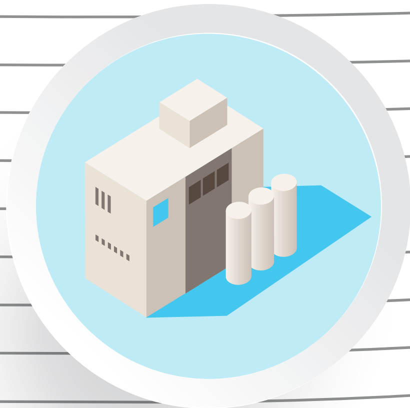
synlait™
making more from milk

DELIVERING

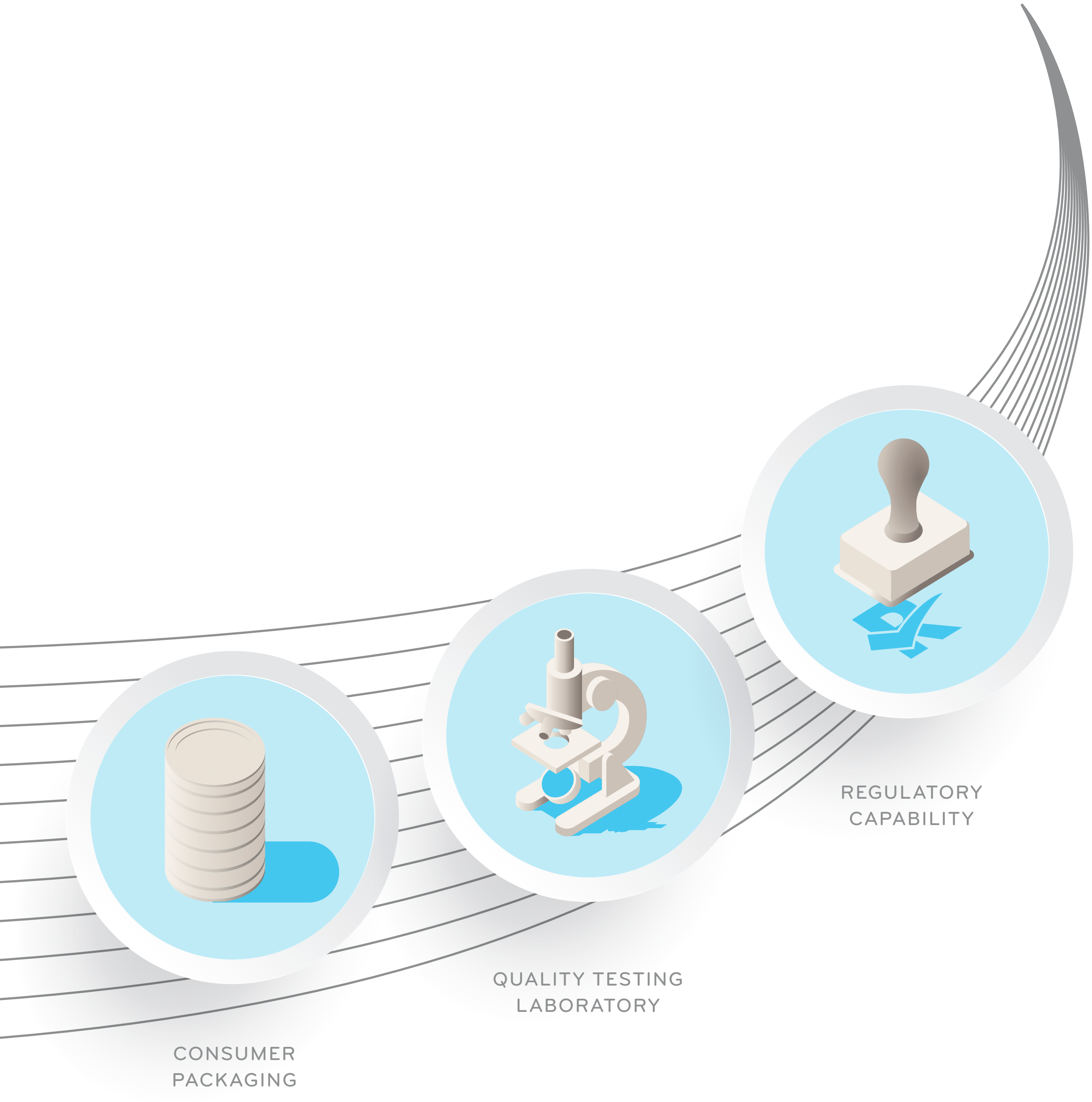
Synlait Milk Limited Annual Report 2017

DIFFERENTIATED
MILK SUPPLY

RESEARCH + CATEGORY
DEVELOPMENT



MANUFACTURING
EXCELLENCE



OUR VALUE CHAIN REPRESENTS OUR CLEAR PATH TO EXCELLENCE. THROUGH EACH STEP IN OUR PROCESS WE DELIVER UNCOMPROMISED QUALITY. COMBINED, OUR VALUE CHAIN IS OUR TOTAL SOLUTION TO CONTINUE MEETING OUR CUSTOMERS' NEEDS AND DELIVERING ON OUR STRATEGIC PLAN.

Our new electronic milk streaming signage in use. More information on page 29.

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HIGHLIGHTS

DEBT DOWN

NET DEBT FY16

$214m

NET DEBT FY17

$83m

PROFIT UP

NPAT FY16

$34.4m

NPAT FY17

$38.2m

ADDITIONAL CAPITAL RAISED

$97.6m

SYNLAIT ADDED TO S&P/NZX 50 INDEX

NZDC ACQUIRED TO DOUBLE CANNING CAPACITY

5 YEAR

NEW HOPE NUTRITIONALS INFANT FORMULA SUPPLY AGREEMENT IN PLACE

$8.9m

IN PREMIUMS PAID TO MILK SUPPLIERS

APPROVAL TO EXPORT LACTOFERRIN TO THE U.S.

ASX DUAL LISTING COMPLETED

5

SIGNIFICANT APPOINTMENTS TO THE SENIOR LEADERSHIP TEAM

KEY PERFORMANCE INDICATORS

Key Financial Metrics

Currency as stated (in millions)	FY13	FY14	FY15	FY16	FY17
Income Statement					
Revenue	420.0	600.5	448.1	546.9	759.0
Gross profit	51.0	64.2	55.5	100.4	110.4
EBITDA	38.5	43.8	40.9	83.7	88.8
EBIT	28.3	32.4	26.3	61.1	65.8
NPAT	11.5	19.6	10.6	34.4	38.2
Revenue per MT (USD)	3,894	5,214	3,610	3,316	3,639
Gross profit per MT (NZD)	588	687	567	863	781
EBIT per MT (NZD)	326	346	269	524	465
Net cash from / (used in) operating activities	(47.1)	58.7	16.4	104.4	115.2
Balance Sheet					
Net operating assets[1]	272.2	319.5	349.3	479.5	446.0
Return on net operating assets	12.6%	11.0%	7.9%	14.7%	14.2%
Net return on capital employed (pre-tax)	13.1%	11.5%	6.9%	13.5%	13.9%
Debt / debt + equity (excl. derivatives)	38.9%	45.1%	55.7%	46.8%	18.0%
Net debt / EBITDA	2.7	3.5	6.4	2.6	0.9
Earnings per share	10.21	13.40	7.21	23.50	22.07
Average FX conversion rate (NZD:USD)	0.804	0.813	0.788	0.706	0.678
Base milk price (kgMS)	5.81	8.27	4.48	3.91	6.16
Total milk price (kgMS)[2]	5.89	8.31	4.54	4.02	6.30

Key Operational Metrics

	FY13	FY14	FY15	FY16	FY17
Sales (MT)					
Powders and Cream	85,314	90,599	93,454	100,387	122,588
Consumer Packaged	1,368	2,955	4,305	15,999	18,776
Specialty Ingredients	64	89	44	16	29
Total sales (MT)	86,746	93,644	97,803	116,402	141,393
Production (Net Production)					
Powders and Cream	89,333	93,275	96,551	104,674	115,990
Consumer Packaged	1,789	3,093	5,021	16,043	19,403
Specialty Ingredients	107	127	109	37	14
Total production (MT)	91,229	96,495	101,681	120,754	135,407
Milk purchases (kgMS in thousands)					
Milk purchased from contracted supply	42,076	47,903	51,049	54,125	63,255
Milk purchased from other suppliers	4,692	2,033	2,549	3,573	1,700
Total milk purchases (kgMS in thousands)	46,768	49,936	53,598	57,698	64,954

[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

The ninth year of operations for Synlait Milk has been significant in many ways.

