synlait™
making more from milk

RISING TO THE OPPORTUNITY

Synlait Milk Limited Annual Report 2016

WE ARE ALWAYS STRIVING TO IMPROVE AND BE THE BEST WE CAN BE. WHETHER IT IS THROUGH OUR INNOVATIVE MILK SUPPLIER PROGRAMME LEAD WITH PRIDE™ OR ASCENDING THE VALUE STREAM WITH OUR SPECIALTY INGREDIENTS, OUR NEVER-SETTLE ATTITUDE HAS SEEN US DELIVER ON OUR PROMISE OF MAKING MORE FROM MILK. AS WE TURN OUR PROMISE FROM POTENTIAL INTO PROFIT, WE CONTINUE TO REACH NEW HEIGHTS.

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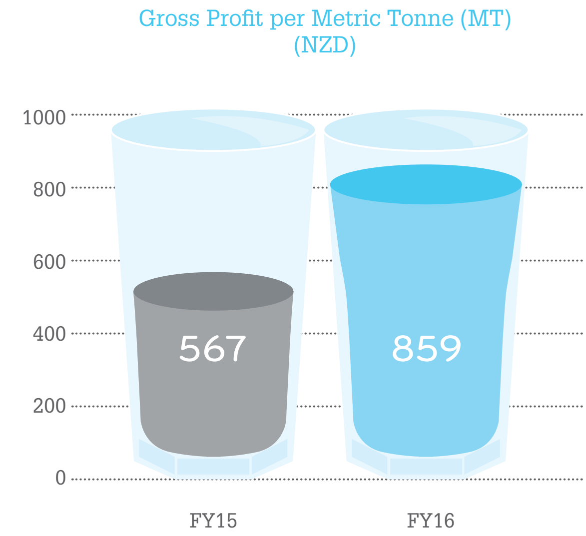
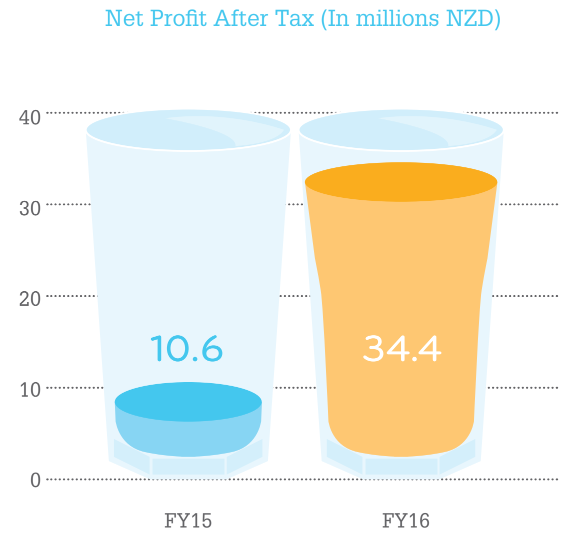
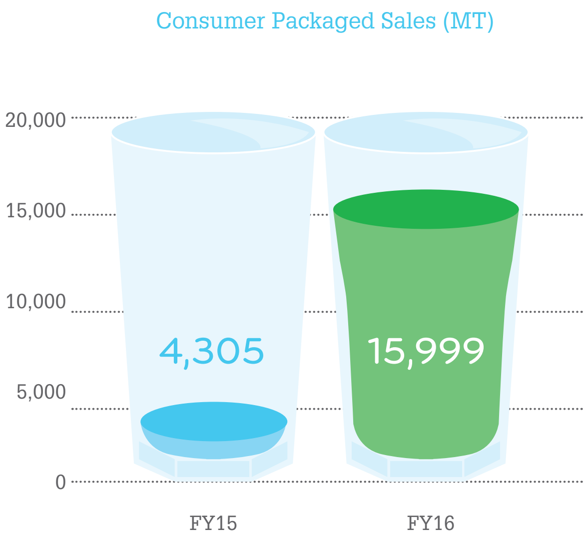
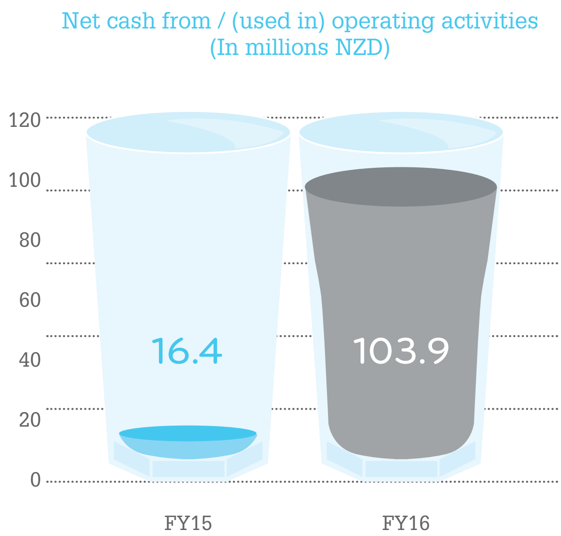
TREND STATEMENT









Key Financial Metrics

Currency as stated (in millions)	FY12	FY13	FY14	FY15	FY16
Income Statement					
Revenue	376.8	420.0	600.5	448.1	546.9
Gross profit	33.2	51.0	64.2	55.5	100.0
EBITDA	22.1	38.5	43.8	40.9	83.7
EBIT	13.4	28.3	32.4	26.3	61.1
NPAT	4.4	11.5	19.6	10.6	34.4
Underlying NPAT	4.4	11.5	19.6	12.2	32.7
Revenue per MT (USD)	3,644	3,894	5,214	3,610	3,316
Gross profit per MT (NZD)	428	588	687	567	859
EBIT per MT sold (NZD)	173	326	346	269	524
Net cash from / (used in) operating activities	29.8	(47.1)	58.7	16.4	103.9
Balance Sheet					
Net operating assets[1]	176.5	272.2	319.5	349.3	479.5
Return on net operating assets	10.4%	12.6%	11.0%	7.9%	14.7%
Net return on capital employed (pre-tax)	7.3%	13.1%	11.5%	6.9%	13.5%
Debt / debt + equity (excl. derivatives)	50.2%	38.9%	45.1%	55.7%	46.8%
Net debt / EBITDA	3.9	2.7	3.5	6.4	2.6
Earnings per share	5.62	10.21	13.40	7.21	23.50
Underlying earnings per share	5.62	10.21	13.40	8.35	22.35
Foreign exchange rate (NZD:USD)	0.778	0.804	0.813	0.788	0.706
Base milk price (kgMS)	6.14	5.81	8.27	4.48	3.91
Total milk price (kgMS)[2]	6.22	5.89	8.31	4.54	4.02

Key Operational Metrics

Sales	FY12	FY13	FY14	FY15	FY16
Powders and Cream	77,252	85,314	90,599	93,454	100,387
Consumer Packaged	135	1,368	2,955	4,305	15,999
Specialty Ingredients	28	64	89	44	16
Total sales (MT)	77,415	86,746	93,644	97,803	116,402
Production (Net Production)					
Powders and Cream	81,222	89,333	93,275	96,551	104,674
Consumer Packaged	135	1,789	3,093	5,021	16,043
Specialty Ingredients	41	107	127	109	37
Total production (MT)	81,398	91,229	96,495	101,681	120,754
Milk purchases					
Milk purchased from contracted supply	37,572	42,076	47,903	51,049	54,125
Milk purchased from Fonterra and other suppliers	6,453	4,692	2,033	2,549	3,573
Total milk purchases (kg MS in thousands)	44,025	46,768	49,936	53,598	57,698

Certain comparatives within the five year key performance indicators have been reclassified for comparative purposes, to ensure consistency with the current year.

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

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

CHAIRMAN'S REPORT

Graeme Milne
CHAIRMAN

It is a great pleasure to report to shareholders on the eighth year of operations of Synlait. This year we completed the projects outlined in our prospectus when we listed the company in July 2013. The largest project, dryer three, was completed and successfully commissioned during the year and our on-site quality testing laboratory was brought on line.

Our aspiration from the formation of the company has been to "make more from milk" and by that to build a truly different and innovative dairy company that would provide specific dairy products to leading food companies in selected markets around the world. This year we made credible progress along that path.

Closer partnerships with several key customers in both the specialty ingredients business and canned infant formula products were the foundation of our improved financial performance. Our net operating profit after tax at $34.4 million, (and underlying profit of $32.7 million) is a significant increase over prior year and all other prior performances. It is consistent with the forecasts we have previously indicated on the likely performance of the company once the growth projects were completed.

Dairy markets were again in turmoil this year with ample supply and low prices for the key commodities, essentially replicating the situation from the year before. Key causes have been well articulated but the basis is still increased production in Europe due to the removal of milk quotas in April 2015, combined with increases in other markets due to low grain prices and recovery from drought, as well as demand side negative influences, mainly low oil prices effecting buying ability and sanctions in Russia. Recent improvements in commodity prices post the end of the financial year are indicating some encouraging market firming, however in-market stocks are still relatively plentiful.

Our strategy to insulate ourselves from such volatility has been to establish a relatively small customer base in number, engage with key customers and become co-dependent with them. Our recently announced long term relationship with The a2 Milk Company™ is an example of that strategy in action. Our expectations for the supply relationship with Munchkin Inc. is another.

Another strategy is close adherence to production and sales policies to ensure that exposures to price and currency fluctuations are minimised. Our total revenue at $546.9 million is a pleasing improvement on the prior year's $448.1 million, but is still short of previous revenues of $600.5 million in FY14, when total production was considerably less. This demonstrates the degree to which international pricing has dropped from the highs to the lows.

New Zealand's milk suppliers have been heavily impacted by low commodity prices. To mitigate the impact on our own milk suppliers we paid a competitive base milk price as well as again pushing forward advance payments so that cash flow for our milk suppliers – at pinch point times of the year – is protected as much as possible. Additionally, we have a number of seasonal and special milk premium payments, which are incremental to the base milk price. Nearly all of our milk suppliers benefit from these extra payments to one degree or another.

The infant formula market is a key focus for Synlait, whether it be in base formulations supplied in bulk for in market packaging or fully finished retail packaging (canned infant formula) for export into customer distribution systems. There are increasingly competitive forces at work in this global market. While demand is forecast to increase, other manufacturers are seeing the opportunities we foresaw and significant new production capability is being installed, particularly in Europe. As well there are several legislative changes coming into force in the key market of China, which will have a restrictive impact on the market as it is today. On balance we see the Chinese regulations as sensible and necessary to control what is ultimately one of the most important and quality sensitive food items consumers purchase. The changes will result in a more rational, predictable and safe market. There are therefore some advantages in these changes for Synlait as an established player, however at the same time we do expect to focus on key customer opportunities in other markets, particularly in other Asian markets and the USA. Therefore, we expect our overall proportion of sales to China, as a percentage of total sales, to reduce over time.

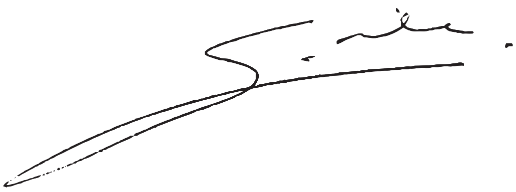
Shareholders are reminded that despite this year's increased profit and positive operating cash flow, Synlait is a growth company. We continue to see high returning investment opportunities in the business. These are in our existing product range, (we are already forecasting capacity constraints in recently built plant) and in new specialised milks plus in cream products. We have until now produced mainly anhydrous milk fat (AMF) from the surplus cream not required in our other product formulations, but this resource represents an area of profit opportunity for the company. We will develop our strategy in this area over the next two to three years. Additionally, our current single site at Dunsandel will reach capacity at some future point and we are beginning to assess alternative opportunities. During this phase we do not expect to be paying dividends as cash will be used to support this strategy. On the other hand, our projections do show healthy post investment cash generation in the out years so we are not unaware of the possibility of dividends, but we wish to be clear that dividends are not part of the current plan.

Total shareholder return (TSR) for the year, balance date to balance date, was a pleasing 43.1%.

The Board welcomed Mr. Albert Lu as a Director representing Bright Dairy at the AGM last December. Albert is a young and highly capable executive from Bright Dairy. He has already made a significant contribution to the company in his short time around the table. Albert replaced Mr. Dong who retired from Bright Dairy as their CFO at that time and therefore relinquished his position on the Synlait board. At the time of writing this report, Li Ke has resigned from her role as Director for personal reasons. We acknowledge the contribution made to Synlait by both Mr Dong and Ms Ke since their appointment in November 2010. This year Mr. Sam Knowles retires by rotation and offers himself for reappointment. Sam has been a great contributor to the success of Synlait since our listing and I strongly recommend his reappointment to shareholders.

Lastly, I'd like to acknowledge the continuing support and efforts of our staff at Synlait. In a strongly growing company we often ask for contributions well beyond business as usual and often without all the fully developed systems that one would expect in a more mature business environment, but then there is the excitement and satisfaction of creating something truly new. Special acknowledgement to John Penno, our Managing Director and CEO, and his Senior Leadership Team (SLT). This year Mike Lee, Mike Stein and Natalie Lombe have left, or will soon leave, the SLT to pursue other opportunities and we thank them for their contributions and wish them well for future endeavours. New appointments are being announced as they occur and we welcome those skills and experience to the company.

The outlook remains busy and positive, as described in the rest of this report. Our focus for this year will be on consolidating the current position whilst starting on the execution of our next stage of development. FY17 profitability is therefore forecast to be similar to FY16.



Graeme Milne
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REVIEW

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

SYNLAIT WAS ESTABLISHED TO MAKE THE MOST FROM MILK

Our strategy is to manufacture ingredient and finished dairy based products for businesses that own great brands. As we do this we aspire to build the world's most innovative and trusted dairy company.

The strategy targets the highest returning markets, customers and products available to New Zealand dairy that provide scope through market size or expected growth to scale quickly. We look to partner with the leading incumbent, and most innovative companies.

FY16 has been a year which has delivered large increases in profit from significant growth in the ingredients and canned infant formula products we manufacture for a range of brand owners.

In addition to the increase in profit, it has also allowed us to increase investment in improving the business, and reaffirm our commitment to developing the same business to business strategy in our specialty ingredients and cream products categories.

BECOMING A WORLD LEADER IN INFANT FORMULA INGREDIENTS

For some years we have focused on building the customer relationships, capability and plant to become a world leader in the manufacture of specialised milk powders for infant formula manufacture, base paediatric powders for blending into finished infant formula, and finished infant formula products.

In July 2013 we listed the company with a plan to invest in a second large scale infant formula dryer, a large scale infant formula consumer packaging facility, on site warehousing and a quality testing laboratory to ensure we have the capability to continually monitor the hygiene of our processes and test all our ingredients and finished products. Over the past year we have seen these projects come to completion and become part of our operations.

In the coming year these investments will become fully operational with total production increasing from 120,754 MT to an expected 127,500 MT. We will also achieve significant savings in product testing costs being generated in the second half of FY17 as our reliance on external laboratories comes to a close.

Over the past year sales of infant grade milk powders have grown from 24,500 MT in FY15 to 27,000 MT in FY16, nutritional base powders have grown from 4,300 MT to 5,400 MT and canned infant formula products have grown from 4,300 MT to 16,000 MT.

We manufacture infant grade skim and whole milk powders for some of the world's largest infant formula brand owners. Moving an increasing proportion of our milk powders to these customers continues to be a focus for us.

Our six-year partnership with The a2 Milk Company™ to develop and manufacture their a2 Platinum® infant formula range (www.a2nutrition.com.au) continues to develop. We were pleased to reaffirm this relationship by renewing our supply agreement which positions The a2 Milk Company™ as our preferred customer, and secures our position as their exclusive manufacturer for product sold in the key markets of New Zealand, Australia and China. With a five-year initial term and a rolling three-year notice period, this agreement further cements the explicit intent of both companies to continue to work closely together as we develop this product.

After announcing a similar relationship with Munchkin Inc. in June 2015, it has been pleasing to support the launch of their Grass Fed™ infant formula (www.grassfed.com) into the Australian market in June 2016, with subsequent launches planned for China later in 2016 and into the USA in 2017.

China continues to be the most important infant formula market in the world with sales of powdered infant formula, growing up and toddler milks growing from 450,000 MT to 900,000 MT over the past five years. Continued growth in China is expected to be driven by a forecast increase in annual birth-rate, from 16 million to a peak of 20 million as the single child policy is relaxed[1].

[1]Global Demographics Ltd

Alongside this growth, China is continuing to reform their infant formula regulatory framework. We remain very supportive of these changes that work to reduce the number of brands and increase the quality of infant formula available in the Chinese Market.

Synlait holds a current registration for manufacture for China. We believe the company is well positioned to meet the draft regulatory requirements with certified raw milk supply, wet blending and spray drying and consumer packaging on a single site with in-house research and development and a full label claim analytical laboratory.

In FY16 we have manufactured a portfolio of eight infant formula brands for five customers. Under the regulations expected to come into force from January 2018, Synlait - and all registered manufacturers - will only be able to export three formulations of brands to China under our registration.

Importantly, our understanding is that the new Chinese regulations do not allow for brands to be registered to multiple manufacturing companies. This in effect means that Synlait can be assured it will be the exclusive manufacturer for Chinese destined product under the brands that we choose to register.

Clearly we will be supporting our largest and highest potential customers first. However, our smallest brands have also grown to be substantial volumes relative to many other brands being exported to China from New Zealand. In addition to the three brands we will continue to register to Synlait, we are working with our large customers with less developed products on options that may allow us to continue to support the growth of some of these brands beyond the Synlait registration.

INVESTING TO MEET FUTURE INFANT FORMULA DEMAND

After strong growth in infant formula over the past year, we are expecting slower growth in the coming year as the market adjusts to the latest round of regulatory improvements to come from China.

As the industry changes in response to these regulations we would anticipate a return to strong growth as the fast growing Chinese market is shared by a smaller number of brands. We also expect strong growth from the launch of Munchkin's Grass Fed™ infant formula product into the USA in the second half of 2017.

To support our forecast growth in sales of canned infant formula and infant formula base powder, we need to build a second wet mix kitchen in the next 12 months for commissioning early in FY18. This $34 million investment will enable both of our large scale infant formula spray dryers to simultaneously manufacture infant formula base powder, providing capacity of about 80,000 MT of base powder per annum. The investment has also been planned to mechanise manual processes with expected benefits of reducing risk of injury, increasing efficiency and improving quality.

If sales of canned infant formula increases in line with our forecasts we will be building a second consumer packaging facility in FY18 for commissioning in FY19, however this decision will be made in about 12 months' time.

Together, these two investments will make Synlait's Dunsandel site one of the largest and highest specification infant formula plants globally.

Our relatively low cost of milk, use of raw skim milk as the base for manufacturing, large scale and relatively low capital cost is expected to provide Synlait with sufficient competitive advantage to maintain the strong margins we have established. Our pricing models also mean that the risk of commodity price increases are largely carried by our brand partners.

Alongside the investment in plant and equipment we have begun a significant increase in our spend on market and product development with a focus on markets outside China. A business development group incorporating marketing, technical services and research and development has been brought together under the leadership of Martijn Jager to support this.

BUILDING A PORTFOLIO OF SPECIALTY INGREDIENTS

Our fledgling lactoferrin business is continuing to develop, in spite of low prices arising from generally low dairy commodity prices and a relatively large increase in global supply.

In FY16 we increased sales to 10 MT against 7 MT in FY15. We have secured a cornerstone customer who we have worked closely with to learn about their processes and ensure our product meets their exacting specifications. We are now working to grow our customer base and volume towards our potential production volume of 20 MT / annum.

In FY16, low pricing and throughput resulted in a gross margin loss of $12,000 / MT of lactoferrin sold. We expect earnings from this part of the business to recover with price recovery and as the high fixed costs can be shared across a growing volume and other specialty ingredients manufactured on our specialty dryer.

> Our ambition for our specialty ingredients category is to build a portfolio of low volume, high value products over time that complement lactoferrin production.

The specialty ingredients dryer, which is used for manufacture of lactoferrin, is only utilised a few days a month, which means that these products can be manufactured with little or no additional capital investment.

Over the coming year, specialty ingredients for existing markets will be the focus of our research and development spend.

