have made some announcements around the Wetmix Kitchen and this morning, around investment in the sachet line, there are more announcements to come over the next 12 months as we (fulfill) our commitment to do those. And we'll obviously talk to those in due course.

Overall ((inaudible)) point out our return on capital employed at 13.9%, a good strong return over the 12 months. So slide 20 talks to revenue growth and this is obviously supported - I mean obviously revenue growth for companies like Synlait, are supported by two key drivers - one is the volume of increased value added products like our infant formula, which obviously generate higher revenue than say our ingredient products do.

But a key driver really is commodity prices and we have seen commodity prices increase year on year which is why we're seeing such a - one of the key reasons we're seeing such a significant move in our overall revenue ((inaudible)). But as you can see from the graph on that page, they're also ((inaudible)) increased, but so have our ingredient volumes going to $122 million, pointing out that within that 123,000 tons of ingredient volumes is about 5-1/2 thousand tons of infant formula bulk products, as well as our whole milk powder, skim milk powder and (AMS).

The reason that we were able to increase our overall sales was partly also due to reducing - we carried it in FY '16 in higher stock levels than we have normally expected to do. So we sold some of it down so that actually our carrying out the stock of the ((inaudible)) than it was in FY '16. (Product) milk price - we announced our (product) milk price for the day for the FY '17 year this morning at $6.30 which includes the premiums we pay to our (product) of 14 cents over the top of our base milk price of $6.16.

We also announced today that we're maintaining our FY '18 milk price at $6.50 for this part of the season. We'll be reporting out the advanced rates. We have signaled in the last two Fridays ((inaudible)) end of July were unusually high and in excess of 90% on that total payment for that year. And the reason being that we're off fighting very low price environments. And so in those sorts of environments, we tend to support our farmers with higher advanced rates during the course of the financial year.

FY '17 ((inaudible)) returned to a more normalized level of between 75% and 80% at the end of the financial year, which has in fact obviously supported some of our growth and operating cash flow for the year. Slide 22 just demonstrates the growth of the premiums that were made to our farmers. I won't talk about it in any detail. That's incredibly self-explanatory. Moving to slide 22, just talking about growth profits per metric ton - according to the fact that growth profit dollars have increased by $10 million and our growth profits have been ((inaudible)) is marginally lower than last year. The key factor - there are two key factors for it really.

One is that we have solved significantly more ingredients or lower margin products compared to our ((inaudible)) canned product year on year which has had a ((inaudible)). And I do also point to the fact that we did have - I mentioned earlier, we carried out ((inaudible)) from last year, which we're actually carrying at net realizable value. There is a consequence that about 4000 tons of products that we sold in FY '17 was sold at their (margin) and so there was ((inaudible)) effects on our margin success.

Moving to page 24 - I just talked in more detail around growth ((inaudible)). I don't need to go into that in any more detail. Reported out that it's $6 million year on year. You can see that a lot of that is around our quality business development in R&D, a little bit more in reach on depreciation ((inaudible)) another surprise ((inaudible)).

Cash flow growth - very pleased to report ((inaudible)) cash flow of $115 million for the year, which is one of the key reasons for supporting our reduction in net debt year on year. And it's demonstrated as how we achieved that, if you look at the reconciliation from our EBITDA of $89 million and how we achieved an operating cash flow of $115 million. You can see balancing out the advanced rates of the year, helped us achieve quite a significant outlook for cash (net) flow, whereas receivables increased by the end of the year fairly over last year, by $41 million.

That has no - the support has no effect on the fact that we have a large number of overdue receivables, if we only had ((inaudible)) around $1 million or $3 million of overdue receivables for the ((inaudible)) paid. But rather the fact that we did deliver quite a substantial amount of products in the last two months of the financial year. And as a consequence of that, the receipts for those products are not due until early this year. So we'll see - we should see some of those receivables outlined as of FY '18 financial year.

Moving to debt reduction - I've already pointed to the fact that we had reduced it from $214 million down to $83 million, cash back of operating ((inaudible)) key cause of that. But of course also you see the other large green bar there with the equity raise, the net cash inflow there being $96 million. We invested $33 million in growth CAPEX that was a combination of our Wetmix Kitchen as well as initial spend in the ((inaudible)) and then also of course, we had to pay some interest to the bank. We always like to keep the banks happy.