The year was focused on establishing a strong platform for our next stage of growth. We signalled this to shareholders last September, early in the financial year, with our $97.6 million capital raise. At that time we outlined a programme of investing approximately $300 million over the next few years.

This year was not only about establishing the balance sheet position to achieve such a programme, but also the human resource bench strength, the systems capability, the research and development capacity, the partnerships required and the operational excellence needed.

Financially we have had a solid year. Revenue was up 39% on the previous year to $759 million. This was partly driven by the improved international pricing for dairy ingredients during the year but also by our total volume of product sold, which was up over 20,000 metric tonnes (MT) to a total of 141,000 MT. Thirdly, the demand for higher margin products continued to rise with our finished infant formula volumes exceeding 18,000 MT, up 17% on the previous year.

While costs have increased as we establish this next phase platform, both gross profit and net profit after tax (NPAT) have achieved double digit growth on the previous year.

After tax profit at $38.2 million is $3.8 million up on last year and in line with our guidance at the start of the year where we said that the result would be at or slightly above the outcome at that time.

The impact of these earnings retained and the capital raise has seen net debt drop to $83 million, down from $214 million the year before. Equity to total assets at balance date is a very healthy 52% and along with future retained earnings will fund the planned capital programme.

We have now established ourselves as a respected supplier of quality dairy ingredients and infant formula in both base formulation and finished consumer packaging formats. The strategy now is to diversify within the current categories and to grow new ones.

The a2 Milk Company is a highly valued customer and our partnership continues to grow at an impressive rate in volume and value. However, the launch of Munchkin's Grass Fed™ infant formula in selected markets during the year adds necessary diversity to our finished infant formula customer list.

Achieving new Chinese regulatory approval for a2 Milk™ infant formula and other customer brands is extremely important to the future of those brands. On the other hand, the launch of Munchkin's Grass Fed™ infant formula into the U.S. will add important market diversity. The outcome we seek is to have very close partnerships with a relatively small number of strong brand owners operating in a number of markets worldwide. The Chinese market is the world's largest and most important for the portfolio but there are other significant markets, as well as New Zealand, Australia and the U.S.

We are investing strongly in support of our growth plans for infant formula. The investment of $37 million to build a second Wetmix kitchen at Synlait Dunsandel is nearly complete and will double our base manufacturing volume from 40,000 MT to 80,000 MT.

Recently we announced the purchase of a new manufacturing site in Auckland where we are installing further blending and consumer packaging capacity to meet customer requirements. The total cost of that project will be $52 million.

And also, significantly for our infant formula business, we opened an office in Beijing specifically to lead the regulatory processes required in that market.

We have over the last nine years established an important and profitable dairy ingredients business with volumes in excess of 110,000 MT in whole milk powder, skim milk powder and anhydrous milkfat (AMF).

Our platform for investment now allows us to focus on adding further value to these streams and thereby making the most from milk.

Over the last two to three years, the market for dairy cream and butter has experienced a resurgence as the natural and healthy benefits of dairy cream have been re-appreciated. Demand has surged and prices have reached record levels. With a targeted product and market development effort we expect to be investing further in this segment in future.

New market categories will present value-creating opportunities where we can exploit the competitive advantages that we have already created in infant formula.

To date our strategy has been exclusively business to business. As a start-up in a sector which is capital intensive, it was prudent to focus on a part of the value chain and execute well rather than to take a higher risk approach and attempt to establish brands as well as manufacturing. In future we may consider the establishment of branded positions, however these will only be contemplated where there is no conflict with our existing partner relationships and only in sectors where we feel we have significant consumer benefits.

It is likely that to achieve this strategy we will also establish further manufacturing sites over time, over and above Dunsandel and Auckland.

In summary, our strategy is to continue to grow both top and bottom lines at pace. We see considerable opportunities to solidify our current ingredient and infant formula positions and to enter new categories. Our current balance sheet and projected earnings are sufficient to fund our strategy. A more profitable, more diversified and lower risk business is the goal.

Turning to our shareholders, thank you for your on-going support. Our shareholder return this year of 34% is gratifying to us and hopefully to you as well. We welcomed The a2 Milk Company onto our share register as they purchased an 8.2% holding from FrieslandCampina. Both companies remain key and loyal customers. Our dual listing on the Australian Securities Exchange (ASX) shortly after the capital raise last year was designed to improve access and liquidity for shareholders and has achieved that objective. And our recent entry into the NZX Top 50 will no doubt add valuable profile to our company.

Also, thank you to our suppliers, especially our milk suppliers. They have had to weather the low price commodity swing during the previous two years, but given the recovery over the last 12 months, we have been able to pass through greater revenues for them. Synlait continues to pay competitive base milk prices but additionally pay premiums for compliance with special milk programmes like Lead With Pride™, which is focused on best in class environmental, social, milk quality and animal welfare practices. Further premiums are paid for a2 Milk™ and Grass Fed™ programmes. Synlait has sufficient milk supply for the foreseeable future and is not seeking further farmer contracts for our Dunsandel site.

Our customer list continues to grow as does the depth of our relationship with each of our partners. Examples are mentioned throughout the rest of this report.

Details of the key new members we have been able to attract to our team, especially our senior leadership team, are contained in the CEO and Managing Director's report, but suffice it to say Synlait continues to build our executive capability. John Penno, our founding CEO and Managing Director continues to lead the company with the skill and wisdom required to establish and grow what we plan will be a billion-dollar company in the near future.

I'd also like to thank our employees for their commitment in FY17. We now have over 500 staff who work hard every day to make sure Synlait reaches its goals and succeeds.

There have been no changes to the Board of Directors following the appointment of Min Ben to replace Li Ke at the annual shareholder meeting last year. This year Bill Roest comes up for re-election. Bill joined Synlait at our NZX listing in 2013 and has more than ably chaired the Audit and Risk committee since that time. Bill has had a major influence on the strategic direction and performance of Synlait since joining the Board and I strongly endorse his re-election for another term.

Looking to the performance for the 2018 year, there are of course risks. Key among those are the successful registrations of our major brands in China. The FDA approval of Munchkin's Grass Fed™ infant formula for launch in the U.S. will lead to an important market diversification. The dairy market in general is very short of butter and AMF, but oversupplied with skim milk powder. Combine that with the broader international situation and the market price firming over the last few quarters is still fragile.

Adding to that we operate in what could be described as the most quality sensitive food category in the world, the nutrition of the newborn. We are under constant customer and consumer scrutiny. That said we are confident of continued growth in earnings and expect our profitability to substantially increase this year.

Graeme Milne
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REVIEW

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

OVERVIEW OF STRATEGIC INTENT

Everyone at Synlait is focused on making the most from milk.

For the past decade, we have sought out the highest returning markets, categories, and products in dairy, and developed strong partnerships with category leading customers. We look to innovate across the value chains we engage in, and have built the business to ensure we are fundamental to the value created for the consumers our value chains serve.

As well as focusing on high value categories and products, we are intentionally moving further along the value chain with the objective of selling an increasing proportion of our manufactured products in retail ready consumer packaging by partnering with leading brand owners who do not own, or own sufficient, manufacturing capability.

> The past year has been one of consolidation ahead of an expected period of solid earnings growth.

Over the past year, increased revenue has been achieved through volume growth and growth in our high value infant category. Increased gross profit has been invested to build capability and capacity ahead of an expected acceleration of our infant formula business, and preparing to launch into new high returning dairy categories. We are also working to reinvigorate our ingredients business, and add value by systematically moving our milk products into consumer packaged formats.

In each category, we look to collaborate with our customers and build deep relationships where we source the milk and other ingredients, invest in research and development to offer product and production innovation, control all aspects of quality, secure regulatory approval and manage distribution. We rely on our brand partners for marketing, promotion and in market distribution.

BUILDING A WORLD CLASS LEADERSHIP TEAM

The past year has seen the company make a step change in the capability of the leadership team.

Martijn Jager, our Director of Sales and Business Development, has been joined by Roger Schwarzenbach as General Manager of Innovation and Technical Services, and Callam Weetman as General Manager of Sales. Martijn, Roger and Callam bring a combined 65 years' experience in product innovation, business development and sales, of which more than half have been gained working outside of New Zealand for some of the world's largest and most successful dairy companies.