ADDING VALUE TO OUR CREAM PRODUCTS

Our cream business has performed well in the past year selling 16,700 MT of anhydrous milk fat (AMF) at an average price of US$3,450 / MT. Not only did AMF outperform returns from butter by 2%, prices have been very high relative to the value of milk protein in products such as skim milk powder (SMP) and whole milk powder (WMP).

We are forecasting increasing volumes of cream as milk supply grows, and as the site manufactures an increasing volume of infant formula that is largely based on skim milk.

Despite the relatively high returns over the past year, AMF is a highly commoditised product. We believe that our cream stream represents a significant opportunity to target high returning markets, products and customers in the same way we have developed our infant formula business over the years.

We are in the process of completing the business case, which will result in an investment to add more value to our cream over time. This investment is expected to occur in late FY17 with benefits expected to be realised from FY19 onwards.

REALISING OPERATIONAL EXCELLENCE

Over the past year we have continued to invest heavily in improving our business systems and processes.

The two key projects have been developing a comprehensive balanced scorecard reporting system, and replacing our Sales and Operational Planning processes with Integrated Business Planning (IBP).

The balanced scorecard reporting has been designed to provide managers and teams with the key performance indicators they need to manage and measure the value drivers in their area of our business. This is now operational and the work stream is focused on refining and automating the reporting system.

We have chosen to adopt the Oliver Wight IBP process. Over the year we have undertaken significant team training, designed our system and have reorganised the planning function to support the implementation of IBP. The system is due to become operational early in FY17.

Establishing the balanced scorecard reporting system and IBP has helped identify priorities for process improvement. This has led to a large operational improvement project that will be executed through FY17 and beyond.

INCREASINGLY ALIGNED MILK SUPPLY

A long period of low dairy commodity prices and a stubbornly strong New Zealand dollar have delivered the lowest farm gate milk price in our history. We are very aware that the total milk price we have paid this year of $4.02 kgMS is well below the breakeven price for most of our milk suppliers for the second year in a row.

Our response has been to support our suppliers with higher than normal advance payments and to promote opportunities for special milk programmes.

Higher advance payments mean at year end our suppliers had received 95% of their total milk price, whereas in a normal year we would expect this to be 80-85%. While this has impacted negatively on our cash flows and bought a small increase in the cost of our working capital, we believe we will more than make this back by supporting greater milk production than would otherwise be the case.

> As part of our total milk price, special milk payments delivered an additional $5.7 million during FY16 (on average $0.11 kgMS) and we expect this to grow further in FY17.

While there are early signs of some recovery in commodity prices, we are continuing to caution our suppliers about the future. We're encouraging them to make changes to their operating and capital structures to be robustly profitable at lower milk prices than $5.75 kgMS, which is the industry five-year average to FY16.

Over the year we processed a total of 57.7 million kgMS, of which 54.1 million kgMS was collected from 173 suppliers and 3.2 million kgMS was delivered by Fonterra under the Dairy Industry Restructuring Act (DIRA) 2001.

In the coming season we expect to collect 62.0 million kgMS from 200 suppliers. Our new suppliers make up the shortfall of no longer being eligible to receive DIRA milk and an expected production decline on farm as suppliers realign their businesses to lower farm gate milk prices.

Within this we have increased the number of a2 Milk™ suppliers from 35 to 60 among our existing and new suppliers.

The number of suppliers providing milk under our Lead With Pride™ certification programme is also continuing to grow. With 34 farms certified and a further 26 expected to be certified over the coming year, we believe this milk stream provides a significant opportunity to create value and finding the right product and partner is now a priority.

LEADERSHIP TEAM AND OUR PEOPLE

Over the year the number of people employed has grown from 326 to 436.

The largest areas of growth have been two additional shifts in the infant formula blending and canning plant, technical staff for the quality testing laboratory and new roles to support the implementation of IBP.

The calibre of people we are able to attract is truly impressive and continues to be a very important driver of our success.

The Senior Leadership Team (SLT) has continued to evolve with the changing demands of the business.

In response to ever increasing market opportunities, and to make faster progress in developing our infant formula, specialty ingredients and cream categories, we created a business development team early in 2016.

Since creation this has been capably led by Malcolm Tweed on a fixed term contract. Under Malcolm's leadership the group has made significant progress in setting priorities and bringing discipline to key customer and product development projects that are underway.

Martijn Jager started with us on 1 September 2016 in the role of General Manager Business Development. Martijn is profiled in this report on page 30 and brings many years of experience in infant formula and specialty ingredients in China and South East Asia.

Rob Stowell was appointed to the SLT early in the year to lead the implementation of our IBP programme.

After bringing Chris France onto the SLT in the role of General Manager Business Transformation, he has moved on to General Manager Sales. It is expected that he will remain in this role for a period of six to twelve months while he restructures the team and rebuilds the systems underpinning our sales process.

With a growing team, and increasing scale and complexity in our manufacturing business, we are putting ever more focus on our objective to ensure that everyone gets home safely every day.

Our approach is to ensure that we are lifting everyone's awareness, and ensuring that all the operational processes we use are designed to keep everyone safe, optimise efficiency and meet our quality standards.

I would like to acknowledge the dedication and hard work of the Synlait team.

The increasingly pleasing results are due to the company being well positioned strategically, and increasingly strong leadership of our SLT and sound execution by their teams.

I would also like to acknowledge the governance and leadership provided by our Board, capably led by our long standing Chairman Graeme Milne. We continue to be well served by a Board of capable and diverse Directors, who have learnt to work together very effectively. I am fortunate to work with them and continue to be grateful for their counsel and support.

LOOKING FORWARD

While we expect increased volumes and ongoing - albeit slower - growth in infant formula products to increase our gross margin, increased expenditure on product and customer development and on operational performance improvement, is expected to mean that profit growth in FY17 will be modest. Returns from these investments are expected to be realised in FY18 and beyond.

As we head toward our first decade of operations, Synlait continues to be extremely well positioned in the international industry. Small enough to be very targeted in our product and market strategy, we have built sufficient scale to compete internationally.

We continue to see ourselves as a growth company with significant opportunities, the team and capital structure to invest in profitable growth.

I would like to thank our shareholders for their ongoing support, and we will continue to focus on delivering high long-term returns as we make more from milk.

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

FINANCIAL REVIEW

Nigel Greenwood
CHIEF FINANCIAL OFFICER

OVERVIEW

Reported after tax earnings were a profit of $34.4 million compared to a profit of $10.6 million for the same period last year. This includes after tax movement in unrealised foreign exchange losses of $1.6 million, which are further explained below.

Adjusting for the movement in these unrealised losses, the underlying after tax financial performance for the year at $32.7 million is an increase of $20.5 million over last years, $12.2 million.

Underlying earnings are the most appropriate reflection of underlying business performance as the measure removes the impact of the movement in unrealised foreign exchange (FX) losses in respect of USD debt financing, as discussed in the foreign exchange section later in this review.

$ million	12 months to July 2016	12 months to July 2015
Reported NPAT	34.4	10.6
Net movement in unrealised FX losses	(2.3)	2.3
Tax effect of adjustments	0.7	(0.7)
Underlying NPAT	32.7	12.2
Underlying EPS (cents)	22.35	8.35

FINANCIAL PERFORMANCE

SALES

For the year ended 31 July 2016 our revenue at $546.9 million was up 22.0% on last year's $448.1 million, primarily due to a superior product mix driven by higher canned infant formula volumes.

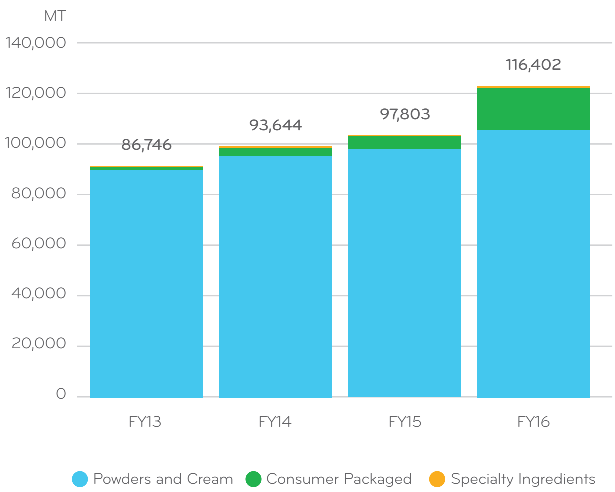
Total sales volume for this period at 116,402 metric tonnes (MT) was 19.0% above last year's 97,803 MT. This sales volume growth was supported by the increase in our milk supply from 53.6 million kilograms of milk solids (kgMS) to 57.7 million kgMS and the increased volume of infant formula products manufactured. In addition, we also commissioned our third spray dryer in September 2015.

Powders and cream sales volumes in FY16 at 100,387 MT were 7.4% ahead of our FY15 result of 93,454 MT. Included within our powders and cream sales volumes was 5,371 MT of infant formula base powder (FY15 4,300 MT). This is in addition to the infant formula totalling 15,999 MT (FY15 4,305 MT) that was canned in our consumer packaging facility and subsequently sold in its retail ready format. We sold 10.1 MT of lactoferrin in FY16 compared to 6.7 MT in FY15, although the prices achieved in FY16 were softer than in FY15.

While we experienced strong sales volume growth, this has been in an environment of lower international commodity prices than existed last year. This lower commodity price environment has impacted on our revenue growth, however has not impacted our profitability. The commodity price movements are depicted in the graph below. The average US dollar commodity price in FY16 was USD$2,220 compared with USD$2,642 in FY15.

Weighted average auction commodity price

Sales volume by product category



GROSS PROFIT PER METRIC TONNE (MT)

Our gross profit per MT at $859 was $292 up on last years $567. This was driven predominantly by our improved product mix, as summarised above.

Gross profit per MT for powders and cream has improved $255 / MT over FY15. This was predominantly as a consequence of improved product mix with increasing volumes manufactured for infant applications combined with continued strong performance in our ingredients business.

Consumer packaged gross profit per MT has improved $325 / MT as a consequence of improving operating efficiencies as plant utilisation increased.

Specialty ingredients margins have deteriorated in response to weakening market prices for lactoferrin. Combined with this is the cost of surplus capacity of our special ingredients dryer being allocated to lactoferrin products. However, given the very high level of fixed overheads in this operation, the overhead recovery for lactoferrin products remains strong.

MILK PRICE

Milk purchases remain our most significant cost when determining gross profit. Our final base milk price for FY16 is $3.91 kgMS, compared to our FY15 base milk price of $4.48 kgMS. In addition, we paid $0.11 kgMS in seasonal and special milk premiums to increase the average total milk price to $4.02 kgMS, compared with $4.54 kgMS in FY15. This resulted in our contracted milk suppliers receiving a total of $5.7 million in additional value added premiums in FY16, compared to $3.1 million in FY15.

Gross profit by category

	Sales Volume (MT)		Gross Profit ($m)		Gross Profit / MT	
	FY16	FY15	FY16	FY15	FY16	FY15
Powders and Cream[1]	100,387	93,454	89.6	50.9	777	522
Consumer Packaged	15,999	4,305	10.6	1.5	664	339
Specialty Ingredients	16	44	(0.2)	3.1	(13,753)	70,385
Total	116,402	97,803	100.0	56	859	567

[1]Gross profit per MT includes both external sales volumes and internal transfers to consumer packaging

OVERHEAD EXPENDITURE

In total our overhead expenses for FY16 at $38.3 million were up $9.1 million on FY15 at $29.2 million. Notable increases in these overhead costs include warehouse rent of $1.3 million, depreciation of $0.5 million, payroll of $2.9 million, strategic initiatives of $1.8 million and consultancy costs of $1.9 million.

Higher inventory holdings, particularly at the peak of the season, have increased our spend on external warehousing costs and the associated freight costs. Depreciation charges increased following the commissioning of our new administration facility in July 2015. Increases in payroll and consultancy costs combined with our strategic initiatives spend are reflective of the investment into our customer development, planning and other internal capabilities as we place a strong focus on improving our systems and processes.

Previously included within our overhead expenditure were export freight costs. As these are recovered from our customers through export freight charges, which are included in revenue, these costs have been reclassified to cost of sales with all comparative financial information restated accordingly.

SHARE OF LOSS FROM ASSOCIATES

In late January 2015 we acquired a 25% shareholding in New Hope Nutritionals for $2.2 million, which owns and distributes the Akara and Akarola infant formula brands in the China market. Synlait has an exclusive manufacturing and supply agreement for these brands to New Hope Nutritionals. In the period to 31 July 2016 our share of the losses of this company were $1.2 million (FY15: Loss of $0.4 million). New Hope Nutritionals is taking longer than expected to achieve growth expectations and profitability but it is focussed on improving performance over time.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) at $83.7 million increased 104.5% on the FY15 result of $40.9 million driven by the growth in gross margin (excluding depreciation) of $57.7 million, partially offset by increased overhead expenditure (excluding depreciation) of $8.6 million, as noted above.

NET FINANCING COSTS

Net financing costs at $15.0 million increased by 68.6% over FY15's $8.9 million.

	FY16	FY15	Var.
Gross term debt interest	13.4	9.5	3.9
Less capitalised interest	(1.6)	(4.8)	3.2
Net term funding interest	11.8	4.7	7.1
Working capital funding interest	2.7	4.5	(1.8)
Interest received	(0.0)	(0.3)	0.3
Loss on derecognition of financial assets	0.5	0.0	0.5
Net short term funding interest	3.2	4.2	(1.0)
Net finance costs	15.0	8.9	6.1

The $6.1 million increase in net financing costs is split between an increase in net interest costs associated with term debt financing of $7.1 million, offset by a decrease in net interest costs associated with short term financing of $1.0 million.

Gross interest on term debt has increased by $3.9 million to $13.4 million in FY16 as a consequence of increased debt applied to fund the capital spend on our third dryer, administration building and quality testing laboratory facilities, as well as a transfer of $35.0 million of debt from the working capital facility to the revolver facility as part of the September 2015 refinance. Whilst the interest on funding growth initiative projects has been previously capitalised, now that these projects have been commissioned, all interest costs are recognised in the income statement directly. Term debt interest, net of capitalised interest, has increased by $7.1 million to $11.8 million accordingly.

Interest on net short-term funding has decreased by $1.0 million to $3.2 million with lower debt levels resulting from some working capital debt being transferred to the revolving credit facility and improved operating cash flows.

FOREIGN EXCHANGE

The management of foreign exchange exposure is one of the key risks of the business with the majority of product sales being to overseas markets, creating a primarily USD exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average NZD / USD exchange rate for the year. In FY16 we achieved an annual average NZD / USD exchange rate of 0.706.

As at 31 July 2016, unrealised foreign exchange losses associated with our USD inventory financing facility were nil as the facility was wholly repaid in July 2016 (FY15: loss of $2.3 million) resulting in a net movement for the year of $2.3 million, effectively the opposite of the movement in FY15.

In FY16 we fully repaid the facility and have replaced this with NZD financing. As a consequence, FY16 is the last year that we will be making an adjustment in respect of USD inventory financing to determine underlying earnings.

EARNINGS PER SHARE AND RETURN ON CAPITAL EMPLOYED

Our reported basic and diluted earnings per share (EPS) for FY16 was 23.50 cents against 7.21 cents in FY15.

Our underlying basic and diluted earnings per share for FY16 was 22.35 cents against 8.35 cents in FY15.

We also generated a pre-tax return on average capital employed of 13.5% in FY16 compared with 6.9% in FY15.

FINANCIAL POSITION

OVERVIEW

FY16 has been a year where we have commissioned the last of our growth initiative projects and have demonstrated our ability to make more from milk with improving product mix and margins generating strong operating cash flows enabling substantial debt repayments throughout FY16.

Our reported net profit after tax of $34.4 million combined with the mark to market derivatives adjustment of $50.2 million (refer note 15 of the financial statements) has increased total equity to $256.8 million from $171.8 million as at 31 July 2015.

TRADE AND OTHER RECEIVABLES

At $37.8 million, these are significantly down on FY15 at $68.1 million. This reduction is primarily due to the increased utilisation of our receivables assignment programme. An improved debtors aging profile has also reduced receivables year over year with an improved customer mix.

INVENTORIES

Total inventory at year end at $73.9 million is up on last year's $63.8 million with raw materials increasing by $2.6 million to $14.1 million and finished goods increasing by $7.5 million to $59.8 million.

Raw material inventory increased by $2.6 million (22%) to $14.1 million. These raw materials are primarily made up of lactose and ingredients for infant formula production as well as packaging and associated consumable items. The increase results from the growth in canned infant formula products.

Finished goods inventory increased $7.5 million (14.4%) to $59.8 million. We continue to require an increasing volume of product to be carried over year end in order to meet regular customer delivery requirements. The increase in capacity as a result of the commissioning of our third spray dryer has enabled the increase in production required to meet higher customer demand. As was the case last year, we have very little finished goods inventory on hand that is not subject to a committed customer sales order.

Both raw material and finished goods inventories were reviewed for impairment resulting in the calculation of a stock impairment provision totalling $3.2 million. Impaired finished goods were written down to net realisable value while impaired raw materials were written down to nil as no recovery is expected to be obtained from them. Finished goods at net realisable value increased $1.1 million, to $5.6 million, in line with the increase in overall inventory holdings.

In addition, we have reviewed all our sales contracts for the risk that a sales order value lower than the weighted average cost of this product has been created and identified an onerous contracts provision of $0.9 million.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at $433.9 million, decreased $2.1 million from FY15 at $436.0 million. The decrease year over year is a consequence of depreciation of $21.6 million exceeding the capital investment of $19.4 million.

The third spray dryer was commissioned in late September 2015 at a total cost of $133.4 million plus $6.5 million of capitalised interest. This has added 40,000 MT of additional infant formula capacity. In addition to this, the new quality testing laboratory was commissioned in October 2015 at a total cost of $11.5 million.

OTHER INVESTMENTS

Other investments include our 16.7% shareholding in Primary Collaboration of New Zealand (PCNZ) at a cost of $110,000. This is a Wholly Foreign Owned Enterprise (WFOE), with a shared office based in Shanghai. It was established with the support of New Zealand Trade & Enterprise. Other shareholders include a number of other New Zealand primary industry related companies.

As noted earlier we also acquired a 25% shareholding in New Hope Nutritionals in late January 2015 at an initial cost of $2.2 million. After deducting our share of losses $1.2 million (FY15: $0.4 million) our current investment value is $0.7 million. This company owns and markets the Akara and Akarola infant formula brands in the China market, which is exclusively manufactured by Synlait.

TRADE AND OTHER PAYABLES

Trade and other payables at $55.6 million is down $24.8 million on last year's balance of $80.4 million. This variance reflects two significant items.

The first is the reduction in milk creditors and accruals, which have decreased from $18.5 million in FY15 to only $11.6 million in FY16, a $6.9 million reduction. This reflects the fact that our advance rates paid to farmers by year end were 95% of our final milk price payment of $3.91 kgMS, while in FY15 they were 92% of our final milk price payment. This increase in advance rate payments in FY16 supports milk suppliers in this current low dairy commodity price environment and is expected to only partially normalise in FY17.

The second is the reduction in payables and accruals relating to capital expenditure following the commissioning of our third dryer and quality testing laboratory during FY16. The reduction in FY16 relative to FY15 was $23.8 million.

TOTAL NET DEBT

Total net debt at year end, including both current and term debt facilities less cash on hand was $213.4 million, a decrease of $48.6 million over FY15 balance of $262.0 million.

$ million	FY16	FY15
Current debt	$46.5	$85.6
Term debt	$169.4	$177.9
Cash on hand	($2.0)	($1.5)
Total Net Debt	$213.9	$262.0

The $48.1 million decrease in net debt has been primarily due to the improved operating cash flows generated in FY16 of $103.9 million and conclusion of the IPO growth initiative projects with capital expenditure totalling $39.7 million in FY16 (FY15: $107.0 million). Operating cash flows are discussed further below.

The improved net debt position has also improved Synlait's gearing (net debt / net debt + equity of 46.8%, against 55.7% in FY15) and leverage (net debt / EBITDA of 2.6x, against 6.4x in FY15).