Moving down to the bottom graph just reflecting the combination of our leverage, as well as which is significantly reducing over the last two years. ((Inaudible)) 53% driven by the capital raise of course, as well as retained earnings, so it's looking very healthy at the end of the product year of $393 million of equity. ((Inaudible)) moving down for 47% to 18%. So I'll leave it at that and then pass it back to John to talk about our prospective future performance.

John Penno: So going forward, we see considerable opportunity both to consolidate with them and solidify with them our current ingredient business, where we do see opportunity to continue to add value both through improved manufacturing processes and operational excellence and the now infant formula business to continue to grow alongside our existing customers and develop new customers going forward.

Look, we know that as we enter new categories for the first time, we are open to the idea of branded business. Now this is for the future. And there's quite strict provisos around that. Firstly, that we do not intend to enter into conflicts by competing with our existing customer base. And that really rules us entering into the branded infant formula business. But as we look at other categories, we do see opportunity to begin to think about how we might end up with some branded products well into the future.

It's likely at this stage, we are going to need new manufacturing sites going forward. This is going to be driven both by the infant formula business continuing to grow and the long timeframes that we need to place around the requirements for key ingredients into our infant formula. We have blending and canning that we're developing at the moment, but we need to keep thinking forward in terms of the base powder manufacturer.

And we see for some time that the next time we build a (spray) dryer, it will be when we need it or based on a manufacturer rather than ingredient business. And at this point, we do not have plans to build another dryer here on the Dunsandel site. The Dunsandel site - we will continue to focus on adding as much value to the milk that we already manufacture from and the products that we already manufacture, but it is likely you will see us expand to new sites and time to continue to keep up with customer demands.

So in summary, our strategy is you have always known from us, is to grow our top and our bottom line ((inaudible)) and a more profitable, more diversified, lower risk business is the goal as we go forward. In terms of immediate expectations for growth, we do expect the underlying demand for infant formula in that key China market, to continue to expand for some time, particularly with the relaxation of the single child policy drives birth rates over the next five years.

Within that market there is also the well-publicized consolidation of brands and we believe we're in a very strong position to get our fair share of those brands in that market and are confident in the processes that we have underway, with both New Hope and A2 and the brands that will follow going forward. We are continuing to invest and insuring that we have diversity with our infant formula business. The Munchkin business remains very important to this and we think the registration with the FDA will bring growth in that new market as we're able to achieve it.

And while we are disappointed that it's taking longer than we expected, to move through the FDA process, it does point to the very strong (niche) that we will have in place around that business, as we become one of the only importer that's informing the markets as to what is the second largest infant formula market in the world, and a market where wealthy consumers are increasingly focused on the health and wellbeing of their families.

Because of the requirement to - for consumer packaging, we are filled with not only the packaging plants in Auckland, we've made a decision to move into sachet packaging here on the Dunsandel site. And you will see us invest in a flexible packaging line so that we can put both milk powders, infant formulas and in time all nutritional products, into flexible consumer packages which are a more cost effective option than a can and well established in many markets, for these product categories.

And strategically, well that's about us moving a higher and higher proportion of the products we manufacture into consumer packs. In terms of the infant formula business, settling here is that we expect - we now expect growth in canned sales, to be in the region of 30,000 to 35,000 tons. Now that's quite a large range and the range is rare because we are mindful of the last step up that that is in this year. however, we are confident in this half sales with most of those sales (committed).

And we would expect at this stage to be selling 16,000 tons of finished infant formula products in the first half of FY '18. So with that, this is a result that we're pleased to present. It's a year in which we've been able to do the things that we said we would - a modest increase in profit, but underneath that, a large investment in building a business for the future and for the next phase of our development. So with that, I'm very happy to hand it over to questions that you might have.

Operator: And ladies and gentlemen, if you'd like to ask a quest over the phones at this time, it is star 1 on your touch-tone telephone. Please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star 1 on your touch-tone telephone at this time, if you'd like to ask a question. We'll pause just a moment. We'll take our first question from (Ari Decker) with First New Zealand Capital.

(Ari Decker): Oh, good morning gentlemen, just a couple of updates firstly, just on Munchkin. I think when you gave the update a couple of months ago with regards to the FDA approval, you had a range of sort of four to 12 months to get to the end. In terms of an update on that, are new trials required? Is it going - is it looking more like the lettering of the range or the early attainment?