Neil Betteridge has returned to Synlait in the role of Director of Operations after a year's sabbatical working for Tetra Pak in Europe. Rob Stowell joins Neil in the role of General Manager of Supply Chain.

Rob has been with the company from the beginning and was appointed to General Manager of Supply Chain after stepping out of a senior finance role three years ago to rebuild our planning systems. During this time Rob successfully led the implementation of Integrated Business Planning (IBP) throughout the organisation.

Antony Moess has recently joined Neil and Rob in the role of General Manager of Manufacturing. Antony has 25 years' experience in manufacturing and manufacturing excellence for one of the world's largest dairy manufacturing companies and has recently returned to New Zealand after a decade in South East Asia, most recently implementing operational excellence and IBP across multiple sites.

The Business Development and Operations teams are supported by our long standing CFO Nigel Greenwood, Boyd Williams as Director of People, Culture, and Performance and Chris France as Director of Business Transformation and Strategy.

Boyd has brought us 30 years' experience from senior human resources roles for multinationals including Unilever, DHL and Bacardi. This is Boyd's first New Zealand appointment having spent most of his career working in Africa, Europe and Asia. Boyd's commercial experience, technical knowledge and drive is making a huge difference as we grow and increase our level of maturity across the business.

The appointment of Callam Weetman allowed Chris France to move back to his role leading business transformation. Chris has also picked up the lead on strategy development.

During the year, Matthew Foster has stepped out of General Manager of Supply Chain to lead a small number of strategic projects, including establishing Synlait Auckland and other medium-term enabling projects.

As these senior people have settled in, there has been an ongoing process of building capability and capacity through the next level down in the business. I am pleased with the number of bright young managers we have been able to promote and attract into key management and technical roles, and we are well on the way to developing a talent management pipeline to help provide the leadership the business will need into the future.

> During the year, we have both grown the number and capability of our total staff.

Our strategy of creating Dunsandel as a great destination work environment with a great collaborative office, café spaces and the provision of a staff bus have helped continue to attract wonderful people to become part of our exciting journey. As well as becoming one of Canterbury's largest employers, we have a growing reputation as one of the best. I want to thank all our dedicated staff for their work over the past year. We are a growing company, and we would be unable to achieve the goals we set for ourselves without the support and commitment of our employees. We're lucky to have a wonderful team behind us.

SYNLAIT OWNS THE RELATIONSHIPS WITH OUR SUPPLIERS

Synlait has spent the past decade building relationships with milk and ingredient suppliers aligned to our commitment to quality, integrity and building value across the supply chain. We have approximately 200 farmers supplying their milk to our Dunsandel site. Each farm is contracted directly to Synlait on a rolling three-year contract.

The unique feature of the Synlait milk supply base is the proportion that is differentiated, enabling products manufactured to contain the unique features we have designed into the milk streams. This is a key point of competitive advantage for the company and difficult to replicate.

Synlait was founded to take advantage of emerging technologies allowing milk composition and farm practice to be designed to meet consumer needs. Every element of the business was designed with this in mind.

It requires strong relationship with farmers, providing the incentive and technical support to make significant change to their farming practice. However, it also requires the manufacturing plant, supply chain, traceability and planning systems to enable differentiated milks to be streamed through the supply chain and manufacturing plant without compromising operational efficiency. We believe we have built a unique model that would take others years to replicate.

It brings Synlait and our customers a powerful point of difference at a time wealthy consumers are taking new interest in what they and their families eat.

We now have 60 farms supplying 225 million litres per year of a2 milk™. These farms produce 65% of certified a2 milk™ produced globally. This milk is used in the manufacture of The a2 Milk Company's infant formula, whole milk powder and skim milk powder products for sale in consumer packs.

We have 23 farms supplying 80 million litres per year of certified Grass Fed™ milk. While there are an increasing number of companies making "grass fed" claims, we have been unable to find anything close to the rigour we require of these suppliers. Our Grass Fed™ milk supply is used exclusively for the manufacture of Munchkin's Grass Fed™ infant formula.

Over the past five years, Synlait has also built up 50 Lead With Pride™ certified suppliers.

Lead With Pride™ requires the farmers to adhere to best practice social responsibility, environmental, animal welfare and milk quality systems. In the coming year we expect this ISO / IEC 17065 certification system developed by Synlait to provide 195 million litres per year of milk. After building this system with our farmers over the past five years, we believe it is uniquely positioned to help discerning customers feel good about both the quality and authenticity of the product, and the way it is produced.

While milk is foundational, we also require a range of other ingredients for the manufacture of our products.

In the past year we purchased over 24,000 metric tonnes (MT) of ingredients for manufacture of our high specification milk powders and infant formula products. Our focus on the quality of these ingredients is to the same high standard we apply to our raw milk supply.

We have strong relationships with a group of preferred suppliers in Europe, the United States (U.S.), Asia and Australasia. Each supplier must adhere to Synlait's stringent quality standards, which we audit their processes and performance against each year. In the past year, our team has undertaken 25 supplier audits around the world.

RESEARCH AND CATEGORY DEVELOPMENT BRINGING CUSTOMERS NEW PRODUCT OPTIONS AND EVER-IMPROVING PRODUCT QUALITY

Rather than simply manufacture products for others, we are involved in all elements of product selection, design and development.

While this has always been part of our approach, our increasing scale and earnings are allowing us to increase our investment in this area with investment growing from $2.25 million in FY16 to $4.75 million in FY17, with $7 million forecast in FY18.

We are pleased to have grown our research and category development investment to 1.0% of forecast revenue, and are targeting 1.5% in coming years. Our effort in this area is clearly focused on opportunities to increase our earnings in the short to medium term.

The high returns we are achieving from our early investments in product and customer development have encouraged us to steadily increase our spend.

Effort is applied to developing new products for existing customers, improving our production processes to increase product quality or yield, reducing production costs on existing lines, and developing new products for new customers and markets.

The fact we are actively investing in research and category development is building a growing body of intellectual property owned by the company. As investment increases, we believe this will continue to deliver improved financial performance as we migrate toward a higher returning product portfolio, deepen our relationships with our customers, and enable increased quality and plant utilisation in manufacturing.

MANUFACTURING OPTIMISATION AS A SOURCE OF COMPETITIVE ADVANTAGE

Dairy manufacturing requires large capital and fixed costs. Careful management of capital investment, high plant utilisation and manufacturing a high returning product portfolio are key to achieving superior returns.

Synlait has always understood these value drivers, and has developed a record of carefully planned and well-executed capital investments. Our planning tools and product portfolio enables a range of products to be produced on the core raw milk processing and spray drying manufacturing plant.

Our ability to source milk as required for the manufacture of high specification whole and skim milk powders enables high plant utilisation early in the life of the plant. Our high specification plant design is complemented by our technical expertise and product and customer development, allowing us to rapidly migrate our product portfolios from lower to higher returning products as demand for our infant formula products has grown.

> We are now focused on further optimisation of our manufacturing.

After implementing a Balanced Scorecard reporting system, we have now embarked on a manufacturing excellence program to close the gap between actual and potential performance. The initial work has quantified the potential improvements and has established clear targets for the increases in yield, throughput and cost savings, and the reduction in inventory we expect to achieve over the coming five years.


SWL 100KG
JMP

PROVIDING WORLD-CLASS CONSUMER PACKAGING OPTIONS AIMED AT PREMIUM MARKETS AND CONSUMERS

Synlait differentiates our products on functionality and quality, allowing our brand partners to target premium consumers. These consumers are increasingly prepared to pay for premium products packed at the source of production.

Our first move into premium packaging was our infant formula blending and consumer packaging line at Dunsandel, commissioned in 2013. Our strategy of focusing on the quality of the final product, and managing costs through scale and automation, has paid off. This line has been running at capacity for the last quarter of FY17 and is expected to continue to operate at capacity through the year ahead.

To enable ongoing growth in demand for our infant formula products we are investing $52 million in a new state of the art blending and consumer packaging line in Auckland.

This is expected to be commissioned in October 2017 and brings with it further features, including over-capping technology that improves product appearance and will enable the scoop to be presented under a raised plastic enclosure (rather than in the product itself). We are also investing to retrofit this technology into our Dunsandel facility in the coming year.