DERIVATIVES

As at 31 July 2016 we held USD$282.6 million in foreign exchange contracts, as detailed in note 15 of the annual financial statements. These have been taken out and placed across a 24-month future period, in accordance with our treasury policy.

Given the appreciating exchange rate over the last 12 months, we had a significant mark to market unrealised gain associated with contracts still open at year end of $73.8 million after tax. As all of our foreign exchange contracts are fully hedged against future USD receipts and payments, this unrealised gain is recognised in other reserves in equity rather than through the income statement. The impact of these foreign exchange contracts will play out in the periods in which they mature and they will form part of our annual average NZD / USD exchange rate in those periods.

We also have in place a nominal balance of $158.5 million of interest rate swap agreements at year end (FY15 - $139.0 million) at various weighted average interest rates, which generated an unrealised mark to market loss of $4.0 million after tax as a result of continued falls in interest rates.

OPERATING CASH FLOWS

Operating cash flows at $103.9 million were $87.5 million up on FY15 at $16.4 million. This significant increase in operating cash flows for the year was driven largely by a $42.8 million increase in cash profit (EBITDA) and was supported by the expansion of our receivables assignment benefitting $33.0 million in FY16.

High advance rate payments made in FY16 have again impacted our operating cash flows this year, however this is a timing difference and will result in an operating cash flow benefit in FY17 and FY18 as these retrace to historical norms.

BANK FACILITIES AND COVENANTS

The company has in place two syndicated bank facilities with ANZ and BNZ:

1. Working capital facility – reviewed annually and year end facility limit of $35.0 million.
2. Revolving credit facility – matures 1 August 2020 and facility limit of $245.0 million with amortisation of $20.0 million on 1 August 2016 and $30.0 million every 12 months thereafter.

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

1. Interest cover ratio - EBITDA to interest expense of no less than 3.00x based on full year forecast result.
2. Minimum shareholders' funds – no less than $175.0 million from 1 August 2015 to 30 April 2016, then $200.0 million.
3. Working capital ratio – limits varied during the year primarily based on seasonality impacts on working capital balances with the covenant concluding the year at 1.50x.
4. Leverage Ratio – no more than 4.25x for FY16, no more than 4.00x for FY17 and no more than 3.75x thereafter.

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

It should also be noted that all unrealised gains or losses associated with both our foreign exchange and interest rate swap derivatives within equity are excluded when determining our compliance with our minimum shareholder's funds bank covenant calculation.

The company also has trade and inventory financing facilities with Mitsui & Co, which have no prescribed facility limits and no prescribed covenants in place. The security associated with the inventory finance facility is limited to the specific inventory financed by that facility and as at 31 July 2016, all amounts drawn from the inventory finance facility had been repaid with no intention to redraw. We also intend to fully repay the trade finance facility in September 2016. These facilities expire on 31 July 2017.

FACILITY AMENDMENTS POST BALANCE DATE

Subsequent to reporting date, the company has renegotiated our facility arrangements with our bank syndicate to enable the refinance of the Mitsui financing facilities. This has increased the working capital facility limit to NZD $170.0 million and the revolving facility limit has been reduced to $175.0 million. This facility limit reduces by $30.0 million each 1 August and matures 1 August 2020.

Nigel Greenwood
CHIEF FINANCIAL OFFICER

COMPANY PROFILE

WE ARE A NEW ZEALAND MANUFACTURER OF NUTRITIONAL SOLUTIONS, VALUE ADDED PRODUCTS AND SPECIALTY INGREDIENTS.

Operating as a business to business (B2B) company, we build strong relationships with leading customers around the globe to create valuable partnerships for the long term.

We have one of the largest integrated infant formula sites in the world, offering our customers complete supply chain integrity from behind the farm gate to consumer.

Located in the South Island, we employ more than 430 staff. Our Dunsandel site in Canterbury received 658 million litres of milk in FY16.

Our business model has been designed to support innovation at every step of our immediate supply chain. This begins on farm with our milk suppliers, who produce excellent milk and are supported to achieve dairy farming best practice through our Lead With Pride™ certification programme.

We're able to collect and process differentiated milk streams from our Canterbury milk suppliers consistently and at scale with some of the most sophisticated production capability in the world. This includes three large spray dryers, a specialty dryer, a state of the art consumer packaging facility and a quality testing laboratory.

We currently have 140,000 metric tonnes (MT) of annual production capacity and can package up to 30,000 MT of canned infant formula with our existing infrastructure.

This unbroken chain is controlled from start to finish, giving our customers and their consumers complete confidence in the integrity of the products they consume.

Most of our products are exported to customers around the world, including Asia (45%), Middle East and Africa (16%) and other regions (19%). Australasia received 20% of our product in FY16.

We've been awarded some of New Zealand's top business accolades, including the ANZ Best Business Operating Internationally (Over $50 million) award at the 2015 New Zealand International Business Awards.

We listed on the New Zealand Exchange (NZX) in 2013 and our three largest shareholders are Bright Dairy Holding Limited (39.1%), FrieslandCampina (9.9%) and Mitsui & Co. (NZ) Ltd. (8.4%).

YEAR IN REVIEW

INNOVATING THROUGHOUT OUR VALUE CHAIN

Our business model has been designed to support innovation at every step of our immediate supply chain.

Together with our milk suppliers and customers, which include some of the largest infant formula companies in the world, our partnerships create a customer-specific value chain allowing us to make more from milk.

BEHIND THE FARM GATE

It starts before milk leaves the farm gate. Together with our milk suppliers, we can differentiate the raw milk they produce to meet global demand for unique dairy-based products.

Our Special Milk programmes, such as a2 Milk™, Grass Fed™ and Lead With Pride™, are examples of milk differentiation.

a2 Milk™ suppliers who produce milk for The a2 Milk Company™ must identify cows capable of producing milk exclusive in the A2 type protein and manage these herds independently across their dairy farm. Electronic identification (EID) allows suppliers to easily manage, track and monitor their a2 Milk™ herds.

Suppliers meet the Grass Fed™ standard, developed in partnership with Munchkin Inc., to supply milk for Munchkin Grass Fed™ infant formula. The standard outlines a strict pasture-based diet of New Zealand grown grass and crops, excluding grain and palm kernel extract (PKE). Cows must have access to a pasture environment, not be kept indoors and not provided feed grown outside New Zealand.

Our Lead With Pride™ programme certifies suppliers who meet dairy farming best practice standards across the four pillars of milk quality, animal health and welfare, social responsibility and environment.

These differentiated approaches add value to raw milk and milk suppliers are rewarded with premium payments, in addition to our final milk price, for these programmes.

THE SYNLAIT DIFFERENCE

We're able to collect and process differentiated milk streams consistently and at scale.

This ability allows us to build on the value created on farm and transform unique raw milk into differentiated nutritional solutions for our customers.

Nutritional solution volumes, which include canned infant formula products, increased almost fourfold in FY16 to 16,000 MT (FY15 4,300MT). With higher margins than commodity products, this was the primary driver of our overall gross profit per MT increasing 51% in FY16 to $859 / MT ($567 / MT in FY15).

Managing and operating a successful integrated value chain is the result of strong partnerships.

Providing a platform for our milk suppliers to differentiate their milk and then deliver this as a complete nutritional solution to our customers, for their consumers, is our point of difference.

We have grown alongside our customers as their businesses develop in markets around the world.

Governance of value chains will be our focus in FY17 as we continue to develop our integrated business approach to partnerships.

"Having a role focused on customer development and strategy realisation projects - in an international dairy context – really excites me. I'm laying the foundation for us to make more from milk every day with our current and future customers around the world."

Nadine Walker,
Projects Manager

SPECIALTY INGREDIENTS

Innovation extends beyond nutritional solutions into our specialty ingredients, such as lactoferrin.

We're pursuing opportunities to create increasingly complex products as our capability to manufacture specialty ingredients increases.

Our specialty dryer, formally referred to as special milks dryer (SMD), allows us to perform a range of specialist manufacturing methods. We can operate small scale and trial production runs, allowing us to evaluate product concepts. We then have the option to scale these into commercial volumes.

We plan to use this capability to move our milk into higher value products, similar to our progress with nutritional solutions like infant formula, over time.

GROWING OUR MILK SUPPLY

Weak global commodity prices continued to drive a lower milk price for a second season this year and we remained committed to supporting our milk suppliers where possible.

On top of the $5.7 million in premiums paid in FY16, we prioritised higher than usual advance rates in winter 2015 for the start of the 2015 / 2016 dairy season. This meant milk suppliers were able to start in a stronger cash flow position during a low milk volume period. We have continued this support again at the start of FY17.

This year was the final year we purchased milk from Fonterra under the provision of the Dairy Industry Restructuring Act (DIRA). Along with added production capacity from commissioning dryer three (D3), increased demand for nutritional products and a forecast reduction in FY17 milk production (due to low commodity prices), an opportunity was created for new milk suppliers to join Synlait for the 2016 / 2017 dairy season.

The large and positive response to this opportunity resulted in a supplier waiting list and our network of Canterbury milk suppliers has grown from 173 to 200.

Momentum in our Lead With Pride™ programme continued with 14 Gold Plus and two Gold Elite certifications achieved in FY16. We now have 34 certified Lead With Pride™ suppliers and several suppliers at various stages in the certification process. We're proud our programme is supporting best practice dairy farming and on-going feedback from milk suppliers is Lead With Pride™ adds real value to their business, both operationally and financially.

COMMISSIONING SUCCESS

Our Initial Public Offering (IPO) in 2013 supported five growth initiative projects to add capability and capacity to execute our strategy of making more from milk.

Three of these initiatives (blending and consumer packaging facility, 22,500m^2 drystore and lactoferrin recovery facility) were commissioned in FY14.

Our third large scale spray dryer (D3) and our quality testing laboratory and administration building neared completion towards the end of FY15.

DRYER THREE (D3)

Commissioning of D3 was completed in September 2015 and it successfully processed 140 million litres of milk in its inaugural year. This milk was processed into approximately 30,000 MT of product, including infant formula and specialised ingredient powders.

Preparation began in late 2014, during construction, with several Synlait staff and a new Production Manager recruited to operate D3.

This early action allowed the growing team to train together on D2, a similar plant, while concurrently becoming familiar with D3 as it was built.

Incorporating health and safety and food safety improvements into its design, D3 provides a safer work environment for staff and contractors. Examples include a hazard and operability plan (HAZOP) in place, reduced use of access ladders, additional safety fencing, fully automated clean in progress (CIP) systems and food safety zoning aligned with anticipated industry best practice. A number of these proven features have been retrofitted into our other plants.

The combination of early preparation, teamwork and an environment designed with staff needs in mind resulted in the successful commissioning of D3. This was evident in D3's operational performance, which was similar to our established plants.

QUALITY TESTING LABORATORY

An onsite quality testing laboratory has delivered greater control, visibility and efficiency around our product testing in FY16 for us, our customers and regulators.

Anticipating global regulatory change around infant formula products, we scoped our laboratory to perform in-process, finished product and environmental testing against domestic and international standards.

Our laboratory was accredited to perform these tests after joining New Zealand's Recognised Lab Programme (RLP) earlier this year.

RLP is a joint endorsement of a laboratory's ability to meet international quality and testing standards from International Accreditation New Zealand (IANZ) and the Ministry for Primary Industries (MPI).

More than 30 staff work in our laboratory and their world-class expertise ensured the first year of operation was a success.

Building on our progress of validating 60 test methods this year, we expect to validate 18 further test methods and add full label claim testing of infant formula in FY17.

"Building on my background in chemical and process engineering, I've had the chance to operate state of the art equipment and gain insights in dairy processing technologies and unique operations. As we are a nutritional plant making food for babies, quality is our top priority. We've set a very high standard because we are all high achievers."

Adeniyi Magbagbeola,
Dryer Operator (D3)

"As a mother, I understand how critical our work in the laboratory is to ensure we provide accurate and reliable test results for the products we produce. I'm surrounded by a great team in a positive environment, which has helped me make the most from leadership opportunities in a growing company and new laboratory environment."

Parminder Kaur,
Microbiology Team Leader

THE BEST SYSTEMS AND PROCESSES

Systems and processes support us every day as we execute to our strategy of making more from milk.

We made significant progress with two key initiatives in this area throughout the year; Integrated Business Planning (IBP) and balanced scorecards. Both will contribute to our operational and financial performance in FY17.

We adopted IBP earlier this year to expand the narrower scope of our Sales and Operational Planning (S&OP) process.

IBP integrates our strategic, financial, sales, marketing and operations planning into one seamless monthly process.

This allows our Senior Leadership Team (SLT), on a monthly basis, to improve performance while planning and managing our business over a 36-month horizon. IBP links with our Integrated Tactical Planning (ITP) process, which provides detailed operational plans to run our business day to day.

In FY16 we focused on IBP education, people engagement and coordinating a step change in how we run and manage our business.

Led by a new General Manager, several education workshops and design sessions generated awareness of, and determined how, IBP will support our business goals and performance.

We followed this with a series of successful IBP pilots in May, offering staff a first glimpse of the benefits IBP will bring in FY17.

Our balanced scorecards are monthly dashboards of key performance indicators (KPIs) for five areas of the business: overall performance, manufacturing, supply chain, quality and sales.

Each balanced scorecard groups KPIs into four categories of people, customers, operations and finance.

KPI data gives clarity and visibility to staff of our value drivers, supporting them to focus on performance improvement for the business in their area.

Information from balanced scorecards feeds into IBP, informing strategic decision making with tactical insights and relevant data.

All five balanced scorecards were trialled and then launched this year. Several reporting cycles provided the opportunity for staff to increase the relevance and usefulness of KPIs in their area.

IBP will be fully launched in early FY17 alongside refined balanced scorecards.

SAFETY

Anticipated changes were ushered into health and safety legislation in April 2016.

We were well prepared for the legislative changes and had worked pro-actively with our expert advisers to ensure we took the opportunity to review and refresh our commitment to providing a safe work environment for staff, contractors and visitors.

The Board and SLT participated in a number of workshops, ensuring we remained up to date and aware of the opportunities to learn from industry best practice.

Supporting our commitment to everyone home safe, every day were five initiatives in FY16 around contractor management, permits to work, traffic management, chemical management and emergency management.

Online learning modules are being developed and will be introduced in FY17 for new starters and on-going staff education in health and safety. Along with other education platforms, greater visibility and accountability of how we approach safety across the business will be well supported by four new roles reporting to our Safety Manager. These roles are positioned to work within our high risk areas, assisting the implementation of our safety strategy.

"I want everyone to make it home safe, every day. Having a family, I know the impact it would have if anything happened to me or my teammates at work. Several months ago I was a Dryer Operator, in my new role as a Health and Safety advisor I am helping to create a safe, harm free work environment."

Bryce Gousmett,
Health and Safety Advisor

INVESTING IN OUR PEOPLE

We continue to invest in our people so they can be their best every day. This contributes to our goal of becoming the best place to work.

Understanding our people is key to achieving this goal, and we have made strong progress on our journey of creating a strengths based culture.

Our first step has been assessing staff strengths via the Gallup strengths programme. Assessments increased from 50 last year to 280 in FY16. The next 12 months will see all staff complete assessments and new staff will complete them as they join. By understanding the unique strengths everyone brings to our organisation we can adapt to their working style and support them to be their best.

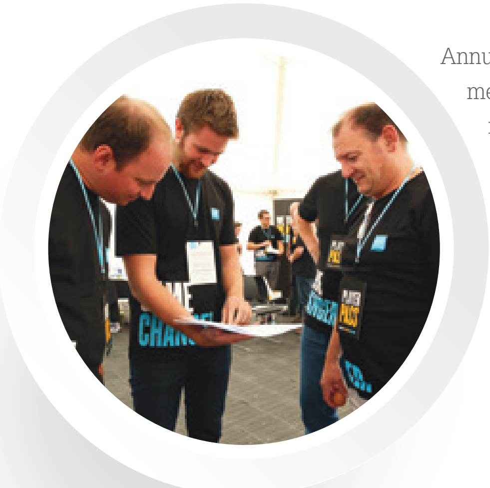
More than 60% of managers completed the High Performance Managers course this year, equipping them to lead people engagement based on the Gallup Q12 framework and leverage their team's individual strengths.

Blanchard's Situational Leadership II (SLII) remains our core leadership programme and 95% of managers have completed SLII training. We've identified some potential future leaders who have also attended SLII training as part of their development.

Our growth from 326 staff last year to 436 by 31 July 2016 highlighted the opportunity to strengthen the way our people learn. The Learning Project, initiated in FY16, will focus on realising this opportunity establishing a suite of tools and processes to maximise the learning experience. Early steps will include a full review of all standard operating procedures (SOPs) as well as training and assessment processes.

Our people leadership tools have now been consolidated into one performance appraisal system called Perform and Grow. Gallup's Q12, High Performance Manager and Strengths programmes are integrated with our values and behaviours and the SLII leadership framework.

Increased simplicity will make it easier for managers to apply our leadership tools and champion their peoples' development.



Annual objectives, monthly one on one meetings and biannual performance reviews in Perform and Grow will ensure our people receive the time and support they deserve and require to be their best.

SENIOR LEADERSHIP TEAM

John Penno

MANAGING DIRECTOR AND CEO

John co-founded the Synlait Group in 2000 and has been a full-time executive for the Synlait Group since 2006.

As CEO, John is responsible for setting the strategic direction of the company and supporting the Senior Leadership Team to deliver against this direction in their areas. As Managing Director, John contributes to the governance of Synlait alongside our Directors on the Board.

After completing an Agricultural Science degree, John commenced his career in the dairy industry as a consulting officer for the New Zealand Dairy Board before joining Dexcel as a research scientist where he completed a PhD in animal science. As a scientist and research program leader he worked to enable New Zealand dairy farmers to increase productivity and profit.

In 2009, John received an emerging leader's award from the Sir Peter Blake Trust and the Excellence in Leadership award at the 2015 New Zealand International Business Awards.

Chris France

GENERAL MANAGER SALES

Chris brings more than 30 years' business experience to Synlait and is responsible for leading and coordinating our sales function.

Combined with his expertise in strategic planning, leadership and developing high performing teams, Chris is well positioned to support sales as Synlait continues to make more from milk with customers around the world.

Chris joined Synlait in 2015 and previously held senior management roles at Deloitte, IAG New Zealand, AMI Insurance and KPMG. His background in management consulting includes leading significant programmes of work across a wide range of industries.

Chris holds a Bachelor of Commerce in accounting and a Bachelor of Science in computer science from the University of Canterbury in Christchurch.

Martijn Jager

GENERAL MANAGER BUSINESS DEVELOPMENT

Martijn joined Synlait in September 2016 to champion an integrated focus on business development strategy. In this newly created role, he oversees strategy realisation across major new customer acquisitions, as well as product development, marketing, research and communications functions.

Martijn's 20 years of work experience in the international dairy industry includes various senior commercial roles with FrieslandCampina. His insights of value-added dairy in B2C and B2B market segments range from medical foods, infant formula and pharmaceutical excipients to traditional dairy and feed products.

Martijn has lived and worked in the Asia Pacific since 2002 and he holds a Bachelor of Business in international marketing and management.

Matthew Foster

GENERAL MANAGER MANUFACTURING AND SUPPLY CHAIN

Matthew joined Synlait in 2012 and is responsible for managing and developing Synlait Milk's operations from milk suppliers to customers, including manufacturing.

He brings a wealth of supply chain management and dairy industry experience to Synlait Milk Ltd through a 20 year career with the New Zealand Dairy Board and Fonterra, where he held senior management positions in the United Kingdom, Australia, Japan, the Americas and New Zealand.

Before joining Synlait Milk, Matthew was CEO at NZL Group and prior to that General Manager Commercial for Tasman Orient Line. Matthew is a member of the Chartered Accountants Australia and New Zealand and holds a Bachelor of Management Studies from the University of Waikato.

Michael Stein

GENERAL MANAGER QUALITY AND REGULATORY

Michael joined Synlait in 2013 and is responsible for providing strategic leadership of quality and regulatory areas across the business. He leads a team of quality assurance, food safety, laboratory and other professionals.