John Penno: Look - thanks (Ari). Look, we're very aware that that's a broad range and we're going to stay with the broad range at this stage. There are technical issues that we're working our way through with the FDA. We are confident that we'll get there with the product. There's nothing, you know, ((inaudible)) very similar product that's sold in the New Zealand/Australian market for Munchkin. And the FDA is a very sound regulatory body, but that - and, you know, it's - it really - everyone focuses on the Chinese regulatory process. The FDA is much tougher. In fact it's what China is trying to model themselves on, but they have some way to go.

So we do want to stay with a broad range at this stage (Ari). As we work through the process we'll update the market as best we can. But we at Munchkin, are very focused on getting that product released. Everything else is ready to go of course. But we're looking forward to getting it done and getting on with building that market alongside Munchkin.

(Ari Decker): A2 was the first (cat) off the ranks with regards to this CFDA approval process. New Hope is - what's your level of confidence around getting that approval in advance of 1 January and just sort of an update on where that's at?

John Penno: So you're right - the New Hope product Akarola will be the second that we move through the registration process with. That product has been in the market for some time and in fact is our biggest China label infant formula today. And so we would expect to be able to progress through the system. Of course we've learned a lot and those systems - the CFDA system has evolved a little bit over the course of the last six months. And so I moved through the process and got the machinery working.

We both have plans in place so that if the registration has not been placed by the first of January, that we have enough product in the market with the customer for continuity. And we are - today we are confident that we will have that registration in place by 1 January alongside the a2 registration.

(Ari Decker): Yes, and just perhaps on that product for continuity, can you just talk about the - sort of the volume within the 16,000 tons in the first half that you would sort of put down to stocking for continuity, you know, for allowances for that 1 January?

John Penno: Look, it's ((inaudible)).

(Ari Decker): Across your customers.

John Penno: Yes, across the portfolios. It's not quite as much as you would think it would be, (Ari), because, you know, it's no secret that the a2 volume is a large part of what we're doing. And as per their disclosure, less than 10% of their product is China labeled. And so the China business today as a proportion of our overall business is quite small.

But look it might be plus or minus 1000 ton, but it's not as much as you might think. And part of that comes back to our confidence that we will have registrations in place for our key China brands in time for continuity anyway. We're well advanced on both of those proposals.

(Ari Decker): And the last of the update questions and I've just got two more after that. The Auckland commissioning, is that still something that you're looking at kind of I think if I recall October or November type timing? And have you also sort of thought about or made more progress on what customers you'll manufacture from in FY18?

John Penno: So that's - you're right that we remain on target for getting that plant commissioned on time, so the setup and commission production October/November. The key will be getting the regulatory approvals we need from the New Zealand authorities. So you've got to start up. You've got to, you know, demonstrate and delineate that the plant is operating as it should. And then you (head) license to manufacture product for sale in this market.

And so the early products that we have on the plants will be products for New Zealand/Australia market. But we aren't going to talk any more about which products they may be.

(Ari Decker): Sure, okay. Just overhead costs in FY18 – one for you (Nigel) perhaps – could you just give a little bit of guidance on where you sort of see that - what range you sort of see that landing in for FY18 because it's obviously moving a bit at the moment and there will be some phasing from FY17 increase.

Nigel Greenwood: That's correct (Ari). There is obviously a carry-through as you heard, based on start to the business. You always get a bit of carry-over from the prior year to the new year. But to be fair, we are planning on further growth in our start during the course of FY18 as well so we will see more payroll cost coming in as well as investment in research and development to (John)'s point ((inaudible)) that we are significantly increasing that I think to about 7-1/2 million in FY18. So I mean you should expect that Synlait will be likely to be increasing our overall SG&A or overheard cost by that similar metric to what we did in FY17 into FY18.

(Ari Decker): Okay, no that's helpful. And then the last one from me, you know, and it's kind of a slightly tricky one. But just in terms of that decision not to do dryer four at Dunsandel and to sort of commit to that at the moment, you know, I think you have sort of been talking a bit about it over the last six months.

In terms of, you know, the infant formula production growing at Dunsandel, can you sort of talk about the amount of sort of milk sales that you'll do at your current sort of supply levels of 65 million Kgs I guess at the top end of this year's sort of production forecast of 35.

And then if you continue to sort of push out drive for, you know, what milk sales you might be doing kind of at, you know, sort of 40,000 or 50,000 tons of infant formula in Christchurch for the 65 million Kgs of collections.