In line with our goal of selling as much of our product as possible in consumer packaging, we have recently announced our intention to invest in high specification sachet packaging. These high-speed lines, built to infant formula standards, will allow us to grow the range of packaging options we are able to offer customers, and enable sachet packing of milk powders and milk powder blends.

PRODUCT AND SUPPLY CHAIN QUALITY CONTROL AND TRACEABILITY TO ENSURE CONSUMER SAFETY AND MANAGE BRAND RISK.

In the coming year we expect to sell almost 40 million cans of infant formula – sufficient to feed one million babies for the year.

We take the responsibility of ensuring the safety of each of those babies extremely seriously and we do that by ensuring that each can shipped has zero defects. In doing this, we are growing and protecting our reputation as a world-class manufacturer, and the reputations of our customers' brands.

In addition to strict quality control during each step of the manufacturing process, we have rigorous testing regimes targeting our ingredients, the manufacturing environment and process, and the finished products.

Over the past year, we have continued to grow our quality systems, processes and team. We have also built the maturity of our analytical capability in our independently-verified quality testing laboratory. The laboratory is beginning to deliver the expected cost savings relative to outsourcing our large analytical program.

However, more important than the cost savings, the laboratory has brought a group of highly skilled analytical chemists and biologists to our team. I see these people contribute to the wider team outside their immediate work every day. This intangible benefit was a key reason for bringing this service in house and the benefits are increasingly evident.

MANAGING MARKET ACCESS FOR OUR CUSTOMERS

Infant formula is the most regulated food product in the world – and it needs to be.

Regulations focus on manufacturing and quality management processes, product testing to ensure food safety, and ensuring the nutritional profile of the formula is fit for purpose as the only food provided to some infants in their first months of life.

Because the manufacturer controls quality, the manufacturing company is registered alongside the product in most markets. As far as the regulatory authorities are concerned, Synlait owns each product it manufactures.

These principles have recently been enshrined in China's regulatory framework. Each factory that manufactures finished infant formula for China is audited against stringent standards set by the Certification and Accreditation Administration of the People's Republic of China (CNCA).

Each factory must be part of a company that has the functions required to manufacture infant formula, including research and development, product testing and traceability systems. These standards are approaching those of international best practice, and have steadily increased as their local manufacturing base has been upgraded.

The China Food and Drug Administration (CFDA) is currently working through a process where each factory will be granted licences to manufacture up to three brands for the Chinese market.

Building and maintaining strong technical relationships with the regulatory authorities of New Zealand and the governments where our products are sold is a key service we provide our customers.

Over the past year we have established an office in Beijing led by Dr Ying Jin in the role of Director of Regulatory and Science Affairs, China. With a medical degree, a PhD in food safety, and many years' experience as both a medical doctor, and more recently managing regulatory affairs for multinational infant formula companies, Dr Jin and her team are perfectly positioned to help manage our way through the market access issues that will be an ongoing part of our business.

INFANT FORMULA CATEGORY

Our canned infant formula volumes increased from 15,999 MT in FY16 to 18,776 MT in FY17 with significant volume growth in the second half of the year.

As forecast, the strong growth in the second half of the year was driven by ongoing underlying growth in consumption in China and development of our brand partners, particularly with The a2 Milk Company, within the market.

The partnership between Synlait and The a2 Milk Company for the manufacture and sale of their infant formula range continues to strengthen and develop. This relationship is certainly the best demonstration of our core B2B go-to-market strategy working in our infant formula category.

The partnership is built on the strong contractual relationship between our farmers supplying a2 Milk™ and Synlait, our commitment to research and category development to continually improve existing products and develop new products, and our ability as a manufacturer to secure regulatory approval for The a2 Milk Company's infant formula in the all-important Chinese market.

Initial sales momentum of a2 Platinum® infant formula was built in the Australian market since the product was launched in June 2013. It is now a category leading product with 26% market share in Australia and has become firmly established as a premium product in the minds of Chinese consumers. Our next challenge is supporting The a2 Milk Company as they develop their direct China business, develop other markets and develop other products in their range.

Over the past year New Hope Nutritionals has become our second largest finished infant formula customer, and our largest customer of China label infant formula.

Synlait has been partnering with New Hope Nutritionals for four years in a strategy to use their market knowledge and well-established distribution network to establish two brands directly in China. In January 2015 Synlait Milk became a 25% shareholder in New Hope Nutritionals, with 75% being owned by the New Hope Group. The company operates alongside New Hope Dairy, which is based in Chengdu and is one of the largest dairy companies in China.

Synlait and New Hope Nutritionals recently entered into a new supply agreement. Their premium Akara brand will be registered for manufacture at our Dunsandel plant, and their Akara value brand will be registered for manufacture on our new Auckland blending and consumer packaging facility.

We are confident that with the brand registrations in place, New Hope Nutritionals has the market power to see significant volume growth in a less cluttered market. Our confidence is underpinned by guaranteed volumes in the new supply agreement that anticipate three-fold growth over the five-year term.

We continue to be excited about the potential of our partnership with Munchkin Inc., where we use milk from certified Grass Fed™ farms to manufacture their range of Grass Fed™ infant formula products.

After a three-year product development program with Munchkin, we are in the final phase of registering the product with the United States Food and Drug Administration (FDA) for sale in the U.S. This is an extremely rigorous process, and once registered the Munchkin product will be one of a very small number of imported infant formulas in that market.

Munchkin's Grass Fed™ has been in the Australian market for a year and is beginning to achieve growth. Importantly, it has recently achieved national coverage through the Coles network as the concept of grass fed is beginning to take hold in the minds of Australian consumers.

In the first half of FY18, we expect to sell 16,000 MT of canned infant formula, and are confident we will experience ongoing demand build in the second half of the year, particularly should we achieve early registration of a2 Milk™ and Akara infant formula brands for the Chinese market, and Munchkin Grass Fed™ for the U.S. market.

While we expect to be limited by manufacturing capacity through the first half of FY18, the November completion of the current infant base powder Wetmix expansion project at Synlait Dunsandel, and the blending and consumer packaging facility at Synlait Auckland, will relieve any capacity constraints for the second half of FY18.

MILK POWDER AND CREAM INGREDIENTS

Our strategy for the milk powder and cream ingredients category is simply to manufacture high specification products for high value applications. These products are scheduled into our spray drying program around the infant formula production program to balance milk supply and achieve high rates of plant utilisation.

It is important to note our milk powder ingredients business is expected to decline as an increasing proportion of our skim milk is consumed in the manufacture of our rapidly growing infant formula volumes. This allows us to move away from our lowest returning products and customers and gives us more bargaining power as we bring a declining volume to the market.

Our milk powders target two premium market segments; infant formula base powders and infant formula-grade whole milk powder (WMP) and skim milk powder (SMP) for multinational customers, and instantised and fortified whole and skim milk powders for repackaging into consumer packs.

The past year we have sold 5,800 MT of infant formula base powder and 22,500 MT of infant grade WMP and SMP for blending and packing into finished, retail-ready infant formula products.

In addition to our infant formula-grade milk powders, we sold almost 10,000 MT of WMP and SMP for repacking into retail-ready consumer packaging. To take advantage of the growing demand for high quality milk powders packed in New Zealand, we have advanced plans to install three high specification milk powder blending and sachet packaging lines at our Dunsandel plant. This follows our successful infant formula packaging strategy of quality and country of origin, while maintaining costs with scale and automation.

This will enable us to provide our customers with full service offering in the same way as we do for branded infant formula customers with a range of modern sachet formats, and logistics savings from having the packaging completed at the point of manufacture.

This investment is key to increasing the proportion of our product sold in consumer packaging and we expect it to lead to significant margin expansion for our WMP and SMP products.

Genuine change in consumer preference continues to drive high prices for butter and anhydrous milkfat (AMF) as global demand outstrips supply. For us this means that although AMF is perhaps the simplest and certainly the lowest cost product to manufacture, it has been by far our highest returning ingredient product.

In contrast to our milk powder ingredient business, the volume of AMF we manufacture increases as we grow our infant formula volumes because most infant formulations contain little cream.

DEVELOPING NEW HIGH RETURNING CATEGORIES

Making the most from milk requires us to continually look for new product and market opportunities that we can migrate our milk, manufacturing plant, technical expertise and management time toward.

The first value added product group we developed was infant formula. The returns the business is now enjoying from the infant formula business are grounded in the product and customer development work that was undertaken early in the life of the company. It took many years before we began to see strong growth in volumes, margins and profit from this new category. Each new product will be like this with initial investment made years ahead of returns.