Michael offers more than 20 years of global quality management experience in the infant formula, nutritional products and medical foods business. Prior to joining Synlait he was Director of Quality for Mead Johnson Nutrition, Asia-Pacific where he led quality and technical teams at business units and manufacturing sites across China, South East Asia, Oceania and the Middle East.

During his career, Michael has also held quality, food safety and laboratory leadership roles with Nestlé Nutrition, Nestlé USA and Nutricia, Inc. Michael holds a Bachelor of Science degree in microbiology from the Ohio State University.

Michael has resigned from his role, effective 30 September 2016, to become Quality and Food Safety Director, Asia Pacific, with Danone Nutricia Early Life Nutrition. A global recruitment search is underway for General Manager Quality and Regulatory.

Natalie Lombe

GENERAL MANAGER PEOPLE AND CULTURE

Natalie joined Synlait in 2011 and oversees the organisational development, human resource, health and safety, administration and staff facilities functions, with direct accountability to the Remuneration and Governance Committee of the Board.

Prior to joining Synlait Milk, Natalie held executive human resource / organisational development positions with Christchurch International Airport, Goodman Fielder, Mainland Products and Allied Telesys, together with significant strategy facilitation, human resource, organisational development and change management experience working in a number of fast moving consumer goods industries in Australia.

Natalie holds a Post Graduate Diploma in dispute resolution, a Bachelor of Business majoring in human resources and industrial relations. Natalie has resigned from her role and a global recruitment search is underway for General Manager People and Culture.

Nigel Greenwood

CHIEF FINANCIAL OFFICER

Nigel has had extensive experience in finance, having held senior executive finance roles with various New Zealand companies. As CFO, Nigel is responsible for finance, funding, legal, information technology and strategy.

Prior to joining Synlait in 2010, Nigel held CFO roles with Crane Distribution NZ Limited, Gough Group Limited and Lyttelton Port Company Limited.

Nigel is a member of the Chartered Accountants Australia and New Zealand and the Institute of Directors. Nigel holds a Bachelor of Commerce in accounting and has completed the General Manager Program at the University of Michigan.

Quentin Lowcay

GENERAL COUNSEL AND COMMERCIAL MANAGER

Quentin joined Synlait in 2013 and is responsible for legal affairs, risk, corporate governance, insurance and commercial matters – particularly customer and supplier relationships.

Quentin has more than 20 years of legal experience as a corporate and commercial lawyer, having been a partner in several leading New Zealand law firms. He has worked around the world throughout the UK, Europe, Southeast Asia, the Middle East, India and the US.

He holds a Bachelor of Commerce and Administration in accounting and a Bachelor of Laws from Victoria University of Wellington. He is a qualified solicitor in New Zealand and Australia, is an appointed Notary Public and has various risk, governance and compliance qualifications.

Rob Stowell

GENERAL MANAGER INTEGRATED BUSINESS PLANNING

Rob joined Synlait in 2007 and is responsible for leading, implementing and managing integrated business planning (IBP) at Synlait.

Having previously held roles within finance and commercial areas of the business and most recently managing Synlait's sales and operations planning (S&OP) processes, Rob has an intimate understanding of the business and contributes a wealth of financial and operations planning knowledge to the Senior Leadership Team.

With nearly 20 years of international financial and commercial management experience, Rob has held prior senior roles with Transport for London, PlaneStation Group and Liberty Syndicates.

Rob is a member of the Chartered Accountants Australia and New Zealand and holds both a Bachelor of Commerce in accounting and a Graduate Diploma in finance from the University of Otago.

Image: CEO John Penno presents at the annual staff conference.

BOARD OF DIRECTORS

Graeme Milne

CHAIR (INDEPENDENT)

Graeme joined the Synlait Group as a director in 2006. With extensive experience, his career in the dairy industry has seen him working in New Zealand, Australia and Europe. He is the Chairman of Synlait Milk Limited and Synlait Milk Finance Limited.

Graeme was appointed CEO of Bay Milk Products in 1992, and has held several leadership roles since then. This included CEO of the New Zealand Dairy Group, prior to the formation of Fonterra, and interim CEO of Richmond Limited and Bonlac Limited in Australia.

Graeme holds several other governance roles with a range of organisations. He is the Chairman of Terracare Fertilisers Ltd, Pacific T and R Ltd, Nyriad Ltd and he chairs Advisory Boards for Pro-Form Ltd and Rimanui Farms Ltd. He is also a Director of FMG, Alliance Group Ltd and Genesis Energy Ltd.

John Penno

MANAGING DIRECTOR AND CEO

John co-founded the Synlait Group in 2000 and has been a full-time executive for the Synlait Group since 2006.

As CEO, John is responsible for setting the strategic direction of the company and supporting the Senior Leadership Team to deliver against this direction in their areas. As Managing Director, John contributes to the governance of Synlait alongside our Directors on the Board.

After completing an Agricultural Science degree, John commenced his career in the dairy industry as a consulting officer for the New Zealand Dairy Board before joining Dexcel as a research scientist where he completed a PhD in animal science. As a scientist and research program leader he worked to enable New Zealand dairy farmers to increase productivity and profit.

In 2009, John received an emerging leader's award from the Sir Peter Blake Trust and the Excellence in Leadership award at the 2015 New Zealand International Business Awards.

Sam Knowles

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Sam has held senior executive positions in major banks in both Australia and New Zealand, and is currently a Director of Synlait Milk Limited and Synlait Milk Finance Limited.

He has extensive experience in private and public sector governance, with more than 12 years on several boards of NZX listed companies. He had a key role in establishing Kiwibank, leading the company from being a start-up to a large successful business.

Sam's governance roles focus on growth businesses. He is a Director of TrustPower and Opus both NZX listed companies. Sam is also Chairman of Partners Life, On-Brand Partners and Adminis as well as a Director of Magritek and Rangatira.

Bill Roest

NON-EXECUTIVE DIRECTOR (INDEPENDENT), CHAIR OF THE AUDIT AND RISK COMMITTEE.

Bill was appointed to the Synlait Milk Board in May 2013.

Bill's long and varied career included 12 years as Chief Financial Officer of Fletcher Building Limited until April 2013. He has held several leadership roles in New Zealand's corporate sector, including Managing Director of Fletcher Residential and Fletcher Aluminium.

Bill is also a Director of Housing Foundation Limited, Metro Performance Glass and Fisher and Paykel Appliances Holdings Limited, where he chairs the Audit Committee.

Bill is a member of Chartered Accountants Australia and New Zealand and is a Fellow of the Association of Chartered Certified Accountants (UK).

Hon. Ruth Richardson

NON-EXECUTIVE, BRIGHT DAIRY APPOINTED DIRECTOR, CHAIR OF REMUNERATION AND GOVERNANCE COMMITTEE

A professional company director, Ruth specialises in agribusiness, commercialising innovation and finance. Ruth joined the Synlait Group as the first independent Director in 2004.

Ruth was the Member of Parliament for Selwyn (Synlait's local electorate) from 1981 – 1984 and later New Zealand's Minister of Finance from 1990 to 1993.

Following her political career, Ruth established herself as a public policy consultant and accepted a range of corporate governance roles. Ruth is currently Chair SYFT Technologies Limited, Kiwi Innovation Network Limited (Kiwinet), The New Zealand Merino Company and the Kula Fund Advisory.

She is a Director of Synlait Milk Limited, Synlait Milk Finance Limited and the Bank of China (NZ).

Previous governance roles include Dairy Brands, the Reserve Bank of New Zealand and Wrightson Limited. Ruth holds a Bachelor of Laws (with honours) from the University of Canterbury.

Li Ke

BRIGHT DAIRY APPOINTED DIRECTOR

Li was appointed a director of Synlait Milk in August 2010.

As of 9 September, Li has resigned from her role as Director of Synlait Milk Limited and Synlait Milk Finance.

Li has worked for Bright Dairy for over 15 years. During her years at Bright Dairy, Li's sales and marketing expertise has helped the significant growth of many different Bright Dairy brands, including the Bright brand.

A Vice President of Bright Dairy & Food Co., Ltd., Li handles their marketing, public relations, R&D and overseas business departments.

She is a Director of a number of Bright Dairy subsidiaries. Li holds a Master of Business Administration (MBA) from La Trobe University, Melbourne.

Yang Sihang

BRIGHT DAIRY APPOINTED DIRECTOR

Yang was appointed a Director of Synlait Milk in August 2010. With 20 years of industry experience, he is Bright Dairy and Food Co.'s director of strategy and research and director of several Bright Dairy subsidiaries.

Yang previously worked for Heilongjiang Dairy Group as the Director of technology and subsequently as the director of quality assurance. He was later appointed the secretary-general of Heilongjiang Dairy Industry Association and a Director of China Dairy Industry Association.

Yang is currently a Director of Synlait Milk Limited and Synlait Milk Finance Limited. He holds a Master's Degree in food science and engineering.

Qikai (Albert) Lu

BRIGHT DAIRY APPOINTED DIRECTOR

Bright Dairy appointed Qikai to represent them on the Synlait Board in December 2015.

Qikai joined Bright in 2011 and has advised Bright on business and governance matters regarding Synlait since. He is the Deputy Director of International Business Development for Bright and is responsible for all overseas project management and communications.

He holds a Master of Business Administration (MBA) and is a member of the Chinese Institute of Certified Public Accountants.

OUR GOVERNANCE

MEMBERSHIP

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

This year Mr Dong stepped down from our Board. Mr Dong was a long serving Director, and stepped down in December 2015 at our Annual Meeting of Shareholders (AMS). Mr Dong was a Bright Dairy appointed Director, and as the former CFO of Bright Dairy, added a great deal to the financial due diligence and oversight to the Board. Mr Dong joined the Board in November 2010 and made a significant and vibrant contribution over his five years, urging the company on to financial stability and growth and actively participating in the successful IPO in July 2013. He will be missed, but with all Boards, bringing on new talent and ideas are important to ensure fresh thinking is present around the Board table.

Mr Dong was replaced in December 2015 with Mr Lu. Mr Lu has been at the Board table for a long time to assist the Bright Dairy Directors with translation and understanding the Western-way of doing business. As a fluent English and Mandarin speaker, Mr Lu, with his background as a public accountant with one of the big four international accounting firms and having completed his MBA, brings a professionalism that neatly spans the East and West cultures around the Board table. Mr Lu takes over from Mr Dong as a member of the Audit and Risk Committee.

Also in December 2015 at the AMS, Mr Milne stood down from the Board and was unanimously re-elected to the Board. The Board noted to the AMS the important work and commitment that Mr Milne had contributed as Chair of the Board, and his extensive experience, dedication and commitment to the company was noted and appreciated as adding real value to the company.

As of 9 September, Li Ke has resigned from her role as Director of Synlait Milk Limited and Synlait Milk Finance.

Continuity of Board membership continues to be an important part of the Board and the value that it adds to effectively governing the complex environment the company operates in.

Mr Milne was re-elected as Chair of the Board, Mr Roest was re-elected as Chair of the Audit and Risk Committee and The Honourable Ruth Richardson was re-elected as Chair of the Remuneration and Governance Committee. All chairmanship positions will be up for election again following our next AMS, to be held on 29 November 2016.

At this year's AMS, Mr Knowles will be retiring and available for re-appointment in accordance with our Constitution. Future retirements will be Mr Roest in 2017 and Mr Milne again in 2018. These positions are also able to be re-appointed by shareholders, subject to the individual Director wishing to stand at that time. More on how our Directors are appointed is detailed in section 2 of Our Corporate Governance Report at page 41.

Governance highlights from FY16

- FY15 was our first report on our compliance with the recommendations for best corporate governance practice in the Financial Markets Authority's (FMA) *Corporate Governance in New Zealand: Principle and Guidelines*. We followed up our Annual Report for FY15 with an interview with the FMA on our reporting and areas we could improve in November 2015. The FMA were complimentary with our coverage, and we have further refined the reporting this year based on their feedback.
- In December 2015 / January 2016, we commissioned a review from NASDAQ with our shareholder community (Shareholders Association, individual investors, institutional investors, analysts, corporate investors and customer-shareholders) to identify what was working well and which areas could be improved in relation to investor relations and communications of our corporate governance. The report received in March 2016 has led to further refinements and improvements in our investor relations function, which will be rolled out over the next 18 months.

- We confirmed our purpose, vision, values and our core corporate behaviours with our Board, and ensured these flowed through into strategic focus for the next 24 months, including our current strategic initiatives and long range plan.
- We continued to improve and increase health and safety reporting throughout the organisation and increase visibility of health and safety matters to our Board. We held an in-depth workshop and update to the new legislation in the area for all Directors and our Senior Leadership Team (SLT) in March 2016. Each Board meeting commences with a review of health and safety issues and reports, as do all team meetings and divisional update sessions.
- We invested significantly in Board development and training, with our Directors and SLT jointly attending a Governance Workshop programme in conjunction with several professors of the Stanford Graduate Business School in Paolo Alto, USA. Speakers at the workshop included Baba Shiv, Justin Ferrell, Robert Burgleman, David Larcker and Charles O'Reilly. The sessions focused on strategic decision making, customer-led design thinking, US market and consumer insights, corporate governance, optimising the dynamics of Board and management and strategic leadership. The three days were invaluable in terms of developing a common framework that both Directors and SLT could use to confirm our overall strategic approach, use as a tool for future development of the business and improve the overall corporate governance of the company.
- To assist our Bright Dairy appointed Directors to fully understand the New Zealand corporate governance landscape, Ms Li Ke attended the five day company Directors Course run by the Institute of Directors (IOD). Mr Lu will be attending the same IOD course as our newest Director later in 2016. We also held specialist training for the members of our Audit and Risk Committee on the latest International Financial Reporting Standards (IFRS) developments and reporting requirements in March 2016.
- We increased the focus on all work performed by our auditors (Deloitte) to ensure that all non-audit services did not appear to threaten their independence and were consistent with their statutory audit role. This is further examined in section 7 of Our Corporate Governance Report at page 47.
- Director and SLT succession planning was reviewed, updated and confirmed.
- We undertook a review of Directors' Fees – commissioning a report from Strategic Pay Ltd. looking into New Zealand Boards' remuneration generally. The Board recommended that there be no change to Directors' Fees, and this was passed by shareholders at our AMS in December 2015.
- In addition to the US Governance Workshop, the Board held two workshops during the year (in December 2015 and March 2016), where the Board reviewed in detail our purpose, values and behaviours, strategic objectives, key targets and initiatives and the associated five year long range plan.
- The Board reviewed and approved the company's capital and debt structure strategy - planning for our medium to longer term needs.

We have taken our corporate governance to the next level in terms of the development and application of leading strategic frameworks. We have also created a "third team" of both Board and SLT members to work on the company's longer term strategic direction.

OUR BOARD

Our Board is responsible for the overall corporate governance of Synlait Milk Limited, including strategic direction, determination of policy, approval of significant contracts / projects, capital and operating budgets and overall stewardship of our organisation. Our Board is committed to ensuring we not only make more from milk, but also make the most from ourselves, while efficiently and effectively managing the company to deliver on the results we all expect.

We are a non-standard company in terms of NZX listing requirements, with certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in Our Statutory Information section of this Annual Report (page 108), but generally the waivers concern the appointment of our Directors.

Our Board has up to eight Directors, and while our major shareholder Bright Dairy holds at least 37% of our shares, Bright Dairy may appoint up to four of those Directors – one of whom must be a New Zealand resident who is an experienced Director. We are fortunate to have one of our long-serving Board members, The Hon. Ruth Richardson, to fulfil this role.

We also must have a Managing Director appointed by the Board who cannot be a Bright Dairy Director (John Penno), and three independent Directors (Sam Knowles, Graeme Milne and Bill Roest). Our independent Directors not only satisfy these requirements but also bring considerable expertise and experience to the Board table.

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

More details can be found in our Constitution on our website (www.synlait.com/site/uploads/2013/07/Synlait-Milk-Limited-Constitution.pdf).

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

- Board: eight meetings and three workshops (including one offshore).
- Audit and Risk Committee: six meetings
- Remuneration and Governance Committee: four meetings

OUR COMMITTEES

We have the following permanent Board Committees:

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

Both Committees have Charters governing their operation, membership and remit to ensure that the company is optimally managed and governed at all times. Both Committees meet at least three times a year, but are also available at any stage to consider any issue within their responsibility.

We also have a permanent Standing Committee:

- **Continuous Disclosure Committee** – chaired by the Managing Director (other members being the Chief Financial Officer, with either the Chair of the Board or the Chair of Audit and Risk Committee). It monitors compliance by the company and staff in relation to our Share Trading Policy and Guidelines, and ensures that all "material information" that is required to be disclosed to the market under the NZX Listing Rules is immediately disclosed.

OUR CORPORATE GOVERNANCE REPORT

In accordance with the Financial Markets Authority's (FMA) *Corporate Governance in New Zealand: Principles and Guidelines*, we have reviewed all our Charters, Policies and Guidelines for compliance. We can confirm we comply with all nine principles and the associated guidelines as outlined in the FMA's Corporate Governance Handbook.

The following is the discussion of how we comply with FMA's criteria.

1. ETHICAL STANDARDS

High ethical standards are demanded from all staff and Directors at Synlait Milk Limited.

We have two separate Codes of Ethics – one covers our Directors (Board Charter) and the other covers all our staff (Synlait Standards). Both of these documents are available on our website (www.synlait.com/investors/corporate-governance).

These Codes have very clear expectations of the behaviours of our people and they detail how any transgression would be dealt with. The Synlait Standards also need to be read in accordance with our applicable Employment Agreements and our Employee Handbook each staff member receives on induction. Our Employee Handbook contains detailed whistle-blower provisions should these ever be needed (we have not had any incidents or had these procedures used to date).

These Codes have been circulated and presented to all Directors and staff, and are also available on our company intranet. We have reviewed these Codes in FY16 through our Remuneration and Governance Committee, as part of our annual policy review cycle.

We have reviewed compliance of our Board with the Board Charter this year and are pleased to report full compliance.

The Synlait Standards were first launched in March 2015, and again we are pleased to report compliance across the business. It is reassuring that the ethical and cultural standards we have defined for ourselves as a company are shared among our 400-plus employees.

Areas identified for further work are ensuring our documentation, systems and processes match the high level of actual compliance (i.e. a documentation lag). We have recently put in place a centralised software tool to assist staff and their managers keep track of policies, training requirements, key documents, manuals and procedures to ensure all staff have easy access to the materials they need to do their job effectively, and can be used by us to objectively demonstrate compliance.

We will report on the effectiveness of this tool once roll-out is completed, in our next Annual Report.

2. BOARD COMPOSITION AND PERFORMANCE

As mentioned above, under our Constitution, we have a specific structure and appointment regime for our Directors.

We are a non-standard company in terms of NZX listing requirements, with certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in Our Statutory Information section in this Annual Report (page 108), but generally the waivers concern the appointment of our Directors.

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

- There must be a minimum of three Directors and a maximum of eight Directors
- Four Directors may be appointed by Bright Dairy (one of whom must be a New Zealand resident and experienced as a Director of a listed company in New Zealand)
- There must be at least three independent Directors
- The Chair must be an independent Director (this also applies to the Chair of the Audit and Risk Committee)
- The Board must appoint a Managing Director who cannot be one of the Bright Dairy appointed Directors.

At each Annual Meeting of Shareholders (AMS) one third of the Independent Directors must retire and are eligible for re-election by the shareholders. The longest serving independent Director must be the one to stand down.

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

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

We operate a formal review of all Directors (including our Chairman), their performance, tenure plans, capacity and training at least once every three years. In 2014 we performed a detailed review of the effectiveness and functioning of our Board (including the Board Committees) and the composition of the skill-sets and experience of our Directors. This was in conjunction with an external adviser. The outcome of this review was the identification of the need to increase governance training and ensure a higher degree of interaction between the Board and our Senior Leadership Team (SLT).

In June 2016, the Board spent three days with our SLT in conjunction with several professors from the Stanford Business School, in the USA looking at strategy and governance. The Board held a separate session examining performance, cross cultural contributions and more effective Board interaction and decision making. The programme evaluated Director performance and effectiveness and explored new ways in which Director contributions might be improved. The next Board review is set for 2018 / 2019.