John Penno: Yeah, look, good question. Your models are obviously working well. In FY18, it could be as much as two or three million kilos that we end up trading in and out of the business. Now sometimes it's done by way of milk swaps where we supply milk to others at the time they had capacity. And we'll take milk back at other times. Sometimes it's a direct sale, milk sale.

So in FY18 in the scheme of things, it's not a lot of milk. But as your models will be telling you as our infant formula volumes grow, our ability to consume all the milk that we have contract falls away. Now we're firming up on the view that we don't want to be building a dryer to take what is effectively their (balanced) milk. We also don't see it as a sustainable thing to be trading milk long term. And on top of that we don't really want to be shedding farmers out of the mix so that we're reducing our supply to the site.

So we are looking at higher value uses for the milk and you'll see us make some announcements in that end and potentially other investments at a more sensible way of providing some buffer and balance so that we can continue to focus the main production here at the Dunsandel site on the manufacture of infant formula base powders for finishing both here and in Auckland.

And further base powder requirements will come from potentially a future site that we may purchase and develop over time rather than continuing to increase the size of the plant here. That brings risk, a further risk to the ((inaudible)) risk management, which we think is important, opens up new supply bases for us. It does a whole lot of good things for us rather than continuing to build here.

And I guess kicking the can down the road on the day that we say this is big enough and then having to buffer that milk supply as we bring this site to a steady state.

(Ari Decker): Yes, so to take - what I sort of take from what you're saying is you remain committed to your 65 million sort of circa current milk collection. But rather than, you know, putting another dryer on site, you may look at investing in something that's a little less in terms of step-wise capital investment required to deal with the, you know, currently small but growing amount of surplus milk that will come out of increasing base infant formula manufacture at peak.

John Penno: Yes, that's correct. So ideal world, low capital, high return. We'll see how close we can get to that ideal over time.

(Ari Decker): And then just for completeness and the last part of this question, I mean, you give my model a bit too much credit. If it's two to three million Kgs at sort of circa 30,000 metric tons at 40 or 50 is it sort of linear and is it sort of like five or six? Or does it increase at an non-linear sort of fashion?

John Penno: No, it's more complex than that. You'll have to go back to your model ((inaudible)). It's not quite as simple as that but, look, we're not too concerned. We have options well in place for next year so we're not too concerned about that.

(Ari Decker): Thank you.

Operator: And we'll take our next question from Adrian Allbon with Craig's Investment Partners.

Adrian Allbon: Good morning, thanks. Just a couple of questions from me. If you come back to page 18 where you've got quite an elegant sort of waterfall chart breaking out the profit growth, if you look at the ten million increase in gross profit and you take the ((inaudible)) on how much more (IST) volume you produce, it sort of suggests that on the (IFC) (fully fitness) product you're making roughly about 3600 per metric ton in terms of (GM).

Is that reflective of the additional volume you've done in the last sort of quarter or is that more reflective across the board or have I got that mess wrong?

Nigel Greenwood: Adrian it's Nigel here. I actually think it's reflective of taking too much of a binary view of our proper performance. It's very difficult - ((Inaudible)) pointed to infant volumes as being a key reason for our profitable increase. There are lots and lots of moving parts within our gross margin apart from just the product mix.

So I wouldn't put it all in the - you know, I wouldn't want to just sort of do a backward (solve) and say oh well that means that you're making that kind of margin on infant. It's not quite as simple as that. So it's not - yes, to answer I would think that probably the best way of answering that, but that's certainly a key contributor to that growth in gross margin.

Adrian Allbon: Okay so it's not as high as that figure, but is it still broadly consistent with what you've done when you reported it the first half and in FY16? Are they going to run about 3100 per ton?

Nigel Greenwood: Say that again Adrian.

Adrian Allbon: I think last time we spoke at the interim and certainly in FY16, the sort of end-to-end guidance is roughly about 3100 per metric ton.

Nigel Greenwood: Ah. It would be fair to say that we didn't say that. That's what the analysts such as yourself calculated and we didn't confirm nor deny. We're not actually totally open to the market about exactly what we make on our infant formula volumes other than we said that that was probably in the ball park. But this is - but we have not actually ourselves openly talked about that. Look ((inaudible)).