Our lactoferrin business is on that journey. Following an early product and market development phase, we invested in plant and began to scale this area of the business. After three years of continuing to develop the product and customer base, we are now beginning to see ongoing demand growth for our unique lactoferrin product and are beginning to see pricing rebuild after a period of surplus volume in the market.

Having Synlait Lactoferrin approved for use in infant formula in the U.S. market by the FDA during the year is also allowing us to market the product for use in that market. We remain confident in the returns we will achieve from this product in the long-run.

As we have been discussing for some time, we are continuing to move towards an investment to deliver high margin cream products. While the return hurdle rates have become somewhat higher because of the current high price for simple cream products, we remain on target and expect to invest in manufacturing allowing us to enter new high value markets in the coming year.

OVERVIEW OF THE YEAR AHEAD

The focus of FY17 was preparing for another phase of rapid growth. Despite the past year being one of preparation, we are pleased to have achieved a solid increase in profit and balance sheet strength after increasing investment in research and capability development, as well as business development. However, it is most pleasing to end the year having built a much stronger team who collectively bring significant new capability into the company.

In the coming year we intend to increase margins in our ingredient milk powder business by concentrating on our highest returning business as volume declines and commencing production of milk powder in consumer packs, grow our finished infant formula volumes as we support our brand partners to grow their businesses, and continue to mature our lactoferrin business.

We expect to deliver increased plant utilisation and reduced average inventory as we deliver the results of the focus we have had on operational efficiency over the past two years.

Alongside this, we expect to announce further plans to enable our infant formula manufacturing to continue to keep up with demand growth in the medium to long term, and new high returning product categories we intend to move into in the coming years.

A fast growing business is not always a comfortable place to be. I would like to acknowledge the commitment of the board and my senior team.

I can assure our shareholders you are well served by these committed and passionate people and we are all looking forward to delivering significant profit growth in the year ahead and those beyond as we work together to make the most from milk.

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

FINANCIAL REVIEW

Nigel Greenwood
CHIEF FINANCIAL OFFICER

OVERVIEW

Reported after tax earnings for the financial year ending 31 July 2017 (FY17) were a profit of $38.2 million compared to a profit of $34.4 million for the same period last year. Margin growth of $10.0 million before tax has been driven by increased canned infant formula sales volumes.

Margin growth was partially offset by increases in overhead costs ($6.0 million before tax) reflecting continued investment into our business development and planning capabilities for future growth.

FINANCIAL PERFORMANCE

SALES

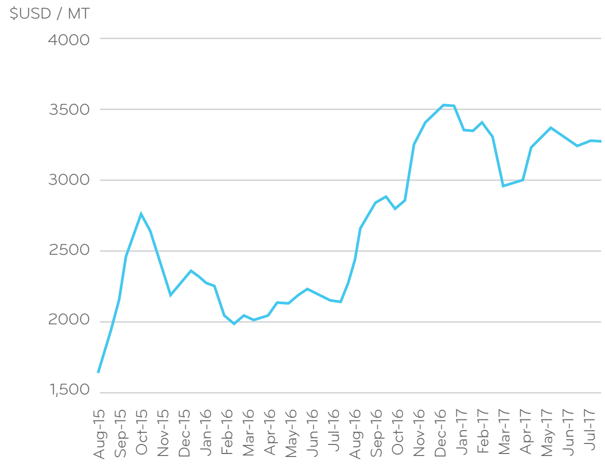
Our FY17 revenue at $759.0 million was up 38.8% on last year's $546.9 million, driven by increased sales volumes and improved dairy commodity prices.

Total sales volume for this period, at 141,393 metric tonnes (MT), was 21.5% above last year's 116,402 MT. This sales volume growth was supported by the increase in our milk supply, from 57.7 million kilograms of milk solids (kgMS) to 65.0 million kgMS, and increased infant formula demand. In addition we also reduced carry over inventory levels from 21,044 MT in FY16 to 15,056 MT in FY17.

Sales (metric tonnes)	FY16	FY17	Growth %
Powders and Cream	100,387	122,588	22%
Consumer Packaged	15,999	18,776	17%
Specialty Ingredients	16	29	81%
Total	116,402	141,393	21%

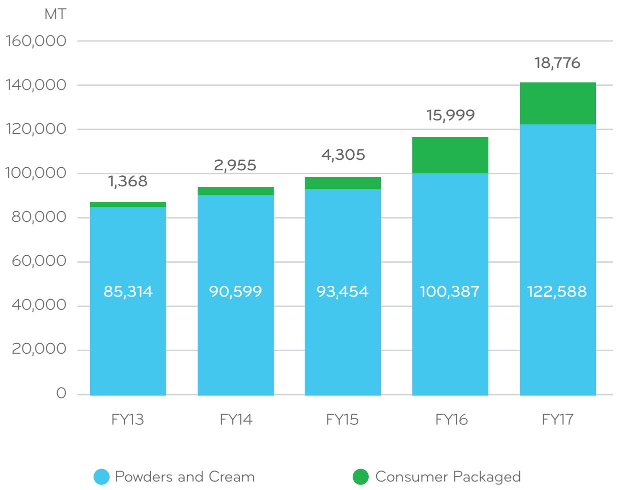
Powders and Cream sales volumes in FY17 at 122,588 MT was 22.1% ahead of our FY16 result of 100,387 MT. Included within our powders and cream sales volumes was 5,788 MT of infant formula base powder (FY16 5,371 MT). This is in addition to the canned infant formula volumes totalling 18,776 MT (FY16 15,999 MT). We sold 11 MT of lactoferrin in FY17 compared to 10 MT in FY16.

Weighted average dairy commodity price



Alongside strong sales volume growth, Synlait has traded in an environment of higher international dairy commodity prices than existed last year. This higher commodity price environment has supported our revenue growth, however has not driven our profitability improvements due to the resulting higher farm gate milk price. The commodity price movements are depicted in the graph above. The average U.S. dollar commodity price in FY17 was US$3,141 compared with US$2,220 in FY16.

Sales volume



GROSS PROFIT PER METRIC TONNE (MT)

Our gross profit per MT at $781 was $82 down on last year's $863. This was driven by the higher growth in ingredient sales, which dilutes gross profit per MT, as well as weaker margins within our ingredients sub-category.

Gross profit per MT for powders and cream has decreased $93 per MT over FY16 due to tougher trading conditions for ingredient products. Growth in milk production on farm, coupled with sell down of 3,939 MT of carry over impaired inventory from FY16 at little or no margin has diluted margin per MT in this category. In addition ingredient sales volumes growing faster (22% growth) than infant sales volumes (17% growth) has also diluted margin per MT.

Consumer packaged gross profit per metric tonne has improved $59 per MT as a consequence of improving operating efficiencies as plant utilisation increases.

MILK PRICE

Milk purchases remain our most significant cost when determining gross profit. Our final base milk price for FY17 is $6.16 per kgMS, compared to our FY16 base milk price of $3.91 per kgMS. In addition, we paid $0.14 per kgMS in seasonal and value added premiums (FY16 $0.11 per kgMS) to increase the average total milk price to $6.30 per kgMS compared with $4.02 per kgMS in FY16. This resulted in our contracted dairy farm suppliers receiving a total of $8.9 million in additional value added premiums in FY17, compared to $5.7 million in FY16.

Gross profit by category

	Sales Volume (MT)		Gross Profit ($m)		Gross Profit / MT	
	FY17	FY16	FY17	FY16	FY17	FY16
Powders and Cream[1]	122,588	100,387	96.3	90.1	688	781
Consumer Packaged	18,776	15,999	13.6	10.6	723	664
Specialty Ingredients	29	16	0.5	(0.2)	16,904	(14,647)
Total	141,393	116,402	110.4	100.4	781	863

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

OVERHEAD EXPENDITURE

In total our overhead expenses for FY17 at $44.8 million were up $6.0 million on FY16 at $38.8 million. Notable increases in these overhead costs include warehouse rent of $0.7 million and payroll of $4.2 million.

Despite lower inventory holdings at year end, Synlait has carried more inventory throughout the season and, along with increased infant volumes, has required additional warehousing space.

Increases in payroll costs, combined with our continued strategic initiatives spend of $3.6 million (FY16 $4.2 million), 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.