During FY16, we continued our focus on Director training through programmes delivered to our Directors. This training covered a mix of corporate governance, specialist skills (health and safety management, tax, treasury management and financial reporting), NZX rules education and dairy industry awareness – largely done in tandem with our SLT. Additionally, the three day programme was a particular highlight. This is discussed further in Our Governance section on page 42. Furthermore, two detailed workshops for Directors and our SLT were held, and Ms Ke attended the five-day company Director Course run by the Institute of Directors (IOD). Mr Lu (our newest Director) is attending the same IOD course later in 2016.

We believe we have strengthened the communication and relationship not only between our Directors themselves, but also between our Board and our SLT.

We have induction programmes and succession plans at Board and Committee levels. Due to our smaller size, relative to many other publicly listed entities, we do not have a standing Nomination Committee. However, for key appointments to our SLT, our Chairman, Managing Director and General Manager of People and Culture interview candidates.

The Directors profiles are on our website (www.synlait.com/about/key-people/board-of-directors, and are detailed on page 34 and 35 of this Annual Report.

3. BOARD COMMITTEES

As mentioned above, both of our Committees have formal Charters, which are reviewed for compliance each year. These Charters can be found on our website along with membership details (www.synlait.com/investors/corporate-governance).

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

Each Committee's recent proceedings are reported back to the full Board at each Board meeting.

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

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

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

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

4. REPORTING AND DISCLOSURE

Our Board has a rigorous process to ensure the quality and integrity of our Financial Statements.

On a monthly basis the full Board is presented with a very detailed Business Performance Report (BPR), which looks at the financial performance of the organisation and identifies any risks, issues and opportunities, and attempts to quantify the upsides and downsides should any of these items eventuate. Bridges are also presented showing forecasts against actuals, and the reasons for any variances – including whether these are temporary timing differences or permanent variances.

At each Board meeting, the BPR is reviewed in detail to understand the overall business performance.

In respect of the financial reporting for the Interim and Annual Financial Statements, the process is first governed by the Audit and Risk Committee. This Committee is charged with reviewing in significant detail the Financial Statements and accompanying material.

The Committee starts this process by receiving a report from our SLT – the Detailed Management Report. This Report considers the accounting policies used, preparation of the Financial Statements, accounting estimates, significant transactions, significant balances, additional disclosures, banking covenants and post-balance date events. There is a separately tabled FAQs on the applicable Financial Statements to assist Directors in getting quickly to the core issues, in relation to the financial reporting process, accounting policies and Financial Statements themselves.

We note that this year we are presenting our Financial Statements in a simplified manner to make them easier for the reader to understand (as mentioned in more detail below).

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

An audit report also accompanies the Financial Statements from our auditors (who are currently Deloitte).

Finally, to support the robustness of the Financial Statements, our SLT provide written representations to the Directors in order for them to be satisfied with the internal systems and compliance within the organisation, which underlay the Financial Statement production.

After approval by the Audit and Risk Committee, then the complete set of Financial Statements is submitted for approval by the full Board with the recommendation of the Committee. Each Director is then obliged to form a view on the quality, accuracy and integrity of the Financial Statements and give their approval (or not).

In order to assist the Board to reach a conclusion on the robustness and accuracy of our financial statements, we have increased our focus on internal controls during 2015 and 2016. We have conducted a full data analytics project (to ensure our payment processes are robust and accurate), reviewed the integrity and stability of our IT systems, conducted an internal controls survey and established a policy and process for integrity testing our key financial models. We have a programme of work over the next three years to continue to develop and improve our internal processes and our key controls.

In relation to our obligations of continuous disclosure under the NZX Rules, we have a Continuous Disclosure Policy.

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

Under that Policy, as mentioned above, the Board formed a Continuous Disclosure Committee chaired by our Managing Director and CEO. Other members are the CFO and either the Chairman of the Board or the Chair of the Audit and Risk Committee. A co-opted member is our General Counsel.

It is a standing committee, and meets as required to promptly and without delay consider whether an item of information identified is "material" and requires immediate disclosure.

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

The Board takes very seriously its obligation of ensuring there is a timely release of material information by Synlait Milk Limited to the NZX notifications platform. The Board can confirm during FY16 continuous disclosure obligations were complied with.

In June 2015, after the deliberate leak by media of an announcement of our new partnership with Munchkin Inc. at our Suppliers Conference, the NZX contacted us to ensure this announcement was not price sensitive information. We were able to assure them it was not and we had indeed considered this issue prior to the announcement at the Conference, but the incident highlighted a lack of internal process where every media release (even if embargoed) must be placed with the NZX prior to the planned release. We have put robust systems and procedures in place to ensure all media releases are now handled through the NZX platform in advance of general media release. We have also stopped the practice of using embargoes.

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

As previously mentioned, all our Charters, Policies and Standards are available on our website (www.synlait.com/investors/corporate-governance).

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

As mentioned above for the FY16 financial statements, we have adopted the "streamlined" approach as we continue to work towards best practice financial reporting. Streamlining improves the readability of the financial statements by changing the structure and formatting whilst remaining compliant with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). This is the current benchmark for financial reporting in the NZX50, being recommended by both the Financial Markets Authority (FMA) and Deloitte. To this end we have reordered the notes to the financial statements, relocating the accounting policies and estimates into the relevant notes. Related notes have been combined (e.g. deferred tax and income tax) and all notes grouped into chapters. We have also provided further commentary within the financial statements to explain the reported information. The resulting set of financials for FY16 represent a substantial improvement on previous periods as we continue to work towards best practice financial reporting.

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

5. REMUNERATION

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

This Policy is reviewed each year to ensure it meets the strategic policy objective of attracting, rewarding and retaining staff with the requisite skills and capabilities to ensure our successful business outcomes. The Board has a structured approach to remuneration, focusing on performance equity, internal equity and external equity. In 2016 the Board approved changes to the remuneration policy / approach for members of our SLT. This change removes any short term incentive from remuneration packages effective from 1 August 2016 (see short term incentive scheme below). This change was completed by way of 'cashing up' an average of the award paid over the five-year period (2012 – 2016) into base salaries at the rate of 66%.

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

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

Our SLT and our employees' remuneration details (including the Managing Director and CEO's) are set out in Our Statutory Information section of this Annual Report at page 114. We also assess our SLT's performance and the Directors' Fees annually.

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

Senior employee IPO incentive scheme

We have just completed the final year of a three year IPO incentive scheme for 18 senior staff, provided they are still employed by the company when the award is made. This scheme provided the opportunity of an award of shares based on the successful achievement against the following performance hurdles.

The performance hurdles were split into two separate company goals. The first is ensuring the company over-performs on our budgeted net profit after tax (NPAT) by 10% or more, and the second is that certain annual compound growth targets in total shareholder returns (TSR) reaches the following set targets:

TSR	Annual entitlement as a % of base salary
20% or more	25.00%
15%	18.75%
12%	6.25%
Less than 12%	-

Targets for years one and two were not met, but the year three targets have been met. The value of the award per senior staff participating in the scheme is 25% of their base remuneration as at 1 August 2013, being a total of $844,000 (being the award of 383,558 options at an issue price of $2.20).

The scheme is now finished.

The Board plans to put in place a replacement long term incentive programme for senior staff in the future.

Short term incentive scheme

We also have a short term performance bonus scheme operating at all levels across our organisation. At the level of our SLT, the short term incentive opportunity ranges from 20% of based remuneration for direct reports to the Managing Director and CEO, and 40% of base remuneration for the Managing Director and CEO. This short term incentive is awarded based on exceeding budgeted NPAT (70%), and team objectives (30%).

For employees below the SLT level, the short term incentive opportunity ranges from 5% to 15% of the base remuneration and is based on a mixture of company profit (exceeding budgeted NPAT - 40%) and individual objectives (60%).

As noted above, the short term incentive has been removed from remuneration packages for the SLT effective from 1 August 2016.

Other

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

We also provide staff, as part of their remuneration package, health insurance membership under the Southern Cross Wellbeing One policy. This cover is a broad surgical and healthcare plan which includes cover for cancer care, unlimited surgical treatment and consultations, diagnostic imaging, tests and recovery within 6 months of related eligible surgical treatment or cancer care. Families of staff are also able to join the scheme at reduced rates.

Our Directors' remuneration (including our Managing Director and CEO's remuneration) is set out in Our Statutory Information section of this Annual Report on page 109.

6. RISK MANAGEMENT

We have a robust Risk Management Framework, which is well embedded in the organisation after being launched in 2015.

The Framework consists of the:

- **Risk Management Policy:** This sets out the high-level appetite of the company for risk and identifies the major risk categories. It established the Board's commitment to risk management. The Policy links all the underlying documents together (so provides the overall Risk Management Framework).
- **Risk Management Procedures and Guidelines:** This is a more detailed document that sets out how we identify and define what a risk is (as opposed to an incident or a hazard), sets the levels for the severity and likelihood of a risk occurring (producing a risk assessment), and introduces the capturing of risks in functional areas through the Risk Matrix.

- **Crisis Management Plan:** Defines a crisis, and puts the practical operational procedures in place to manage that crisis event should it ever occur.
- **Incident Management Plan:** Defines an incident and puts the operational procedures in place to manage an incident.

We have rigorously tested our Crisis Management Plan on several occasions.

At each Board meeting, the Board receives a Risk Report – noting the top risks and emerging risks – which not only summarises the issue, but also rates the potential impact if it were to occur, trend data and the risk mitigation steps for the Directors. This is then discussed in detail by the Board with senior management.

Three to four times a year the full Risk Register is presented to the Audit and Risk Committee, looking in detail at the top and emerging risks in each functional area of the business, potential impact, controls in place, mitigation options, whether or not the residual risk is insurable (and whether insurances are held) and trends.

Internal controls have been a focus in FY16, with this detailed in Principle 4: Reporting and Disclosure.

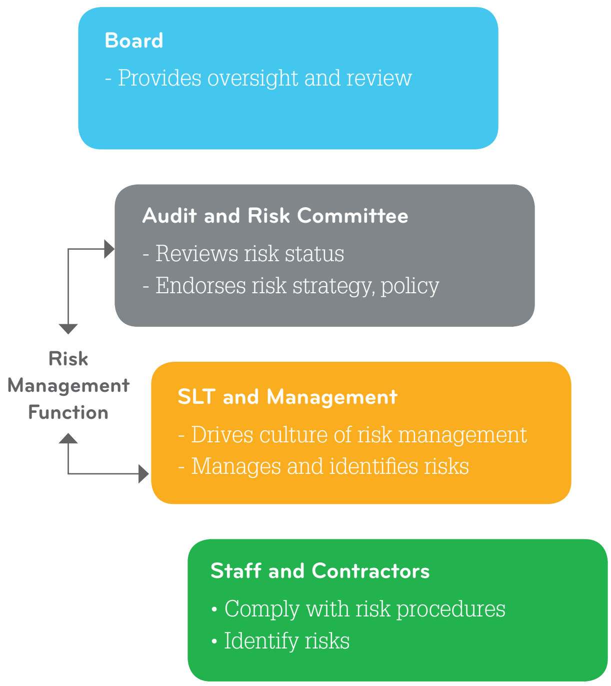
Our Risk Management Strategy focuses around controlling and managing risks around seven key categories within our business:

- **Food safety:** Affecting quality of products to such an extent to be hazardous to human health
- **Site event:** Impacting on physical plant, equipment or manufacturing operations
- **Health and safety event:** Harming our employees, contractors or visitors
- **Environmental event:** Causing environmental damage or harm, breaching consents or statutory obligations
- **Supply event:** Impacting supply of milk or raw materials for manufacture
- **Product / market development:** Risks associated with new capital projects, new products or processes
- **Financial event:** Loss or damage to financial systems, fraud or other financial loss

As part of our Risk Management Strategy, our Board has assessed the company's appetite for risk (from zero to limited tolerance), and this drives the risk assessment placed on any particularly identified event or series of related events – in terms of risk likelihood / probability (frequency) and risk impact (consequences).

Our ability to effectively manage risk is also dependent on having an appropriate risk governance structure with well-defined roles and responsibilities.

Our risk management structure is as follows. This structure illustrates that risk management is not the sole responsibility of one individual or a series of individuals, but rather occurs and is supported at all organisational levels.



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

The risk management reporting responsibilities are summarised as:

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

7. AUDITORS

As previously mentioned, our external auditors are presently the firm of Deloitte. In accordance with our audit partner rotation policy, lead audit partner Michael Wilkes (based in the Christchurch Deloitte office) stood down and a new audit partner was appointed - Andrew Dick. More on Andrew can be found at http://www.deloitteprivate.co.nz/get-to-know-us/our-people/19/andrew-dick/.

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

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

Both management and the Board have a strict policy to carefully review any services provided by Deloitte outside of their audit function. The Chair of the Audit and Risk Committee is consulted by management where there may be a perception that independence could be threatened. Where there is any doubt or risk to the appearance of independence, then the required work is provided by another firm.

We have increased this area of focus in FY16, and dramatically reduced the amount of non-audit work performed by Deloitte to ensure there is a proper appearance of independence. We do wish to stress that we have never had a situation where we believe Deloitte's independence was actually ever at question.

In both March and September 2016, Deloitte provided us with an Independence Report, where all fees charged to Synlait Milk Limited were examined in detail to ensure there has been no actual threat, or any appearance of a threat, to the independence, integrity and objectivity of their role as our external auditor. These confirmations have not highlighted any areas for concern.

The work performed by Deloitte during FY16 is as follows:

AREA	OVERVIEW OF WORK INVOLVED	BASIS OF DECISION TO INVOLVE DELOITTE	INVOICED FEES
Taxation	- Various engagements including GST review, assistance with the IRD audit, high level review of tax governance processes and tax depreciation review work	- These services are compliance in nature and are not inconsistent with Deloitte's role as auditor. Deloitte's ongoing role as provider of tax compliance services was cleared with the Audit and Risk Committee	$117,000
Consulting	- Assistance with Commerce Commission submissions and review relating to Dairy Industry legislation and its operation	- The Audit and Risk Committee is satisfied that this advisory service is not inconsistent with Deloitte's role as auditor, and relies on the specialist knowledge of one individual partner in the Auckland office of Deloitte who is unconnected with any audit work.	$51,000

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

The relationship between the Audit and Risk Committee (on behalf of the Board) and Deloitte is very healthy, and separate sessions are held with just the Directors and the audit partner to ensure there is no undue pressure or other issues in relation to the conduct of the audit engagement and reporting. If there were any complaints from our auditors, then these can be directly raised with the Board, the Chair of the Audit and Risk Committee, or the Audit and Risk Committee themselves, and do not have to be elevated through management.

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

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

	2015	2016
Audit Work	$127,000	$140,000
Non-audit Work	$270,000	$168,000
Percentage (non-audit / audit)	213%	120%

The above trend demonstrates our improvement in the area of non-audit work awarded to Deloitte. As mentioned above, we will continue to focus on this area in FY17.

In accordance with section 207T of the Companies Act, Deloitte will be automatically appointed at our AMS in November 2016 unless the there is a resolution to the contrary. Our shareholders will be asked at the AMS whether or not they approve the Board to fix the auditor's fees and expenses for the following financial year (FY17) in accordance with section 207S of the Companies Act.

8. SHAREHOLDER RELATIONS

We have an Investor Relations Centre on our website (www.synlait.com/investors). Here shareholders will find:

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

This area is regularly updated by our Communications team.

Our Annual Meeting of Shareholders (AMS) is held each year (in November or December), usually in the early afternoon, in the Christchurch area, unless otherwise advised. All shareholders are warmly invited to attend and actively participate in the Meeting.

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

In December 2015, we hosted our AMS on our site in Dunsandel, Christchurch for the first time and after the AMS, our staff and management conducted tours for our shareholders of our plant. This was very well received by our shareholder community – particularly the individual shareholders who came to the AMS (as opposed to the corporate or institutional investors). We plan to repeat this exercise every couple of years to ensure our shareholders understand our business better and can see the growth and development that they are financing through their ongoing shareholding in the company.

As mentioned in Our Governance section (page 36), we commissioned a review from NASDAQ with our larger shareholder community (including representatives from the Shareholders Association, individual investors, institutional investors, analysts, corporate investors and customer-shareholders), to identify what was working well and which areas could be improved in relation to investor relations and communications of our corporate governance.

The report received in March 2016 has led to further refinements and improvements of our Investor Relations Plan - which will be rolled out over the next 18 months. We will report on progress in our next Annual Report.

9. STAKEHOLDER INTERESTS

As a publicly listed company, we have important relationships with our investors, employees, customers, suppliers, bankers, creditors, our local community where we are based and the wider region in which we operate.

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

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

Each year, all our milk suppliers are invited to our Suppliers Conference in June. We also invite a range of customers, rural and financial professionals and Synlait staff. This year, we had a variety of expert speakers from industry and academia supporting our Conference theme of 'The Big Picture – Creating Value Through Partnerships'. At the Conference, we held our Dairy Honours 2016 ceremony and recognised the achievements of our milk suppliers with eight awards focused on best practice dairy farming.

We also work very closely with all our ingredient suppliers, transport partners, workforce recruiters and temporary staffing agencies, engineering partners and contractors. We have contracts with each of them to regulate our relationships and ensure that we treat them fairly, and that our expectations of the highest quality products and services are clearly defined and detailed. All our key ingredient suppliers are thoroughly audited and reviewed on a regular basis by our Procurement Team – apart from the continual quality monitoring programming which we have in place throughout our supply-chain and production process.

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

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

We support many local groups and community bodies through sponsorships and donations. This year we gave away more than $15,000 in donations and sponsorships. For example, we continued to sponsor our local rugby club in FY16 as well as local school and community initiatives. We have also contributed previously to the local volunteer fire service (providing them with an emergency vehicle and training facilities at our plant). We are active supporters of farming and agricultural activities, conferences, workshops and programmes throughout rural Canterbury.

Our own staff are well served with regular communications. Each staff member is posted a newsletter to their home, and each week our Managing Director and CEO sends a brief email update to all staff about topical events. This is on top of noticeboards, regular team meetings, an active intranet portal and several events during the year to bring teams and the company together for work and social purposes.

Our social club is very active – and makes sure a variety of events and activities are available for staff and their families throughout the year. This includes an annual picnic day for families, BBQ events at the plant, movie nights, pub quizzes and more.

We also have policies governing all our interactions with these various stakeholders to ensure we act fairly towards them, and this is enshrined at Board level within our Board Charter (Directors Code of Conduct – Appendix 1) and for all our employees in our Synlait Standards. Copies of both documents are on our website (www.synlait.com/investors/corporate-governance).

The Board assesses compliance with these policies annually.

OUR FINANCIAL STATEMENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2016

DIRECTORS' DECLARATION

31 JULY 2016

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiary, Synlait Milk Finance Limited, (together "the Group") as set out on pages 55 to 101 for the year ended 31 July 2016.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2016 and the financial performance and cash flows for the year ended on that date.

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

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

For and on behalf of the Board.