Adrian Allbon: Okay, can I just ask - can I…

Nigel Greenwood: Part of the question though was, you know, does that reflect a different margin between the first and second half and can you read anything into that from the customers. I'm sure you can't, so there's nothing in there in terms of product mix or mix from various customers that would give you any indication of the margins that do vary a little across the customer base. No those margins, they are derived from complexity of the product and risks that we might face with those customers. But I don't think you could work it out the way that you've tried there.

Male 1: I can say that, Adrian, if there's a likelihood of are we continuing to maintain the margins that we had to start to achieve on our infant program, the answer is yes we are.

Adrian Allbon: Okay. Can I just ask a couple more questions around those gross margin return? Just on the ingredient side, it looks like you've taken a bit of premium contraction because your volumes are a lot stronger. Can you just describe what's going on? Is that more of a prediction that the base commodity prices have lifted so achieving a larger premium over a higher basis harder? Or is there other features going on?

John Penno: Look I think it's fair to say that we - as well as having low - you know, a higher proportion of lower returning products because of the growth in the ingredients business being faster in the last 12 months and growth in the infant formula business. Just market conditions I mean we have seen some contraction of margin in the ingredients business in the last 12 months.

Some of that is our own doing. And we see opportunity to rebuild. Some of that is simply market conditions, but it is fair to say there's been a contraction in margin on the ingredients side of the business in the past 12 months.

Adrian Allbon: Okay and then just coming to FY18, if the current spread of AMF versus (butter) sort of remained, am I right in sort of working out that it sort of would present roughly about a two million-dollar sort of impact ((inaudible)) to the business?

John Penno: You mean if AMF continues to outperform butter. We look at it as very neutral position. We used to - ((inaudible)) we used to always assume that butter would outperform AMF because it used to once do that. But over the last two or three years it's certainly flattened out so that on a flat equivalent basis they're relatively similar.

At the moment it would be fair to say AMF is slightly ahead of a butter on a flat equivalent basis. I wouldn't go - personally there are so many - as I said earlier in the conversation, if you think about - if you're thinking about in relation to the notion of ((inaudible)), right? But there are lots of variables…

Adrian Allbon: Yes, correct.

John Penno: …in the ((inaudible)) models. And so to single one out and so say, "Oh well, Synlait is likely to outperform because we don't manufacture butter but we do AMF and therefore we layered a portion onto their profits because of that," I think is not be appropriate way to think about it. I would just assume that from an overall milk price point of view that we'll be able to meet the market price for milk and not have any variations on that influence our profitability. I think it's a bit challenging to single out one aspect of that (notional producer) model to point to. That make sense Adrian?

Adrian Allbon: Okay, ((inaudible)) - sorry?

John Penno: Carry one.

Adrian Allbon: Just two more questions. Just in terms of like the input costs that are going I guess into the infant formula can, when you look at the recent GDP results, other things - there's quite a division in terms of what's driving the milk price up. It seems to be the fats versus the protein. Yes, as you look forward are you - what do you see in terms – in costs which are going into the can from a materials perspective? Are you seeing a - are you expecting inflation or - along with the overall milk price or is it more of FX kind of driven lift?

John Penno: Look, you're 100% right.. The key component in the liquid milk that goes into the infant formula is skim milk. And so that is aligned to skim milk kind of prices. And they are flat. They are low and they are flat. They've been stable for some time. You would have to imagine that at some point they'll come up.

But when you down the mass on the ingredient list and the turn in the overall manufacturing costs, those had a reasonably small impact on the overall finished can price by the time you take packaging, manufacturing, the other ingredients that go in. It is one of the variables and those ingredient costs are low at the moment. They are not reflective of the New Zealand milk price and they're not priced to our customers on the basis of the milk price. They're priced on the basis of the ingredients on which they contain.

So your observation is right. Over time there's probably going to be some inflation pressure. We don't - we structure the business all the way through so that if the ingredient costs are high, we pass them on to our customers. If they are low, we pass those benefits on to customers.

We don't control the consumer price and so we don't see that we're in an appropriate position in the supply chain to control our costs other than, you know, passing them on. And so therefore our contracts are structured on that basis. And they seem to ((inaudible)) through the business and ((inaudible)) in the business.

Adrian Allbon: Okay, thank you. Just one final question. Just around your thinking around manufacturing sites, would that thinking extend to potentially in Australia? Or are you still thinking in New Zealand but just at a different location?