SHARE OF LOSS FROM ASSOCIATES

In late January 2015 (FY15) we acquired a 25% shareholding in New Hope Nutritionals for $2.2 million, which owns and distributes the Akara and e-Akara infant formula brands in the China market. Synlait has an exclusive manufacturing and supply agreement for these brands with New Hope Nutritionals, which was recently renegotiated and extended for five years, locking in a three-fold increase in volume. In the year to 31 July 2017 our share of the losses of this company were $0.6 million (FY16 loss of $1.2 million). The second half of FY17 was encouraging with New Hope Nutritionals improving performance and Synlait recording a share of profit of $0.2 million.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) at $88.8 million increased 6.0% on the FY16 result of $83.7 million. This was driven by the growth in gross margin and partially offset by increased overhead expenditure (excluding depreciation) of $5.7 million, as noted above.

NET FINANCING COSTS

Net financing costs at $12.2 million decreased by 18.5% over FY16's $15.0 million.

	FY17	FY16	Var.
Gross term debt interest	(8.6)	(13.4)	4.8
Less capitalised interest	0.1	1.6	(1.5)
Net term funding interest	(8.5)	(11.8)	3.3
Working capital funding interest	(2.9)	(2.7)	(0.2)
Interest received	(0.0)	(0.0)	(0.0)
Loss on derecognition of financial assets	(0.8)	(0.5)	(0.3)
Net short term funding interest	(3.7)	(3.2)	(0.5)
Net finance costs	(12.2)	(15.0)	2.8

The $2.8 million decrease in net financing costs is split between a decrease in net interest costs associated with term debt financing of $3.3 million, offset by an increase in net interest costs associated with short term financing of $0.5 million.

Gross interest on term debt has decreased by $4.8 million to $8.6 million in FY17 as a consequence of the debt repayment following the capital raise and continued free cash flows. The commissioning of our third infant spray dryer in September 2015 (FY16) and laboratory soon after has reduced the amount of capitalised interest during FY17 by $1.5 million, with the majority of interest costs recognised in the income statement directly. Term debt interest, net of capitalised interest, has accordingly reduced by $3.3 million to $8.5 million.

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 United States Dollar (USD) exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average New Zealand Dollar (NZD)/USD exchange rate for the year. In FY17 we achieved a net annual average NZD/USD exchange rate of 0.6780.

Synlait historically managed foreign currency risk on net USD cash flow basis. However, in FY17, Synlait started hedging USD payments separately from USD receipts. This change to our treasury policy enabled Synlait to improve its net annual average exchange rate with no incremental risk.

EARNINGS PER SHARE AND RETURN ON CAPITAL EMPLOYED

Our reported basic and diluted earnings per share (EPS) for FY17 was 22.07 cents against 23.50 cents in FY16. The slightly lower EPS was as a consequence of the increase in shares on issue following the capital raise in October 2016, despite the increase in profitability in FY17.

Synlait also generated a pre-tax return on average capital employed of 13.9% in FY17 compared with 13.5% in FY16.

In the 12 months to 31 July 2017, Synlait's share price has appreciated from $3.31 to $4.44, generating a total shareholder return of 34% in FY17 (FY16 43%).

FINANCIAL POSITION

OVERVIEW

FY17 saw Synlait complete a capital raise, raising $97.6 million (net of costs) alongside continued free cash flow generation.

These have allowed Synlait to reduce its debt levels to leave leverage at 0.9x EBITDA at 31 July 2017 (FY16 – 2.6x EBITDA) and a balance sheet well equipped to support and fund future growth plans.

Our reported net profit after tax of $38.2 million, combined with the capital raise, have increased total equity to $393.1 million from $256.8 million as at 31 July 2016.

TRADE AND OTHER RECEIVABLES

At $79.0 million, these are up by $41.2 million on FY16 at $37.8 million. This is driven equally by increased dairy commodity prices and increased sales volumes in the last two months of the year (phasing).

INVENTORIES

Total inventory at year end at $82.7 million is up on last year's $73.9 million with raw materials increasing by $1.1 million to $15.2 million and finished goods increasing by $7.7 million to $67.4 million.

Raw material inventory increased by $1.1 million (8%) to $15.2 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 is the result of growth in canned infant formula products.

Finished goods inventory increased $7.7 million (13%) to $67.4 million. Despite inventory quantities reducing by 28% since FY16, a higher milk price coupled with proportionately more infant formula held in stock has increased the valuation of finished goods inventory.

Both raw material and finished goods inventories were reviewed for impairment resulting in the calculation of a stock impairment provision totalling $1.8 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.

ACQUISITION OF NZDC

On 31 May 2017, Synlait acquired 100% of the share capital of The New Zealand Dairy Company Limited (NZDC) and its associated entity that owned the property NZDC was located on (Eighty Nine Richard Pearse Drive Limited) for $27.0 million. This acquisition, the first in Synlait's young history, will increase blending and consumer packaging capacity once commissioned in October 2017.

The financial results of NZDC have been consolidated from 1 June 2017 and Synlait has recognised $3.6 million of goodwill on acquisition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at $470.6 million, increased $36.7 million from FY16 at $433.9 million. The year over year increase is a consequence of capital investment of $58.7 million exceeding the depreciation of $21.7 million. Of the capital investment, $31.2 million relates to property, plant and equipment purchased in the acquisition of NZDC.

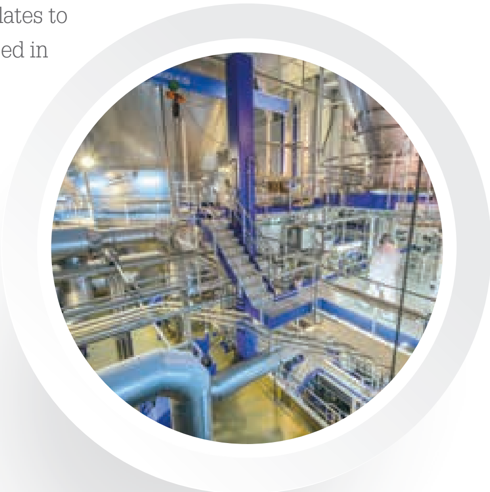
In addition, the construction of our new Wetmix kitchen at Synlait Dunsandel commenced in early February 2017 with year to date spend of $10.4 million including capitalised interest and internal labour costs. The new Wetmix kitchen, expected to be commissioned in November 2017, will allow our two nutritional dryers to operate simultaneously on infant formula and increase production capacity of infant formula base powder to approximately 80,000 MT per annum.

$ Million	FY17	FY16
Acquisition of subsidiaries	31.2	0.0
Blending and consumer packaging at Synlait Auckland	5.8	0.1
Wetmix kitchen	10.4	0.2
Other	11.3	19.1
Total	58.7	19.4

OTHER INVESTMENTS

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

As noted earlier we also acquired a 25% shareholding in New Hope Nutritionals in late January 2015 at an initial cost of $2.2 million. After deducting our share of losses $0.6 million (FY16: $1.2 million) our current investment value is $0.2 million. This company owns and markets the Akara and e-Akara infant formula brands in the China market, which are exclusively manufactured by Synlait.



TRADE AND OTHER PAYABLES

Trade and other payables at $142.1 million is up $86.5 million on last year's balance of $55.6 million. This variance reflects two significant items.

The first is the increase in milk creditors and accruals which have increased from $11.6 million in FY16 to $80.0 million in FY17, a $68.4 million increase. At 31 July 2017 the cumulative advances paid to our dairy farm suppliers were 79% of our final milk price of $6.16 kgMS. In FY16 they were 95% of our final milk price payment, a historically high pay-out ratio reflective of the low milk price environment at the time.

The second is the increase in revenue received in advance, relating to deposits received from customers, which have increased by $19.6 million from $20.3 million in FY16 to $39.9 million in FY17.

TOTAL NET DEBT

Total net debt at year end, including both current and term debt facilities less cash on hand was $82.6 million, a decrease of $131.3 million over the FY16 balance of $213.9 million.

$ million	FY17	FY16
Current debt	$72.4	$46.5
Term debt	$83.6	$169.4
Cash on hand	($73.8)	($2.0)
Loan facility fees	$0.4	$0.5
Total Net Debt	$82.6	$213.9

The $131.3 million decrease in net debt has been primarily due to the capital raise which raised $97.6 million. This has been supported by free cash flow generation of $55.0 million, being operating cash flows in FY17 of $115.2 million (FY16: $104.4 million) less investing cash flows of $60.2 million (FY16: $40.9 million). Interest payments of $12.1 million and debt acquired as part of the NZDC acquisition of $7.0 million have partially offset this. Operating cash flows are discussed further below.