Graeme Milne
CHAIRMAN
16 September 2016

John Penno
MANAGING DIRECTOR
16 September 2016

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2016

	Notes	2016 $'000	2015 $'000
Revenue	2	546,866	448,136
Cost of sales	3	(446,874)	(392,675)
Gross profit		99,992	55,461
Other income	2	536	439
Share of loss from associates	18	(1,151)	(378)
Sales and distribution expenses	3	(13,629)	(10,472)
Administrative and operating expenses	3	(24,696)	(18,705)
Earnings before net finance costs and income tax		61,052	26,345
Finance expenses	10	(14,485)	(9,161)
Finance income	10	18	311
Loss on derecognition of financial assets	5, 10	(517)	(37)
Net finance costs	10	(14,984)	(8,887)
Net movement in unrealised foreign exchange gains / (losses)		2,326	(2,326)
Profit before income tax		48,394	15,132
Income tax expense	17	(14,011)	(4,580)
Net profit after tax for the year		34,383	10,552
Earnings per share			
Basic and diluted earnings per share (cents)	12	23.50	7.21

Supplementary Information	Notes	2016 $'000	2015 $'000
Profit for the period		34,383	10,552
Underlying adjustments			
Net movement in unrealised foreign exchange (gains) / losses	1	(2,326)	2,326
Adjustments before tax		(2,326)	2,326
Tax credit on underlying adjustments		651	(651)
Underlying net profit after tax	1	32,708	12,227
Underlying net profit per share (cents)		22.35	8.35

Underlying net profit after tax is a non-IFRS financial performance measure that represents net profit after tax stated in compliance with NZ IFRS after excluding the net movement in unrealised foreign exchange gains or losses. It is presented to enable stakeholders to make an assessment and comparison of the Group's underlying performance across different accounting periods. Further information can be found in note 1 to the financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2016

		2016	2015
	Notes	$'000	$'000
Profit for the period		34,383	10,552
Items that may be reclassified subsequently to profit and loss			
Revaluation of property, plant and equipment		–	16,810
Effective portion of changes in fair value of cash flow hedges		69,574	(48,368)
Net change in fair value of cash flow hedges transferred to profit and loss		218	985
Income tax on other comprehensive income	17	(19,542)	8,726
Total items that may be reclassified subsequently to profit and loss		50,250	(21,847)
Other comprehensive income / (loss) for the year, net of tax		50,250	(21,847)
Total comprehensive income / (loss) for the year		84,633	(11,295)

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2016

Group	Notes	Share capital $'000	Employee benefits reserve $'000	Cash flow hedge reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total equity $'000
Equity as at 1 August 2014		172,247	60	(2,103)	8,008	4,918	183,130
Profit or loss for the year		–	–	–	–	10,552	10,552
Other comprehensive income							
Revaluation of property, plant and equipment		–	–	–	16,810	–	16,810
Effective portion of changes in fair value of cash flow hedges		–	–	(37,270)	–	–	(37,270)
Movement in time value hedge reserve		–	–	(11,098)	–	–	(11,098)
Net change in fair value of cash flow hedges transferred to profit and loss		–	–	985	–	–	985
Income tax on other comprehensive income		–	–	13,268	(4,542)	–	8,726
Total other comprehensive income		–	–	(34,115)	12,268	–	(21,847)
Employee benefits reserve	13,14	–	11	–	–	–	11
Total contributions by and distributions to owners		–	11	–	–	–	11
Equity as at 31 July 2015		172,247	71	(36,218)	20,276	15,470	171,846
Profit or loss for the year		–	–	–	–	34,383	34,383
Other comprehensive income							
Revaluation of property, plant and equipment		–	–	–	–	–	–
Effective portion of changes in fair value of cash flow hedges		–	–	80,017	–	–	80,017
Movement in time value hedge reserve		–	–	(10,443)	–	–	(10,443)
Net change in fair value of cash flow hedges transferred to profit and loss		–	–	218	–	–	218
Income tax on other comprehensive income		–	–	(19,542)	–	–	(19,542)
Total other comprehensive income		–	–	50,250	–	–	50,250
Employee benefits reserve	13, 14	–	364	–	–	–	364
Total contributions by and distributions to owners		–	364	–	–	–	364
Equity as at 31 July 2016		172,247	435	14,032	20,276	49,853	256,843

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2016

		2016	2015
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents		2,045	1,529
Trade and other receivables	5	37,793	68,141
Goods and services tax refundable		656	1,240
Income accruals and prepayments		2,446	2,225
Inventories	6	73,885	63,804
Derivative financial instruments	16	33,049	178
Total current assets		149,874	137,117
Non-current assets			
Property, plant and equipment	8	433,889	436,038
Intangible assets	9	4,140	4,651
Other investments	18	824	1,976
Derivative financial instruments	16	1,729	–
Total non-current assets		440,582	442,665
Total assets		590,456	579,782
Current liabilities			
Loans and borrowings	11	46,546	85,646
Trade and other payables	7	55,598	80,367
Current tax liabilities	17	11,702	137
Derivative financial instruments	16	6,737	33,677
Total current liabilities		120,583	199,827
Non-current liabilities			
Loans and borrowings	11	168,908	177,921
Deferred tax liabilities	17	35,569	13,600
Derivative financial instruments	16	8,553	16,588
Total non-current liabilities		213,030	208,109
Total liabilities		333,613	407,936
Equity			
Share capital	12	172,247	172,247
Reserves	14	34,743	(15,872)
Retained earnings		49,853	15,471
Total equity attributable to equity holders of the Group		256,843	171,846
Total equity and liabilities		590,456	579,782

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Cash receipts from customers		585,881	479,763
Cash paid for milk purchased		(275,444)	(311,877)
Cash paid to other creditors and employees		(207,099)	(157,823)
Goods and services tax refunds		584	7,640
Income tax refunds		(19)	(1,327)
Net cash inflow from operating activities	4	103,903	16,376
Cash flows from investing activities			
Interest received		18	305
Acquisition of property, plant and equipment		(39,685)	(106,982)
Proceeds from sale of property, plant and equipment		80	119
Acquisition of intangible assets		(1,353)	(993)
Purchases of equity instruments		–	(2,284)
Net cash outflow from investing activities		(40,940)	(109,835)
Cash flows from financing activities			
Repayments of borrowings		(88,624)	(18,075)
Receipt of borrowings		82,081	102,488
Net movement in working capital and trade finance facilities		(39,100)	22,533
Interest paid		(16,804)	(14,351)
Net cash (outflow) / inflow from financing activities		(62,447)	92,595
Net increase / (decrease) in cash and cash equivalents		516	(864)
Cash and cash equivalents at the beginning of the financial year		1,529	2,393
Cash and cash equivalents at end of year		2,045	1,529

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

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The financial statements presented are those of the Group, including Synlait Milk Limited and its subsidiary Synlait Milk Finance Limited.

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

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

BASIS OF PREPARATION

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

The financial statements were authorised for issue by the directors on 16 September 2016.

Basis of Measurement
These financial statements have been prepared on the historical cost basis except for the following:

- Financial assets and liabilities (including derivative instruments) at fair value

- Land, buildings, plant and equipment

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

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

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

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

Key sources of estimation uncertainty relate to assessment of impairment of inventory, standard costs used for measuring inventory, the industry milk price, the fair value of land, buildings, and plant and equipment, and the derecognition of financial assets.

BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of Synlait Milk Limited and its subsidiary. A subsidiary is a controlled entity over which the Group has power, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. Synlait Milk Finance Limited is set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates. Intercompany transactions are eliminated upon consolidation.

STATEMENT OF ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

P = Accounting policies

E = Accounting estimates

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2018, or later periods but which the Group has not early adopted:

- *NZ IFRS 9 (2014) 'Financial Instruments' (effective 1 January 2018)*
  NZ IFRS 9 (2014) consolidates previous issuances of NZ IFRS 9 and will be effective from the Group's 2019 financial year. The impact of this standard has not yet been determined.
- *NZ IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018)*
  NZ IFRS 15 will be effective from the Group's 2019 financial year. The impact of this standard has not yet been determined.
- *NZ IFRS 16 'Leases' (effective 1 January 2019)*
  NZ IFRS 16 will be effective from the Group's 2020 financial year. The impact of this standard has not yet been determined.

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

NOTES TO THE FINANCIAL STATEMENTS

The structure of the financial statements for the Group has been amended to give readers an enhanced understanding of the performance of the Group. The notes to the financial statements have been restructured into the following categories:

- Performance
- Working capital
- Debt and equity
- Long term assets
- Financial risk management
- Other

PERFORMANCE

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

1 UNDERLYING NET PROFIT AFTER TAX

Underlying net profit after tax reflects the underlying performance of the business for the relevant period after excluding from net profit the after tax net movement in unrealised foreign exchange gains or losses arising from the revaluation of USD denominated inventory financing arrangements that do not qualify for hedge accounting.

The Board does not believe that net profit after tax is reflective of underlying performance where the net movement in unrealised gains or losses occur in different periods to the underlying transactions.

The net movement in unrealised foreign exchange losses for the period were as follows:

	2016	2015
	$'000	$'000
Mitsui &Co. (NZ) Ltd. inventory finance facility revalued to NZD	2,326	(2,326)
Total net movement in unrealised foreign exchange gains / (losses)	2,326	(2,326)

In November 2014 the Group negotiated and contracted a new financing facility with Mitsui & Co. (NZ) Ltd. to fund part of the Group's finished goods inventory. The facility was denominated in USD and was secured against committed USD customer purchase orders. At 2015 reporting date, the revaluation of the drawn down facility to NZD resulted in a movement in unrealised foreign exchange losses that had to be recognised in profit and loss in accordance with NZ IAS 21. During the 2016 reporting period the Group repaid the inventory financing facility which reversed the net movement recognised in 2015 and also crystallised a realised foreign exchange gain which has been included within net profit.

2 REVENUE RECOGNITION AND SEGMENT INFORMATION

P SALES OF GOODS

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

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

	2016	2015
	$'000	$'000
Dairy products	546,866	448,136
Other sundry income	536	439
Total income	547,402	448,575

P DESCRIPTION OF SEGMENTS

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

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

Revenues of approximately 58% (2015: 40%) are derived from the top three external customers.

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

	2016	2015
China	12%	10%
Rest of Asia	33%	42%
Middle East and Africa	16%	27%
New Zealand	11%	7%
Australia	9%	7%
Rest of World	19%	7%
Total	100%	100%

3 EXPENSES

	2016	2015
	$'000	$'000
The following items of expenditure are included in cost of sales		
Depreciation and amortisation	19,984	12,436
Employee benefit expense	23,665	15,182
Kiwisaver contributions	557	371
Export freight	10,912	12,820
Rent	618	111
Repairs and maintenance	5,664	4,751
Consultancy	606	106
Decrease in inventory provision	(680)	(6,002)
Research and development	386	352
The following items of expenditure are included in sales and distribution		
Depreciation and amortisation	1,325	918
Employee benefit expense	5,791	5,350
Kiwisaver contributions	123	88
Rent expense	1,595	260
Repairs and maintenance	685	550
Consultancy	577	115
Donations	3	3
The following items of expenditure are included in administrative and operating expenses		
Depreciation and amortisation	1,378	1,249
Employee benefit expense	9,278	6,774
Kiwisaver contributions	204	176
Repairs and maintenance	9	37
Directors fees	469	451
Share based payments expense	364	11
Consultancy	2,471	1,037
Strategic initiatives	1,814	–
Deloitte services included in administrative and operating expenses		
Statutory audit fee	112	100
Half year accounts review	28	27
Taxation advice	117	95
Financial modelling	–	27
Accounting advice and other consulting	51	148
Total Deloitte services	308	397

In prior years export freight costs have been included within sales and distribution expenses. This year we have reclassified export freight costs as a cost of sale. The basis for this reclassification is that export freight costs are recovered from our customers and the recovery is included in the revenue line of the income statement. Accordingly, export freight costs are better classified as a cost of sale to offset the recovery income and more accurately report margin.

As a result of higher inventory holdings during the year, particularly at the peak of the season, our spend on external warehousing and associated freight has increased. Depreciation increased during 2016 due to the commissioning of the third spray dryer, the laboratory and our new administration facility.

We have a strong focus on developing our systems and processes and have invested in customer development, planning, and other internal capabilities. This has resulted in increases in payroll and consultancy costs, as well as strategic initiative spend.

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

	2016	2015
	$'000	$'000
Profit for the year	34,383	10,552
Non-cash and non-operating items:		
Depreciation and amortisation of non-current assets	22,687	14,603
Gain on sale of fixed assets	(12)	(13)
Write off intangibles	728	–
Share of loss from associate	1,151	378
Non-cash share based payments expense	364	11
Interest costs classified as financing cash flow	14,485	9,167
Interest received classified as investing cash flow	(18)	(311)
Loss on derecognition of financial assets	517	37
Deferred tax	2,427	5,731
Gain on derivative financial instruments	218	1,053
Unrealised foreign exchange (gains) / losses	(2,326)	2,326
Movements in working capital:		
(Increase) / decrease in trade receivables	29,831	20,739
(Increase) / decrease in other receivables	776	166
(Increase) / decrease in prepayments	(221)	(1,439)
(Increase) / decrease in inventories	(10,080)	7,458
(Increase) / decrease in other current assets	584	7,640
(Decrease) / increase in trade and other payables	(3,156)	(59,241)
(Decrease) / increase in current tax liabilities	11,565	(2,481)
Net cash inflow from operating activities	103,903	16,376

WORKING CAPITAL

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

5 TRADE AND OTHER RECEIVABLES

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

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

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

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

	2016	2015
	$'000	$'000
Trade receivables	36,654	68,380
Provision for doubtful receivables	(33)	(635)
Net trade receivables	36,621	67,745
Other receivables	1,172	396
Total receivables	37,793	68,141

The decrease in trade receivables is predominantly due to the receivables assignment to ANZ and BNZ during the reporting period, lower commodity prices and improved debtors aging.

(a) Impaired receivables

As at 31 July 2016, trade receivables of $2.8m were overdue but not impaired (2015: $2.5m). These relate to a number of independent customers for whom there is no recent history of default. $2.5m has since been collected leaving $0.3m unpaid which is expected to be collected in the 2017 financial year.

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

	2016	2015
	$'000	$'000
0 to 30 days	2,433	1,735
30 to 60 days	148	80
Over 60 days	209	698
Total overdue trade receivables	2,790	2,513

(b) Allowance for bad and doubtful receivables

The Group has recognised a loss of $146,000 in relation to unrecoverable trade receivables during the year (2015: $79,000).

(c) Trade and other receivables

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

Receivables denominated in currencies other than the functional currency comprise NZ$35.4m (2015: $57.8m) of USD denominated trade receivables.

(d) Derecognised financial assets

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

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

If the Group's customers defaulted on all trade receivables that have been derecognised at balance date, the Group would be required to pay a late payment charge of $1,333 per day for each day that these receivables remain overdue, assuming that market conditions remain unchanged from reporting date. The likelihood that debtors will fall overdue or remain overdue for a long period of time is small, given the strong credit ratings and good payment histories of the customers whose receivables have been selected for assignment.

The loss for the period of $517,000 arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

6 INVENTORIES

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

E Estimates are required in relation to net realisable value which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Reviewing the net realisable values is carried out by management on a periodic basis and any reduction to cost is provided by way of stock provision.

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

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

	2016	2015
	$'000	$'000
Raw materials at cost	14,093	11,542
Finished goods at cost	54,145	47,725
Finished goods at net realisable value	5,647	4,537
Total inventories	73,885	63,804

The total provision as at reporting date was $4.1m (2015 $3.9m) of which $3.8m related to finished goods and $0.3m related to raw materials.

7 TRADE AND OTHER PAYABLES

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

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

	2016	2015
	$'000	$'000
Trade payables	10,969	29,961
Accrued expenses	41,904	48,558
Employee entitlements	2,725	1,848
Total trade and other payables	55,598	80,367

Payables denominated in other currencies other than the functional currency comprise NZ$0.3m (2015: $1.8m) of USD and AUD denominated trade payables and accruals.

The large decrease in payables and accruals from July 2015 is due to the decreased milk price, proportionately higher advance payments and a reduction in capital expenditure payables at the year end.

LONG TERM ASSETS

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

8 PROPERTY, PLANT AND EQUIPMENT

P RECOGNITION AND MEASUREMENT

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

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

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

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

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

E FAIR VALUE ESTIMATION

The fair value of buildings, plant and equipment is undertaken on a cyclical basis, not exceeding three years, by an independent registered valuer. As the assets are specialised in nature, there is no comparable market data from which to derive a market based valuation. The valuation has consequently been prepared on a depreciated replacement cost basis and assumes that the current use of these assets is the best and highest use. The replacement cost was based on a volume basis for the dryers and an area basis for all other facilities.

For buildings, plant and equipment, the depreciated replacement cost method represents a level 3 valuation under the fair value hierarchy defined within NZ IFRS 13 - Fair Value Measurement. The depreciated replacement cost is defined as the gross current replacement cost reduced by factors providing for age, physical depreciation and technical and functional obsolescence taking into account the assets' total estimated useful life and anticipated residual value (if any). The depreciated replacement cost includes all the costs to purchase, deliver and install the asset. The key sensitivity of the depreciated replacement cost valuation relates to the estimated useful lives of the assets being valued. As there are a large number of assets all with varying estimated useful lives, it is not practical to determine a numerical sensitivity to this input factor.

The valuation for land is also a level 3 valuation under the fair value hierarchy defined within NZ IFRS 13.

E REVALUATIONS

Land, buildings and plant and equipment are carried at fair value. Any increase in the fair value of land, buildings, plant and equipment is recognised in other comprehensive income and presented in the revaluation reserve in equity unless it offsets a previous decrease in value recognised in profit or loss, in which case it is recognised in profit or loss. A decrease in value is recognised in profit or loss where it exceeds the increase previously recognised in equity.

Land, buildings, and plant and equipment were independently valued as at 31 July 2015 by Jones Lang LaSalle using the depreciated replacement cost method for building, plant and equipment, and the comparable sales approach for land.

P

SUBSEQUENT COSTS

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

P

DEPRECIATION

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

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

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

E

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

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

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

	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
Cost	3,047	59,354	231,262	3,434	31,766	328,863
Revaluation	170	1,760	10,272	–	–	12,202
Balance as at 1 August 2014	3,217	61,114	241,534	3,434	31,766	341,065
Additions	–	–	–	–	134,822	134,822
Reclassification / transfer	452	13,615	5,680	557	(20,304)	–
Disposals	–	–	(136)	(1)	–	(137)
Revaluation	587	(4,324)	(33,533)	–	–	(37,270)
Balance as at 31 July 2015	4,256	70,405	213,545	3,990	146,284	438,480
Additions	–	–	–	–	19,433	19,433
Reclassification / transfer	–	44,889	113,138	1,654	(159,681)	–
Disposals	–	–	(76)	(3)	–	(79)
Balance as at 31 July 2016	4,256	115,294	326,607	5,641	6,036	457,834
Accumulated depreciation						
Cost	–	5,451	33,273	1,809	–	40,533
Revaluation	–	360	1,984	–	–	2,344
Balance as at 1 August 2014	–	5,811	35,257	1,809	–	42,877
Depreciation	–	2,028	10,409	634	–	13,071
Revaluation depreciation	–	(7,839)	(45,636)	–	–	(53,475)
Disposals	–	–	(30)	(1)	–	(31)
Balance as at 31 July 2015	–	–	–	2,442	–	2,442
Depreciation	–	3,333	15,525	876	–	19,734
Revaluation depreciation	–	182	1,635	–	–	1,817
Disposals	–	–	(46)	(3)	–	(49)
Balance as at 31 July 2016	–	3,515	17,114	3,315	–	23,944
Carrying amounts						
As at 31 July 2015	4,256	70,405	213,545	1,548	146,284	436,038
As at 31 July 2016	4,256	111,779	309,493	2,325	6,036	433,889

(a) Valuations of land and buildings

Land, buildings, and plant and equipment were last valued as at 31 July 2015. Management have estimated that the valuation has not materially changed since 2015 and that depreciated replacement cost is a fair estimate of current value. In accordance with policy, an independent valuation will be undertaken during the 2018 financial year.

(b) Impairment

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

(c) Capital work in progress

Assets under construction includes capital expenditure projects, until they are commissioned and transferred to fixed assets. Capital work in progress of $6.0m is significantly less than 2015 ($146.3m) due to the commissioning of the third spray dryer during the year.

(d) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $1.6m (2015: $5.0m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset as disclosed in note 11. Following commissioning of the third spray dryer and the laboratory, no qualifying assets are under construction, and as such no borrowing costs are currently being capitalised.

9 INTANGIBLE ASSETS

P PATENTS, TRADEMARKS AND OTHER RIGHTS

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

COMPUTER SOFTWARE

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

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

	Computer software	Patents, trademarks and other intangibles	Intangibles in progress	Total
	$'000	$'000	$'000	$'000
Year ended 31 July 2015				
Opening net book amount	2,399	98	2,092	4,589
Additions	–	–	993	993
Development costs recognised as an asset	1,627	90	(1,717)	–
Amortisation charge (note 3)	(919)	(12)	–	(931)
Closing net book value	3,107	176	1,368	4,651
Year ended 31 July 2016				
Opening net book value	3,107	176	1,368	4,651
Additions	433	–	429	862
Development costs recognised as an asset	1,822	186	(1,517)	491
Amortisation charge (note 3)	(1,114)	(22)	–	(1,136)
Asset disposals	(728)	–	–	(728)
Closing net book value	3,520	340	280	4,140

Intangibles in progress of $0.3m at balance date is predominantly constituted of project to date spend on systems development.