John Penno: No, we see New Zealand as a very, very good place to be manufacturing the product portfolio that we're making from. We also see considerable management complexity for a company of our age and stage to be getting out overseas. It's not something that we have a risk appetite for at this point. And, you know, fundamentally a key ingredient, milk, is - you know, one of the beauties of operating out of New Zealand is the close link that there is between the New Zealand raw milk price and the international commodity price for the ingredients.

It is an ingredient which enables the pricing debate that we just had to all hold hands and remove a whole lot of risk from our business. Milk is an important ingredient, but it's not a sole ingredient for a business like us. And so even though we do see that New Zealand probably won't enjoy the growth rates in milk supply that we've had historically, there is opportunity to add a lot more value to the milk streams that are already in New Zealand and we want to be part of that.

Operator: And we'll take our next question from (Dan Teeger) with Citi.

(Dan Teeger): Yeah hi there. Sorry, it's (Dan Teeger). Firstly, yes, congratulations on the strong result. Just wanting to ask a question. When you're thinking about establishing your own brand, which categories are you targeting and what countries will be the target markets? And do you have a preference for acquiring brands or developing them from scratch?

John Penno: Look, that's in the report simply because we've been so strong for so long on being B2B only that we didn't think it appropriate that when we are ready to make announcements that we just come out and say hey, guess what? We're doing this. It is a signal that we are taking as we head into this next phase of building the business we're going to take a very cautious and careful look at how we might build brands into the business going forward. So we're not at a point at which we're ready to talk about exactly which categories and which markets.

Of course that's well underway. But it's nothing more than a signal at the moment. So it'll be a wait and see. I would reiterate what I said earlier though. The principles of our B2B strategy remain, and that is that we do not want to see ourselves in competition with our customers. And I reiterate that really that excludes us from establishing a business in the infant formula category. We don't see that as a winnable game for a company like ourselves.

And it's not something that we want to do. We have very successful and strong partnerships with our brand partners. We're very committed to those and we do not want to compete with those people. So we'll be in new categories which you'll see us talk about in time.

(Dan Teeger): Right, so did you have any comments in terms of preference for acquisitions, brand acquisitions, or developing your own?

John Penno: No, that's well down the path. We'll talk about that in time.

(Dan Teeger): Sure, okay, and ((inaudible)).

John Penno: So if we do…

(Dan Teeger): Can you talk…

John Penno: The only comment I would make on that though is that we acknowledge that the company as it is today, the management team, the structure of the company, we're not established to run a B2C business.

And so, you know, this is something that we'll - as you've seen us develop the business over the last decade, you know, we know about as much about building brands as we knew about spray (drawers) about ten years ago. And you'll see us systematically build capability and work with the right people as we approach this new challenge.

(Dan Teeger): Yes. Sure. It can be done as we've seen with (Beeger) in Australia. Can you talk about the capacity utilization that you expect New Zealand Dairy to be running at when it opens in early FY18 and the type of margin it will be delivering? And then when would you expect CNCA registration on that side?

John Penno: So the plant in Auckland which will be called Synlait Auckland, the plant in Auckland will - I guess it'll grow in the same way you've seen our blending and canning operation here in Dunsandel. So we'll start off with a first shift. And then we'll take on production and build that up until that shift is near full and then we'll establish a second shift and so forth until we're running 24/7 with four shifts.

Now that - we would predict that that'll happen over the first couple of years as it will take a couple of years for us to fill that up. Just it becomes a function of how quickly our infant formula blending and canning business is growing. And the margins that you'll see flow out of that won't flow out of that as an entity of its own right. It's just flow through over all our infant formula business, our canned infant formula business and will be reported along - it won't be reported separately. It will be reported alongside our overall volumes.

Nigel Greenwood: Nigel Greenwood here. I just ((inaudible)) that we are nearing completion of our 11 o'clock call. We do have a couple more people on the line who are asking questions. But we'll extend it for about five minutes but we'll have to call it quits at that. And I know one of you, (Nick), if we don't get a chance to get to you, I can always give you a call separately.

(Dan Teeger): Yes, sure. I'm sorry, last question, a quick one. Just when the CNCA registration would be available on that side.

John Penno: We're not sure. In the first instance we've got plenty of products for other markets to manufacture on that side. At first basis ensuring we get established, get registered for the New Zealand market. But then we'll be working as quickly as we can to get it established for Australia. It is a very high-quality site. It is - you know, it's a site that we're investing around $50 million in.