The improved net debt position has also improved Synlait's gearing (Net Debt / Net Debt + Equity) to 18.0% (against 46.8% in FY16) and leverage (Net Debt / EBITDA) of 0.9x in FY17 (against 2.6x in FY16).

DERIVATIVES

As at 31 July 2017 we held USD$300.5 million in foreign exchange contracts as detailed in note 14 of the annual financial statements. These have been placed across a 24 month future period, in accordance with our Treasury policy.

Given the appreciation in the NZD/USD exchange rate over the last 12 months, we had a mark to market unrealised gain associated with these contracts at year end of $21.1 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 $113.5 million of interest rate swap agreements at year end (FY16 - $158.5 million) at various weighted average interest rates, which generated an unrealised mark to market loss of $4.4 million after tax as a result of the fall in interest rates since these contracts were entered into.

During FY17, Synlait started using dairy commodity derivatives to support the management of the risk of movement in dairy commodity prices. Dairy commodity derivatives with a nominal balance of $3.2 million were in place at year end (FY16 - $NIL). These are for contracts up to six months forward, in accordance with our Treasury policy. There was an unrealised mark to market gain of $0.1 million after tax.

OPERATING CASH FLOWS

Operating cash flows at $115.2 million were $10.8 million up on FY16 at $104.4 million. This has been supported by proportionately lower advance rates paid to dairy farm suppliers, partially offset by increased receivables balance, both described previously in this report.

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 NZD $120.0 million. This is a dual currency facility with a sub limit of USD $80.0 million.
2. Revolving credit facility – matures 1 August 2020 and facility limit of $175.0 million with amortisation of $30.0 million on 1 August 2017 and 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 – exceeds $295.4 million.
3. Working capital ratio – at all times exceeds 1.50x.
4. Leverage ratio – no more than 3.75x.

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.

FACILITY AMENDMENTS POST BALANCE DATE

Subsequent to reporting date, the company has renewed its facility arrangements with our bank syndicate which included the renewal of the working capital facility for another 12 months on the same terms.

Nigel Greenwood

CHIEF FINANCIAL OFFICER

YEAR IN REVIEW

DIFFERENTIATED MILK SUPPLY

Our differentiated milk supply is what sets Synlait apart, and it's something we're very proud of. It enables us to manufacture specialty products which have a higher value, and in this way we can turn milk into something more valuable.

SEPARATING THE STREAMS

We introduced unique technology in FY17 to enhance our traceability and the way we logistically manage differentiated milk in our supply chain.

It begins on farm with a scheduling system that only allows milk tankers to collect milk from the correct milk supplier. The on-board tanker system prevents the wrong milk from being collected.

Once milk tankers arrive at our Dunsandel site, new electronic signs indicate where the milk needs to be unloaded for streamed processing. The same system ensures that the right milk is unloaded in the correct bay.

ENVIRONMENTAL ETHOS

We have 50 milk suppliers demonstrating best practice dairy farming through our Lead With Pride™ certification programme.

Environment Canterbury's Land and Water Regional Plan sets targets for farmers in the Canterbury region to manage their environmental footprint and move towards achieving on-farm good management practice. Through Lead With Pride™, we have demanded similar, and in many cases higher standards since its launch in 2013. The programme focuses on best practice in four pillars; milk quality, animal health and welfare, social responsibility, and environment. The Lead With Pride™ programme is ever evolving to stay ahead of regulatory requirements to ensure our certified suppliers maintain best practice on farm at all levels.

Efficient use of water is a core principle. We're well ahead of the curve in the standard we require from our farmers in terms of water monitoring in the farm dairy, on-farm and with irrigation. We encourage efficiency through activities such as record keeping, soil moisture monitoring and by conducting calibration tests on irrigators.

With changes in Canterbury regional plans, all of our suppliers are aware of environmental issues and are actively ensuring they're farming in a sustainable manner. We are the first New Zealand company with 100% of our milk suppliers to have a Farm Environment Plan in place for their properties.

Our annual milk supplier awards cover the four pillars and recognise leadership in this space, and actively encourage our suppliers to continue their sustainability efforts.

RESEARCH AND CATEGORY DEVELOPMENT

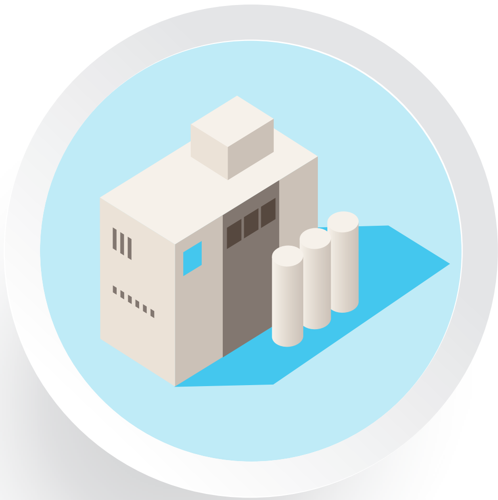
Category Management has become a very important part of what we do here at Synlait. To become the world's most innovative and trusted dairy company, we are assembling a pipeline of opportunities to unlock further potential from our manufacturing process.

INVESTING IN THE FUTURE

We are building on our progress to date by investing in our Innovation and Technical Services and Category Management teams to assess new categories. The categories we're considering will extend our current capability and expertise into new areas that have the potential to replicate the success of our established infant formula and ingredients businesses.

Investment in Category Management provides a dedicated team to research, evaluate, prioritise and align resources around growth opportunities. As well as contributing to the development of new products and capabilities, the team will also influence decisions around partnerships, markets, channels and commercial terms.

To realise the opportunities identified by the wider Business Development and Sales area, a continued focus on account management, customer services and regional market expertise will support our existing customer portfolio and future partnerships.



MANUFACTURING EXCELLENCE

Our manufacturing output has continued to grow in FY17, and we've been focused on expanding our facilities to keep up with the demand of our customers. Sales of canned infant formula increased from 15,999 metric tonnes (MT) in FY16 to 18,776 MT in FY17, and we expect that to continue to grow.

EXPANDING FACILITIES

We began construction for our new Wetmix kitchen in February 2017, and we're on track for commissioning in November. This second Wetmix kitchen will allow both our infant formula dryers to run simultaneously, which will double the amount of base powder we can make from 40,000 MT to 80,000 MT per year.

Our Wetmix kitchens are a very important part of our infant formula manufacturing process – it's here that we mix dry ingredients such as vitamins and minerals into a liquid milk stream. This liquid mixture is then dried in the dryer and eventually becomes our finished infant formula. Mixing the dry ingredients into the liquid milk before drying ensures a superior blend quality.

The facility has also been designed with our team in mind. We are replacing some manual steps (e.g. lifting and tipping large bags of ingredients) with automated systems, creating a safer, more ergonomic environment and providing operational efficiencies.

THE RIGHT TEAM STRUCTURE

In March we went through a structural change in Operations. The change was part of our Operational Performance Project (OPP) and was undertaken for two key reasons; the first was due to the change expected once the new Wetmix kitchen is completed and the second was to better meet the needs of the business and ensure its on-going success.

The new structure provides clear accountability and leadership, an expectation we get it right first time, and gives us the resources to focus on both today and the future. It enables us to be efficient, and therefore unlock more potential within our teams and processes.

There are now eight business units in the Operations team. These include each of our three dryers, Site Services, Wetmix, Specialty Products, Consumer Packaging and Capital Projects, each run by a dedicated Commercial Manager.

CONSUMER PACKAGING

Consumer Packaging is a fast expanding part of our business, and in FY17 we had some exciting developments to grow our capability. We're growing our capacity, to keep up with customer demand.

SYNLAIT AUCKLAND

In May we acquired an Auckland site to enable us to substantially lift our blending and consumer packaging capacity. With two blending and consumer packaging facilities, we are well positioned to meet the substantial growth we're forecasting with our infant formula business. Synlait Auckland will be commissioned in October, and will have the same high-specifications as our current facility at Dunsandel.

FULL TIME CANNING OPERATION AT SYNLAIT DUNSANDEL

In early 2017 a fourth Blending and Consumer Packaging shift at Dunsandel was appointed to meet customer demand. The orders we were receiving exceeded the capacity we had with three shifts, and 21 extra people were brought on board in March. With four shifts in place from April we now operate 24 hours a day, seven days a week and have a support team to manage facility operations.