DEBT AND EQUITY

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

10 FINANCE INCOME AND EXPENSES

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

	2016	2015
	$'000	$'000
Interest income on bank deposits	18	305
Settlement of ineffective portion of cash flow hedges	–	6
Total finance income	18	311
Interest and facility fees	(16,047)	(14,120)
Capitalised borrowing cost	1,562	4,959
Total finance costs	(14,485)	(9,161)
Loss on derecognition of financial assets	(517)	(37)
Net finance costs	(14,984)	(8,887)

11 LOANS AND BORROWINGS

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

	2016	2015
	$'000	$'000
Current liabilities		
Working capital facility	25,200	25,370
Trade finance facility	21,346	36,181
Inventory finance facility	–	24,095
Total current liabilities	46,546	85,646
Non-current liabilities		
Bank loans	169,405	178,274
Loan facility fees	(497)	(353)
Total non-current liabilities	168,908	177,921

(a) Terms of loans and borrowings

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

The Group facilities include:

- A secured revolving credit facility of $245m that matures on 1 August 2020 with amortisation of $20.0m on 1 August 2016 and $30.0m every twelve months thereafter.
- A secured working capital facility of $35m that matures on 28 September 2016 (management are currently finalising the levels of revolver and working capital facilities required during the 2017 financial year, at which point the working capital facility will be extended for a period of twelve months).
- An unlimited and unsecured finance facility from Mitsui & Co. (NZ) Ltd. that matures on 31 July 2017. The Group will not renew this facility effective from 1 August 2017. A new bank working capital facility will be put in place to replace this.
- A USD denominated finance facility secured against inventory from Mitsui & Co. (NZ) Ltd. that matures on 31 July 2017. This facility was fully repaid during 2016 and will not be drawn on during 2017. Further, the Group will not renew this facility effective from 1 August 2017.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group has met all externally imposed capital requirements for the twelve months ended 31 July 2016 and 31 July 2015.

	Nominal Interest rate %	Financial year of maturity	Carrying amount 2016	Carrying amount 2015
Secured term loan facility (D3) - ANZ / BNZ	–	2016	–	103,280
Secured revolving credit facility - ANZ / BNZ	3.71%	2021	169,405	74,994
Secured working capital facility - ANZ / BNZ	3.64%	2017	25,200	25,370
Trade finance facility - Mitsui & Co. (NZ) Ltd.	2.07%	2017	21,346	36,181
Inventory finance facility - Mitsui & Co. (NZ) Ltd.	–	2017	–	24,095

The nominal interest rate is calculated by adding the BKBM rate (or LIBOR rate for Mitsui facilities) and the marginal rate. It excludes line fees and swap costs.

12 SHARE CAPITAL

P Ordinary shares are classified as equity.

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

	2016 Shares	2015 Shares	2016 $'000	2015 $'000
On issue at beginning of period	146,341,197	146,341,197	172,247	172,247

Weighted average number of shares during the year of 146,341,197 (2015: 146,341,197) is used to calculate Earnings per Share.

(a) Ordinary shares

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

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

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

(b) Capital risk management

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

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

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

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

(c) Earnings per share

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

13 SHARE BASED PAYMENTS

The Group operates an equity settled share based incentive plan for senior management. The plan is designed to enhance the alignment between shareholders and the management of the Group.

(a) IPO Incentive Scheme

P The Group has entered into an agreement with each participant which will provide them with a conditional contractual right to be issued or transferred a predetermined number of shares on the third anniversary of completion of the listing of the Group on the NZX Main Board (the Performance Date). The issue or transfer of shares pursuant to this scheme will be at an issue price equal to the IPO listing price of $2.20. Each participant has been provided with an entitlement which has a value (calculated as the number of new shares they could receive multiplied by the IPO listing price) equal to a maximum of 75% of their base salary as at 1 August 2013. That entitlement is split into three equal tranches of 25%.

The issue or transfer of shares is conditional on the predetermined performance and service conditions being satisfied. The performance conditions will be assessed at the end of each of the three years following the listing of the Group on the NZX Main Board.

There are two separate performance conditions each of which must be satisfied. The first requires the Group's net profit after tax (NPAT) for the relevant financial year to be at least 10% above the budgeted NPAT for those periods. If this condition is not met in any period, then the award for this period will never vest, even if the condition outlined below is met.

The second requires certain annual compound growth targets in total shareholder return (TSR) to be satisfied as follows:

TSR growth target	Options granted (% of base salary)
20% or more	25.00%
15%	18.75%
12%	6.25%
Less than 12%	–

The IPO incentive scheme represents the grant of in substance nil price options. The fair value of the options granted under the IPO incentive scheme are estimated as at the date of grant using an option pricing model that takes into account the terms and conditions upon which the options were granted. In accordance with the rules of the plan, the model simulates the Group's total shareholder return relative to the sliding performance scale over the vesting period. The model takes into account the paths of outcomes that would result in vesting in relation to the TSR performance condition, the cost of equity, share price volatilities and an assessment of the probability of vesting to produce a predicted fair value for each option. The fair value of each option is then applied to the number of options expected to vest to determine a total plan fair value. The NPAT performance condition and the service condition are taken into account in determining the number of options expected to vest.

Whilst the performance conditions were met in 2016, due to some participants who were eligible to participate in the scheme not fulfilling the service condition, a number of the options granted have been forfeited as summarised below.

The following table sets out the number of, and movement in, share options during the year:

	2016	2015
Outstanding 1 August	495,405	1,043,139
Granted during the year	–	–
Forfeited during the year	(111,847)	(547,734)
Outstanding 31 July	383,558	495,405

Given the extensive number of permutations of potential outcomes, the options have been valued using a probabilistic option pricing model. Management have assessed the likelihood of each of the outcomes in satisfying the varying TSR conditions and the other key inputs into this model are listed below:

	First Tranche	Second Tranche	Third Tranche
Risk free rate	3.0 %	3.6%	3.6%
Market risk premium	5.5 %	5.5%	5.5%
Market debt / equity	30.0 %	30.0%	30.0%
Volatility	20.0 %	20.0%	20.0%
Share price at grant date	$2.20	$3.65	$3.70
Total value of options granted at grant date ($000's)	862	897	155

Volatility has been estimated by reference to trading entities similar to the Group.

(b) Expenses arising from share based payment transactions

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

	2016	2015
	$'000	$'000
Expenses for equity settled share based payment transactions	364	11

2016 was the final year of the IPO incentive scheme. Synlait Milk Limited intends to settle the IPO incentive scheme through the issue of shares. The Board plans to put in place a replacement long term incentive scheme for senior staff in the future.

14 RESERVES AND RETAINED EARNINGS

(a) Nature and purpose of reserves

(i) Property, plant and equipment revaluation reserve

The revaluation reserve arises on the revaluation of land, buildings, plant and equipment. Where a revalued asset is sold, that portion of the reserve which relates to that asset, and is effectively realised, is recognised in retained earnings.

(ii) Cash flow hedge reserve

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

(iii) Employee benefits reserve

The employee benefits reserve is comprised of the cumulative share based payment expense for share options not yet vested.

(b) Dividends

No dividends were declared by the Group during the year.

FINANCIAL RISK MANAGEMENT

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

15 FINANCIAL RISK MANAGEMENT

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

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.

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

MARKET RISK

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

The Group has a Board approved treasury policy that sets the parameters under which foreign exchange cover is to be taken. This policy requires a decreasing proportion of future cash receipts to have the Group's exposure to foreign exchange movements either fixed or capped. As foreign exchange contracts are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates. As at 31 July 2016, the Group has hedged 44% of its exposure to foreign exchange risk on sales, and 10% of its exposure to foreign exchange risk on payables, over the following 2 years.

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

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

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

P

Credit risk

The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. Management has a credit policy in place under which each new customer is rigorously analysed for credit worthiness. Investments and derivatives are only made with reputable financial banks.

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains all the late payment risk in the derecognition of financial assets, as described in note 5.

Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium term facility requirements and has also contracted two facilities with Mitsui & Co. (NZ) Ltd. to fund part of the Group's working capital: an unlimited and unsecured trade finance facility and a financing facility secured against inventory.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

Market risk

(i) Foreign exchange risk

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

	2016		2015	
	USD	AUD	USD	AUD
Statement of financial position exposure before hedging activities	$'000	$'000	$'000	$'000
Trade receivables	24,731	–	38,037	–
Trade payables	(8)	(260)	(1,092)	–
Trade finance facility	(15,428)	–	(24,785)	–
Inventory finance facility	–	–	(15,919)	–

The Group's exposure to foreign currency in the period ended 31 July 2016 is limited to its sales of dairy products, purchases of raw materials for production and capital equipment purchases. As at the reporting date, the Group had the following foreign exchange derivative instruments outstanding in respect of future sales transactions:

	2016		2015	
	Weighted average exchange rate	Nominal balance	Weighted average exchange rate	Nominal balance
		USD'000		USD'000
Less than 1 year	0.6705	272,605	0.7084	235,941
1 to 2 years	0.6323	10,000	0.6541	170,200

(ii) Interest rate risk

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

	2016		2015	
	Weighted average interest rate	Nominal Balance	Weighted average interest rate	Nominal Balance
	%	$'000	%	$'000
Less than 1 year	4.70%	119,000	4.60%	129,000
1 to 2 years	4.53%	99,000	4.71%	116,500
2 to 3 years	4.46%	79,000	4.73%	94,000
3 to 4 years	4.23%	79,500	4.76%	71,750
4 to 5 years	4.38%	45,000	4.82%	50,000
5 to 6 years	4.34%	40,000	4.82%	35,000
6 to 7 years	4.18%	30,000	4.85%	25,000
7 to 8 years	4.18%	30,000	4.85%	19,167
8 to 9 years	3.51%	10,000	4.86%	15,000

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

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

(iii) Sensitivity analysis

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

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

	2016		2015	
	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000
1% increase in interest rate	–	5,147	–	5,027
1% decrease in interest rate	–	(5,458)	–	(5,299)
5% increase in exchange rate	–	15,967	192	17,793
5% decrease in exchange rate	–	(16,189)	(212)	(20,508)
Total increase / (decrease)	–	(533)	(20)	(2,987)

Liquidity risk

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

	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
At 31 July 2016					
Working capital facility	25,200	–	–	–	25,200
Trade and other payables	55,597	–	–	–	55,597
Trade finance facility	21,346	–	–	–	21,346
Inventory finance facility	–	–	–	–	–
Loans and borrowings	–	–	168,908	–	168,908
Derivative financial instruments	4,270	887	5,090	5,043	15,290
Total	**106,413**	**887**	**173,998**	**5,043**	**286,341**
At 31 July 2015					
Working capital facility	25,377	–	–	–	25,377
Trade and other payables	80,367	–	–	–	80,367
Trade finance facility	36,245	–	–	–	36,245
Inventory finance facility	24,159	–	–	–	24,159
Loans and borrowings	8,009	182,936	–	–	190,945
Derivative financial instruments	32,055	11,317	4,487	2,406	50,265
Total	**206,212**	**194,253**	**4,487**	**2,406**	**407,358**

Cash flow hedges

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

Hedging instruments used in cash flow hedges	Nominal amount	Carrying amount		Hedge accounted amounts in cash flow reserve		Total cash flow hedge reserve
	$'000	Assets NZD'000	Liabilities NZD'000	Intrinsic value NZD'000	Time value NZD'000	NZD'000
31 July 2016						
Foreign exchange risk						
Forward exchange contracts (USD)	52,405	9,691	1,793	7,898	–	7,898
Foreign currency options (USD)	–	–	–	–	–	–
Foreign currency collars (USD)	230,200	25,087	1,976	22,455	655	23,111
Interest rate risk						
Interest rate swaps (NZD)	158,500	–	11,521	(11,521)	–	(11,521)
Total		34,778	15,290	18,832	655	19,488
31 July 2015						
Foreign exchange risk						
Forward exchange contracts (USD)	122,941	2	17,495	(17,493)	–	(17,493)
Foreign currency options (USD)	5,000	176	–	–	(42)	(42)
Foreign currency collars (USD)	278,200	–	25,238	(14,182)	(11,056)	(25,238)
Interest rate risk						
Interest rate swaps (NZD)	139,000	–	7,532	(7,532)	–	(7,532)
Total		178	50,265	(39,207)	(11,098)	(50,305)

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

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

	2016		2015	
Effects of cash flow hedges on statement of comprehensive income	Hedging gains / losses recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Hedging gains / losses recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss
Foreign exchange risk	$'000	$'000	$'000	$'000
Forward exchange contracts	25,391	–	(17,567)	–
Foreign currency options	(176)	–	(574)	–
Foreign currency collars	48,349	–	(23,566)	–
Interest rate risk				
Interest rate swaps	(3,990)	–	(6,661)	6
Total	69,574	–	(48,368)	6

Hedge ineffectiveness is included within the finance expenses line of the income statement.

The Group has reclassified $218,000 of net losses from the cash flow hedge reserve to profit and loss upon realisation of hedged transactions during the reporting period. This reclassification is included within the revenue line for foreign exchange gains/losses relating to hedging instruments and finance expenses for gains/losses on interest rate swaps.

16 FINANCIAL INSTRUMENTS

CLASSIFICATION

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

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

(i) Financial instruments at amortised cost

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

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

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

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

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

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

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

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

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

E FAIR VALUE ESTIMATION

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

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

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

The fair value of foreign currency forward contracts is determined using forward exchange rates at balance date. The fair value of foreign exchange option agreements is determined using forward exchange rates at balance date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date.

P OFFSETTING FINANCIAL INSTRUMENTS

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

P IMPAIRMENT OF FINANCIAL ASSETS

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

P DERIVATIVE FINANCIAL INSTRUMENTS – HEDGE ACCOUNTING

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

Derivatives are initially recognised at fair value at the date the derivative contact is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.

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

(i) Hedge accounting

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

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

(ii) Cash flow hedge

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

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(a) Financial instruments by category

Financial assets	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
	$'000	$'000	$'000	$'000
At 31 July 2016				
Cash and cash equivalents	2,045	–	–	2,045
Derivative financial instruments	–	–	34,778	34,778
Trade and other receivables	37,793	–	–	37,793
Investments in equity	–	110	–	110
Total	**39,838**	**110**	**34,778**	**74,726**
At 31 July 2015				
Cash and cash equivalents	1,529	–	–	1,529
Derivative financial instruments	–	–	178	178
Trade and other receivables	68,141	–	–	68,141
Investments in equity	–	110	–	110
Total	**69,670**	**110**	**178**	**69,958**

Financial liabilities	At amortised cost	At fair value through profit or loss	Total
	$'000	$'000	$'000
At 31 July 2016			
Derivative financial instruments	–	15,290	15,290
Working capital facility	25,200	–	25,200
Trade finance facility	21,346	–	21,346
Inventory finance facility	–	–	–
Trade and other payables	55,597	–	55,597
Borrowings	168,908	–	168,908
Total	**271,051**	**15,290**	**286,341**
At 31 July 2015			
Derivative financial instruments	–	50,265	50,265
Working capital facility	25,370	–	25,370
Trade finance facility	36,181	–	36,181
Inventory finance facility	24,095	–	24,095
Trade and other payables	80,367	–	80,367
Borrowings	177,921	–	177,921
Total	**343,934**	**50,265**	**394,199**

All derivative financial instruments are designated in effective hedge relationships.

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

OTHER

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

17 INCOME TAX

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised in relation to the revaluation of land. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Tax consolidation group

Synlait Milk Limited and its wholly-owned New Zealand controlled entity, Synlait Milk Finance Limited, form a tax consolidation group.

		2016	2015
		$'000	$'000
(a) Income tax expense			
Current tax:			
Current tax on profits for the year		(11,584)	–
Current tax on prior period adjustments		–	(137)
Total current tax		(11,584)	(137)
Deferred tax:			
Temporary differences		(2,043)	(4,464)
Tax losses utilised		(387)	–
Tax losses to carry forward		–	110
Adjustment to prior year tax losses brought forward		277	–
Other prior year adjustments		(274)	(89)
Total deferred tax		(2,427)	(4,443)
Income tax (expense) / benefit		(14,011)	(4,580)

		2016	2015
(b) Reconciliation of effective tax rate			
Profit before income tax		48,394	15,132
Income tax using the Group's domestic tax rate - 28%		(13,550)	(4,237)
Other non deductible costs		(464)	(136)
		(14,014)	(4,373)
Adjustment to prior year tax losses brought forward		277	–
Other prior year adjustments		(274)	(207)
		3	(207)
Income tax (expense) / benefit		(14,011)	(4,580)

		2016	2015
(c) Imputation credits			
Imputation credits available directly and indirectly to the shareholders of the Group		11,702	1,416

(d) Income tax recognised in other comprehensive income

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

	Before tax	Tax (expense)/ benefit	After tax
	$'000	$'000	$'000
31 July 2016			
Cash flow hedges	69,792	(19,542)	50,250
Other comprehensive income	69,792	(19,542)	50,250
31 July 2015			
Revaluation of property, plant and equipment	16,810	(4,542)	12,268
Cash flow hedges	(47,632)	13,268	(34,364)
Other comprehensive income	(30,822)	8,726	(22,096)

	2016	2015
	$'000	$'000
Deferred Taxation		
The balance comprises temporary differences attributable to:		
Assets		
Derivatives	–	14,085
Other items	1,714	1,186
Tax losses carried forward	–	110
Total deferred tax assets	1,714	15,381
Liabilities		
Property, plant and equipment	(31,801)	(28,865)
Derivatives	(5,457)	–
Other items	(25)	(116)
Total deferred tax liabilities	(37,283)	(28,981)
Total deferred tax	(35,569)	(13,600)

Movements - Group	Balance 1 Aug 2014	Recognised in profit or loss	Recognised in other comprehensive income	Prior year adjustment	Balance 31 July 2015
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	(20,460)	(3,898)	(4,542)	35	(28,865)
Derivatives	817	–	13,268	–	14,085
Other items	3,118	(655)	–	(1,393)	1,070
Tax losses carried forward	–	110	–	–	110
Total	(16,525)	(4,443)	8,726	(1,358)	(13,600)

	Balance 1 Aug 2015	Recognised in profit or loss	Recognised in other comprehensive income	Prior year adjustment	Balance 31 July 2016
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	(28,865)	(2,795)	–	(141)	(31,801)
Derivatives	14,085	–	(19,542)	–	(5,457)
Other items	1,070	478	–	141	1,689
Tax losses carried forward	110	(110)	–	–	–
Total	(13,600)	(2,427)	(19,542)	–	(35,569)

18 OTHER INVESTMENTS

INVESTMENTS IN ASSOCIATES

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

	2016	2015
	$'000	$'000
Equity securities	110	110
Investment in associates	714	1,866
Total other investments	824	1,976

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2016	2015
			%	%
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
Sichuan New Hope Nutritional Foods Co. Ltd (Associate)	China	Ordinary	25	25

Associates

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

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

	2016	2015
	$'000	$'000
Loss from continuing operations	(1,151)	(378)
Other comprehensive income	–	–
Total comprehensive income	(1,151)	(378)

The carrying value of the investment in New Hope Nutritionals was $0.7m at balance date (2015: $1.9m):

	2016	2015
	$'000	$'000
Opening balance	1,866	–
Investment cost	–	2,244
Share of losses	(1,151)	(378)
Carrying value of investment	715	1,866

As New Hope Nutritionals does not prepare NZ IFRS financial statements, the following summary information for New Hope Nutritionals has been prepared based on the most recent management financial statements presented to the Group:

	2016	2015
	$'000	$'000
Summary income statement for New Hope Nutritionals		
Revenue	15,755	3,943
Net loss after tax	(4,350)	(2,486)
Summary statement of financial position for New Hope Nutritionals		
Total current assets	9,419	17,956
Total non-current assets	593	1,287
Total current liabilities	(13,484)	(17,826)
Total non-current liabilities	–	–
Net assets of New Hope Nutritionals	(3,472)	1,417

19 RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.12% of the shares issued by Synlait Milk Limited (2015: 39.12%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the Peoples Republic of China.