It's got all of the things that are required to achieve CNCA registration. We're not concerned about getting to that point. It'll happen as quickly as it does. But these processes take time, particularly when you're working across jurisdictions.

Operator: And we'll take our next question from Jonathan Snape with Bell Potter.

Jonathan Snape: Yeah, thanks guys. Look I'll just ask to maybe take the rest offline. Just on the operating cash flow number, obviously really strong this year. When you look at the prepayments that, A, to have contributed to - their number is up a lot, over 100% year on year. When you look into next year, given the evolution towards infant formula, would you continue to expect your operating cash flow number to exceed EBITDA or should it be coming more in line with that number into '18?

Male 1: Yes, that's a difficult question to answer Jon, right, because I know we have over the last couple of years achieved that outcome. But that was mainly due to a couple of specific events. So the previous year we had receivables assignment kicking in for the first time. That gave us some increased cash flows that have now sort of equalled out. While we're still doing receivables ((inaudible)) they're increasing a little bit but not materially.

Then with this last year we had obviously the benefit of the evening out of the advanced rights year on year. That added additional case load. So I think that what you might see over future periods is our operating cash flow sort of getting - you know, getting closer to EBITDA and not materially as they have done in the last two years exceeding EBITDA. So I think that will be a fair assumption Jonathan.

Jonathan Snape: Okay and look, just on CAPEX, I mean, you've talked about a couple things today. What's your budget for 2018 in terms of growth, CAPEX, and SRB?

Male 1: We don't normally announce that Jonathan but (fair) question.

Jonathan Snape: Okay, all right. I'll figure it out myself.

Male 1: Well ((inaudible)) numbers here. Let me put it to you this way. What we normally have seen is that our operating CAPEX is normally in the region of around 10 to 15 million. That's CAPEX. That's bent on non-major growth initiatives like a wet-mix kitchen. So far what we've announced this year, for FY18 is completion of the build for ((inaudible)) so you can balance that one up with what we've previously announced.

We've announced when this wet-mix kitchen three, the completion of the build of that, so you can work that one out. And we've just announced the build of our sachet line which is actually three separate lines. So we can indicate that the spend on that will be in the region of about 20 million. And that's because we've expanded the scope of what we're building from one line to three lines.

We're actually building a patch line, a sachet line, and a stick line. So it's going to be a much larger fixable ((inaudible)) overall ((inaudible)) we're making there. So that's all we've announced at the moment. And clearly we've got a very strong balance sheet. We've given signals that future announcements may well come over this financial year as we make further commitments. But that's where we're at today.

Jonathan Snape: And just on the sachet side, the a2 adult nutritional products at the moment I assume you can't do them because you haven't got a sachet line. So you'd be sending it off somewhere else and making no margin on it. Is that kind of in your thinking for the numbers to consumer package next year that that starts to come through your own (panel)?

Male 1: That will be a reasonable assumption.

Jonathan Snape: Okay. And just one last thing. Just on the growth in the New Hope sales numbers, in the second half I think they're up quite a lot, over 100 and - well I've read 130% year on year. When you're looking into your 2018 kind of consumer package, are you thinking that second half run rate for New Hope sales is about where we should be thinking or was there something in that second half that was a pull forward or something else?

Male 1: In terms of total infant sales generally?

Jonathan Snape: Yes. Well, I'm just looking at the notes where you've got your sales to New Hope kind of pegged out there that I think they ran 11-1/2 million bucks in the second half, which would have been more than double last year. And that seems about I guess the right rate that it should grow off there. Is that the new baseline for this business? Because it's a big jump relative to what we've seen in the previous (three halves).

Male 1: Yes. What we've announced regarding New Hope is that the five-year agreement we've signed with them seeks to triple volumes over the next five years from our current base. So you might expect that the overall volumes of New Hope will gradually grow over that period of time. And I think you could sort of iterate an outcome from that.

Jonathan Snape: Cool. All right, thanks guys.

Male 1: I think we need to close it off a bit. So thank everyone. We all have to - we've got other commitments that we're going to have to move on to. So thank you all very much for your time.

Male 2: Thanks Jonathan. Looking forward to catching up with a few of you in the next couple of weeks.

Operator: This does conclude today's conference. We appreciate your participation.