Other related entities

In June 2013 a subsidiary of Synlait Milk Limited, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

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

Investments in associates are set out in note 18.

Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other benefits paid or due to directors and executive officers as at 31 July 2016. The total short-term benefits paid to the key management and personnel is set out below.

	2016	2015
	$'000	$'000
Short-term benefits	2,516	2,859
Share based payments expense (note 13)	288	7

(a) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

(i) Loans to directors

There were no loans to directors issued during the period ended 31 July 2016 (2015: $nil).

(ii) Other transactions and balances

Directors of Synlait Milk Limited control 3.8% of the voting shares of the company at balance date (2015: 3.7%)

(b) Transactions with other related parties

	2016	2015
	$'000	$'000
Purchase of goods and services		
Bright Dairy and Food Co Ltd - Directors fees	111	99
Sale of goods and services		
Bright Dairy and Food Co Ltd - Sale of milk powder products	9,461	7,199
Bright Dairy and Food Co Ltd - Reimbursement of costs	(53)	(70)
Sichuan New Hope Nutritional Foods Co. Ltd - Sale of milk powder products	8,344	10,761

All transactions with related parties are at arm's length on normal trading terms.

(c) Outstanding balances

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

	2016	2015
	$'000	$'000
Current receivables (sales of goods and services)		
Bright Dairy and Food Co Ltd - Sale of milk powder products	264	4,185
Bright Dairy and Food Co Ltd - Reimbursement of costs	(118)	(88)
Sichuan New Hope Nutritionals Ltd - Sale of milk powder products	733	1,175

20 CONTINGENCIES

As at 31 July 2016 the Group had no contingent liabilities or assets (2015: $nil).

21 COMMITMENTS

(a) Capital commitments

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

	2016	2015
	$'000	$'000
Dryer 3	1,107	3,815
Administration and laboratory building	187	2,472
Other	724	–
Total capital commitments	2,018	6,287

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

(b) Operating lease commitments – group as lessee

LEASES

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

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

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	2016	2015
	$'000	$'000
Less than one year	141	610
Between one and five years	165	306
Total	306	916

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

22 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

23 OTHER ACCOUNTING POLICIES

Cash and cash equivalents

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

Goods and Services Tax (GST)

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

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Synlait Milk Limited and its subsidiary ('the Group') on pages 55 to 101, which comprise the consolidated statement of financial position as at 31 July 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the consolidated financial statements.

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

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

AUDITOR'S REPORT CONTINUED

OPINION

In our opinion, the consolidated financial statements on pages 55 to 101 present fairly, in all material respects, the financial position of Synlait Milk Limited and its subsidiaries as at 31 July 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Chartered Accountants

16 September 2016

Auckland, New Zealand

This audit report relates to the consolidated financial statements of Synlait Milk Limited (the 'Company') for the year ended 31 July 2016 included on Synlait Milk Limited's website. The Board of Directors are responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 16 September 2016 to confirm the information included in the audited consolidated financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.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STATUTORY INFORMATION

STATUTORY INFORMATION

STOCK EXCHANGE LISTING

Our shares are listed on the Main Board operated by NZX Limited (NZX).

SHARES ON ISSUE

As at 31 July 2016:

Register	Sub-register	Current Holders	Zero Holders[1]	Units
New Zealand	FASTER	2,416	1,786	146,341,197
	Class Total	2,416	1,786	146,341,197

Our issued share capital has not changed since we listed on 23 July 2013. On 31 July 2015 we had 2,615 current holders.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2016 are as follows:

Rank	Name	Units at 31 July 2016	% of Units
1.	Bright Dairy Holding Limited	57,247,647	39.12
2.	BNP Paribas Nominees (NZ) Limited – NZCSD	14,905,609	10.19
3.	Mitsui & Co Limited	7,373,331	5.04
4.	HSBC Nominees (New Zealand) Limited – NZCSD	5,994,095	4.10
5.	Munchkin Inc.	5,672,883	3.88
6.	John Penno	5,423,817	3.71
7.	Mitsui & Co.(Australia) Limited	4,915,556	3.36
8.	Citibank Nominees (New Zealand) Limited – NZCSD	4,776,017	3.26
9.	National Nominees (New Zealand) Limited – NZCSD	2,986,604	2.04
10.	FNZ Custodians Limited	2,144,741	1.47
11.	FNZ Custodians Limited (DTA Non Resident A/C)	1,858,252	1.27
12.	Juliet Maclean	1,298,212	0.89
13.	Accident Compensation Corporation – NZCSD	1,175,000	0.80
14.	Paul Leslie Lancaster + Bronwyn Anne Lancaster	1,098,723	0.75
15.	Ben McFarlane Dingle	963,666	0.66
16.	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited - NZCSD	936,227	0.64
17.	Therese Roche	900,000	0.62
18.	Custodial Services Limited	891,329	0.61
19.	Horo Holdings Limited	842,292	0.58
20.	Douglas Thode + Clorine Thode + Jozette Thode	741,822	0.51
Totals: Top 20 holders of Ordinary Shares		122,145,823	83.47
Total Remaining Holders Balance		24,195,374	16.53

[1] Zero holders held shares as at 31 July 2016.

STATUTORY INFORMATION CONTINUED

SUBSTANTIAL PRODUCT HOLDERS

As required under section 293 of the Financial Markets Conduct Act 2013, the substantial product holders of the company as disclosed under section 280(1)(b) of that Act as at 31 July 2016 are as follows:

	Fully Paid Shares	Percentage of Paid Capital
Bright Dairy Holding Limited	57,247,647	39.1%
FrieslandCampina	14,634,119	9.999%
Mitsui & Co. Limited	12,288,887	8.397%

As at 31 July 2016, there were 146,341,197 fully paid ordinary shares on issue.

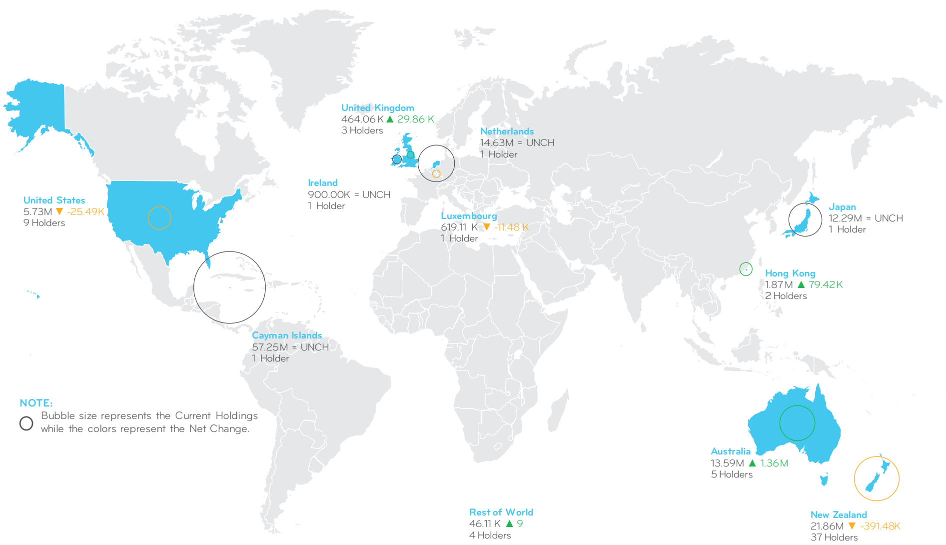
DISTRIBUTION OF SHAREHOLDERS

As at 31 July 2016, our shareholding is distributed as follows:

Range	Total holders	Units	% of Issued Capital
1 – 99	4	261	0.00
100 – 199	27	3,342	0.00
200 – 499	91	28,622	0.02
500 – 999	165	110,106	0.08
1,000 – 1,999	396	503,743	0.34
2,000 – 4,999	925	2,547,350	1.74
5,000 – 9,999	416	2,629,085	1.80
10,000 – 49,999	323	5,736,355	3.92
50,000 – 99,999	19	1,154,352	0.79
100,000 – 499,999	29	6,041,910	4.13
500,000 – 999,999	11	8,044,736	5.50
1,000,000 – 999,999,999	10	119,541,335	81.69
Rounding Total (-0.01)	2,416	146,341,197	100.00

LOCATION OF TOP 65 SHAREHOLDERS

For the first time this year, we are setting out our top shareholder's location based on their registered addresses (as at 31 July 2016).



STATUTORY INFORMATION CONTINUED

VOTING RIGHTS

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

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

TRADING STATISTICS

Synlait Milk Limited listed on NZX on 23 July 2013 at an initial share price of $2.20.

The trading range for the period 1 August 2015 to 31 July 2016 are as follows

	2016	2015
Minimum:	$2.04 (14 Aug 2015)	$2.39 (29 July 2015)
Maximum:	$3.60 (27 April 2016)	$3.73 (9 Oct 2014)
Range:	$2.04 - $3.60	$2.39 – $3.73
Total Shares Traded:	18,830,498	25,205,059 *

*In our 2015 Annual Report we incorrectly stated the total volume of shares traded was 27,861,688. We apologise for this error.

DIVIDEND POLICY

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

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

Any dividend can only be declared by the Board if the requirements of the Companies Act 1993 are also satisfied. The Board has determined no dividend will be payable for the period ending 31 July 2016.

NZX WAIVERS

We have received various waivers from NZX to allow our Constitution and the composition of our Board to reflect our non-standard governance arrangements.

Full details of the waivers granted by the NZX can be found at the following link: www.nzx.com/files/attachments/178616.pdf

STATUTORY INFORMATION CONTINUED

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors (and past Directors) for services to the company and the Subsidiary* for the year ended 31 July 2016 were as follows (including comparative figures for 2015):

Director	Class	Position	Retired / Appointed	2016 – Total Remuneration	2015 – Total Remuneration
Graeme Milne	Independent	Chairman	Retired and Reappointed 8 December 2015	108,000	100,333
Bill Roest	Independent	Audit and Risk Committee Chair		66,000	62,000
Sam Knowles	Independent	Director		60,000	56,667
John Penno[1]	Board Appointed	Managing Director		780,771	804,308
Hon. Ruth Richardson	Bright Appointed	Remuneration and Governance Chair		66,000	62,000
Li Ke	Bright Appointed	Director		60,000	56,667
Yang Suhang	Bright Appointed	Director		60,000	56,667
Dong Zongbo	Bright Appointed	Director	Retired 8 December 2015	21,205	56,667
Qikai Lu	Bright Appointed	Director	Appointed 8 December 2015	38,795	Nil

*Synlait Milk Finance Limited

[1]Note: As Managing Director, John Penno does not receive Director's Fees. His remuneration received in the year to 31 July 2016 listed above constitutes payment for his position as Managing Director and Chief Executive Officer.

Note that the Directors do not receive any additional remuneration as Directors of the Subsidiary (Synlait Milk Finance Limited).

STATUTORY INFORMATION CONTINUED

DIRECTORS' INTERESTS

In addition to the disclosures made elsewhere in this Annual Report, the Directors have disclosed under section 140(2) of the Companies Act 1993 the following interests in the Interests Register of the company and the Subsidiary (Synlait Milk Finance Limited) as at 31 July 2016:

Nature of Interest
Graeme Roderick Milne
Director of Genesis Energy Limited
Chairman of Terracare Fertilisers Ltd
Trustee of Rockhaven Trust
Partner of G R & J A Milne
Chairman of Johnes Disease Research Ltd
Director of Farmers Mutual Group
Director of Alliance Group Ltd
Director of Elviti Holdings Ltd
Member Massey of University School of Advanced Engineering and Technology (SEAT) Advisory Board
Technology (SEAT) Advisory Board
Member of Rimanui Farms Ltd Advisory Board
Chairman of Pacific T and R Holdings Ltd
Chairman Pro-Form Ltd Advisory Board
Chairman of Synlait Milk Limited
Chairman of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Ruth Margaret Richardson
Chairman of Kula Fund Advisory Committee
Director of Ruth Richardson [NZ] Ltd
Chair SYFT Technologies Limited
Chair Kiwinet
Chair of New Zealand Merino Company
Director of Bank of China (NZ)
Director of Synlait Milk Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Willem Jan (Bill) Roest

Director of Fisher & Paykel Appliances Ltd

Director of Housing Foundation Ltd

Trustee of New Zealand Housing Foundation

Trustee of WJ & IJ Family Trust

Director of Metro Performance Glass Ltd

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

Shareholder in Synlait Milk Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Ms Li Ke

Member of Executive Committee of Tnuva Food Industries, Agricultural Co-Operative Association in Israel Ltd

Member of Executive Committee of Tnuva Central Co-Operative for the Marketing of Agricultural Products in Israel Ltd

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Mr Qikai (Albert) Lu

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Mr Yang (Edward) Sihang

Member of Executive Committee of Tnuva Food Industries, Agricultural Co-Operative Association in Israel Ltd

Member of Executive Committee of Tnuva Central Co-Operative for the Marketing of Agricultural Products in Israel Ltd

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

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

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

John William Penno

Trustee of John Penno Trust

Director of the Lincoln Hub

Director of Sichuan New Hope Nutritional Foods Co., Ltd

Managing Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Ian Samuel (Sam) Knowles
Director of Trustpower Ltd
Director of Rangatira Ltd
Chairman of Umajin Ltd
Chairman of Partners Life Ltd
Chairman of OnBrand Ltd
Chairman of Adminis Ltd
Director of Magritek Ltd
Trustee of Te Omanga Hospice
Trustee of United World College NZ
Trustee Ruby Family Trust
Director of Com Investments Ltd
Director of Growthcom Ltd
Director of Habourside Rentals Ltd
Director of Montoux Ltd
Trustee of Com Trust and Ian Samuel Knowles Children's Trust
Director of Synlait Milk Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

The Directors' respective shareholding in Synlait as at 31 July 2016 is as follows, with comparative figures for 2015:

	2016	2015
	Directly Held	Directly Held
John Penno	5,423,817	5,423,817
Graeme Milne	59,526	59,526
Hon. Ruth Richardson	46,000	46,000
Sam Knowles	45,000	45,000
Bill Roest	22,750	22,750

STATUTORY INFORMATION CONTINUED

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2016:

1. Synlait Milk Finance Limited

Directors: John Penno, Graeme Milne, Willem Roest, Sam Knowles, Hon. Ruth Richardson, Li Ke, Yang Sihang, and Qikai Lu (appointed on 8 December 2016). Dong Zongbo retired on 8 December 2016.

DIVERSITY

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

In accordance with NZX requirements, our reported gender breakdown at Senior Leadership Team and Board level as at 31 July 2016 is:

	Female	Male	Total	% Female
Board	2	6	8	25%
Senior Leadership Team	1	7	8	12.5%

Our reported gender breakdown as at 31 July 2015 was:

	Female	Male	Total	% Female
Board	2	6	8	25%
Senior Leadership Team	1	8	9	11%

In addition, we have the following alternative measures of diversity which may be of interest to investors. As at 31 July 2016:

Ethnicity: Based on the place of birth

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

Domicile: Based on the place of current residence

	New Zealand	Asia	Other
Board	5	3	-
Senior Leadership Team	8	-	-

Languages spoken

	English only	Two languages	Three or more languages
Board	4	4	-
Senior Leadership Team	7	1	-

Highest qualifications held

	Bachelor degree	Post-graduate degree
Board	2	6
Senior Leadership Team	7	1

EMPLOYEE REMUNERATION

During the year ended 31 July 2016 the following employees and former employees received individual remuneration over $100,000 (with comparative figures for 2015) for Synlait Milk Limited. Note that its Subsidiary (Synlait Milk Finance Limited) has no employees of its own.

Remuneration range	2016	2015
	Number of employees	Number of employees
$100,000 – $110,000	15	7
$110,000 – $120,000	4	5
$120,000 – $130,000	4	7
$130,000 – $140,000	13	5
$140,000 – $150,000	5	4
$150,000 – $160,000	7	3
$160,000 – $170,000	1	4
$170,000 – $180,000	2	3
$180,000 – $190,000	1	0
$190,000 – $200,000	1	1
$200,000 – $210,000	0	0
$210,000 – $220,000	2	0
$220,000 – $230,000	0	1
$230,000 – $240,000	0	1
$240,000 – $250,000	1	0
$250,000 – $260,000	0	0
$260,000 – $270,000	1	1
$270,000 – $280,000	1	0
$280,000 – $290,000	0	1
$290,000 – $300,000	0	0
$300,000 – $310,000	1	1
$310,000 – $320,000	0	0
$320,000 – $330,000	0	0
$330,000 – $340,000	0	1
$340,000 – $350,000	0	1
$350,000 – $360,000	1	0
$360,000 – $370,000	1	0
$370,000 – $380,000	0	1
$380,000 - $390,000	0	0
$390,000 - $400,000	1	0

One employee was between $480,000-$490,000 in 2016 (none in 2015). One employee was between $780,000-$790,000 in 2016. One employee was between $800,000-$810,000 in 2015.

STATUTORY INFORMATION CONTINUED

DONATIONS

For the year ended 31 July 2016 we donated $2,500 to charitable and community organisations.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

In accordance with section 162 of the Companies Act 1993 and our Constitution, we indemnify and insure Directors and Officers against liability to other parties that may arise from their position. This is through the company and the Directors entering into Deeds of Access, Insurance and Indemnity. Details are maintained in the company's Interests Register. This cover does not apply to any liabilities arising from criminal or reckless acts by our Directors or Officers.

CURRENCY

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

CREDIT RATING

We do not have a credit rating.

ANNUAL SHAREHOLDER MEETING

Our annual shareholders meeting will be held on Tuesday 29 November 2016 in Christchurch, unless otherwise notified.

We will confirm the time and location details for the meeting by notice to all our shareholders nearer to that date.

ANNUAL REPORT

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

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

FURTHER SHAREHOLDER INFORMATION ONLINE

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

ANNUAL REPORT

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

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

FURTHER SHAREHOLDER INFORMATION ONLINE

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

FINANCIAL MARKETS CONDUCT ACT

For the purpose of clause 30 of the Schedule 4 of the Financial Markets Conduct Act (FMCA), Synlait Milk Limited informs its shareholders that, on and from 1 December 2016, the requirements of the FMCA will apply to Synlait Milk Limited. The only exception to this is that Part 7 of the FMCA (Financial Reporting) has applied to Synlait Milk Limited since the financial year ending 31 July 2015 (and future years). Therefore, Synlait Milk Limited financial statements for this period have been prepared in accordance with the requirements under Part 7 of the FMCA. The company's address is 1028 Heslerton Road, Rd 13 , Rakaia, 7783 New Zealand.

DIRECTORY

REGISTERED OFFICE

1028 Heslerton Road,
Rakaia, Rd 13,
New Zealand
Telephone: +64 3 373 3000
Email: info@synlait.com

BOARD OF DIRECTORS AS AT 31 JULY 2016

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

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

Ian Samuel (Sam) Knowles – Independent Director

John William Penno (Managing Director) – Board Appointed Director

Li Ke – Bright Dairy Director

Qikai (Albert) Lu – Bright Dairy Director

Yang (Edward) Sihang – Bright Dairy Director

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

SENIOR LEADERSHIP AS AT 31 JULY 2016

John Penno – Chief Executive Officer and Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Manufacturing & Supply Chain

Natalie Lombe – General Manager People & Culture

Chris France – General Manager Sales

Rob Stowell – General Manager Integrated Business Planning

Michael Stein – General Manager Quality & Regulatory

Malcolm Tweed – Strategic Advisor Business Development

AUDITOR

Deloitte
151 Cambridge Terrace
Christchurch 8013
New Zealand

LAWYERS

Minter Ellison Rudd Watts
Lumley Centre
88 Shortland St
Auckland 1010

BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2
159 Hurstmere Rd
Takapuna
Auckland 06022
Freephone (within NZ): 0800 467 335
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787

MANAGING YOUR SHAREHOLDING ONLINE

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

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

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

OTHER INFORMATION

Please visit us at our website www.synlait.com

Synlait Milk Limited
1028 Heslerton Road
RD13, Rakaia 7783
New Zealand
P+ 64 3 373 3000
www.synlait.com