The
a2 Milk
Company
a2 PLATINUM
PREMIUM TODDLER MILK DRINK
FORMULATED FOR
A2
BETA-CASEIN
PROTEIN
TINY TUMMIES
NUTRITION
TO HELP SUPPORT
HEALTHY IMMUNE SYSTEM
HEALTHY GROWTH & DEVELOPMENT IN CHILDREN
HEALTHY BONE & TEETH STRUCTURE
3
From 1 Year

QUALITY TESTING LABORATORY

In FY17 our laboratory capability has grown, and we're now completing more tests in-house than ever before.

We have a dedicated chemistry laboratory, a microbiology laboratory, and also have in-process laboratories inside each dryer. Having our own on-site laboratory gives us greater control and visibility around our products, as well as giving us the benefit of having substantial technical competence on-site.

GROWING OUR CAPABILITY

This is the second year the laboratory has been fully up and running. We completed over 190,000 tests in FY17, more than three times as many as in the previous year. The list of tests we can now carry out has also grown; 24 tests have been added in FY17, which means we can now complete more tests in-house, rather than sending them out to an external laboratory.

In FY17 the laboratory hired ten new employees: eight laboratory technicians and two product samplers. There are now 42 people employed in the laboratory.

Our laboratory is also now approved by the Ministry for Primary Industries (MPI) as a Transitional and Containment Facility for the reception and holding of uncleared laboratory samples. This allows us to test samples sent from overseas that may present biosecurity risks if uncontrolled. The laboratory's hygiene controls keep these risks away from the rest of the plant and the warehouse operations. The process to be approved as a Transitional and Containment Facility is thorough, involving audits from MPI and development of a dedicated operational manual.

In the past year, the laboratory increased its range of chemical and microbiological testing. This testing is accredited under three scopes from International Accreditation New Zealand (IANZ): Recognised Laboratory Programme, Chemical and a newly-obtained Biological scope. The process to obtain this accreditation involved a lengthy application, validation of testing, and auditing by IANZ. We are now able to carry out specific environmental pathogen and microbiological testing as well as having increased the scope of our product testing.

REGULATORY CAPABILITY

We've had a busy year in the regulatory space with a number of registration applications submitted for the United States, (U.S.) and changes to work through for the new Chinese system. This work has included our dedicated team at Synlait Dunsandel, and also the specialist employees we have in China.

REGULATORY PROGRESSES

In early 2016 we started on the journey towards registering Munchkin's Grass Fed™ infant formula with the U.S. Food and Drug Administration (FDA), and also applied for China Food and Drug Agency (CFDA) registration of a2 Platinum® infant formula. Both these processes involved a large number of our team outside of the regulatory and quality areas, including technical, manufacturing, procurement and milk supply.

As part of that Grass Fed™ application we successfully registered our lactoferrin with the FDA in April 2017 as a nutritional ingredient for use in infant formula and toddler formulas. The FDA registration process for nutritional ingredients required a panel of qualified, independent experts to conclude that our lactoferrin is safe under the conditions of its intended use. Lactoferrin is an ingredient in Munchkin's Grass Fed™ infant formula.

MPI ENGAGEMENT

In July we volunteered to be part of an infant formula calibration exercise organised by the Ministry for Primary Industries (MPI). The workshop involved three MPI teams, along with auditors from a range of recognised agencies. The purpose was to calibrate multiple sites from around New Zealand to ensure that the auditors are aware of the levels considered acceptable by Chinese authorities. We were also able to use the visit as a shared learning exercise which had mutual benefits for all involved.

CUSTOMER PARTNERSHIPS

Our customer partnerships are built on a commitment to creating shared value over the long term.

Our balanced portfolio of nutritional customers features a mix of established and emerging infant formula brands with differentiated nutritional propositions. In FY17, we hope to pursue adult nutritional opportunities to complement our infant nutrition business.

A BALANCED NUTRITIONAL PORTFOLIO

The a2 Milk Company's continued success with their a2 Platinum® infant formula range in the Asia Pacific region, which doubled in volume in FY17, has underpinned the growth in our nutritionals business. Building on this, a new a2 Platinum® Stage 4 product will be released in early FY18 as a nutritional formula for young children aged 4-7 years old.

We added a skim milk powder to a2 Milk's range of milk powders in FY17 and we are working with them on further extensions to their milk powder range in FY18.

The strong brand growth of Munchkin's Grass Fed™ infant formula in the Australian and New Zealand markets was a highlight of FY17. Following its launch in June 2016, the brand has gained increased distribution in the region and is set to grow further in FY18. Initially launched online, Grass Fed™ infant formula is also available in stores and awareness among consumers has been elevated through a sustained promotional strategy.

We are looking forward to Grass Fed™ infant formula launching in the U.S. once the Food and Drug Administration (FDA) registration process is complete in the near future.

In August 2017 we confirmed a new supply agreement with New Hope Nutritionals to clarify production volumes for their Akara and e-Akara infant formula brands for the next five years. The agreement secures a threefold increase from current canned infant formula volumes over the period.

We originally partnered with New Hope Nutritionals in 2014 and this agreement underpins our application to register their infant formula brands with the China and Food Drug Administration (CFDA).

INCREASING BUSINESS WITH MULTINATIONAL CUSTOMERS

We have established a global reputation as a trusted manufacturer of a diverse range of specialty milk powders. As a result, our business with multinational customers grew in FY17 and we entered new markets throughout Asia to meet their increased demand.

Our large multinational customers operate substantial nutrition businesses and they each maintain a small number of trusted suppliers. We are regularly audited to maintain our status as one of the few global companies approved to supply them with high-specification milk powders for use in their nutritional consumer products.

Most of the products we supply our multinational customers are for use in nutritional products and manufactured to their unique specification.

BEHIND OUR VALUE CHAIN

To enable Synlait to achieve the best result possible, we have built a strong team of people. We take care to ensure we have the right people to carry the company into the future, and we're proactive about giving those people the tools and training they need to succeed.

These factors enable our value chain to operate effectively and with a sustained focus on making the most from milk.

INVESTING IN OUR PEOPLE

At the end of FY17 the number of employees at Synlait was around 500 and by the middle of FY18 we expect to reach nearly 650. This makes us one of the largest private employers in the Canterbury region.

We have also begun planning for the teams we'll require at Synlait Auckland. The first shift has more than 30 roles, but eventually we will increase to a seven day production cycle and need around 100 employees.

In July we held our annual Leadership Forum at the Addington Events Centre. All of our People Leaders were present at the forum and spent the day learning about leadership competencies and pathways to success.

At the forum we launched two new initiatives – the Synlait Leadership Model and a Talent Review process. The Leadership Model defines the characteristics of a good leader at Synlait and will drive leadership behavior in four areas: responsibility and accountability, commercial acumen, people leadership and technical excellence.

The Talent Review process will build a pipeline of high potential individuals to contribute to the business now and into the future. An assessment of talent by our Senior Leadership Team will shape individual development plans for relevant people throughout the organisation, ensuring we have the right leaders at the right levels.

We also had great success with the uptake of our refreshed performance management system called Perform and Grow. Based on the latest Gallup research we have further refined the system for FY18 and have placed greater emphasis on development. We'll continue to drive this as our primary people management tool.

SAFETY AT SYNLAIT

Despite the fact that our employee numbers have grown significantly in the past year, our Total Recordable Injury Frequency Rate (TRIFR) has continued to trend downwards. We've also had an increase in incident reporting. This includes near misses as well as actual events, and shows a growing awareness for Health and Safety.

We have now identified our four critical safety risks as working at heights, working in confined spaces, working with CO2 and Nitrogen, and pallet handling. These are hazards we consider to be a high or extreme risk, and we therefore need to focus specifically on managing them. We have initiated projects for these hazards and are working through improvements to lower the risk.

PROVIDING THE RIGHT TOOLS

During FY17 we introduced the Integrated Business Planning (IBP) process to better align strategy and business operations – supply, demand, product development, and strategic projects – on a monthly cycle. We've integrated most of our management processes into IBP including resourcing, financial forecasting and issue management. The process was first introduced in September 2016 and significant planning in the previous year assisted early participation in the process.

Each IBP cycle involves numerous contributors from across the business, and around 50 people actively participate in the review workshops each month. This allows our Senior Leadership Team to monitor and improve performance while planning and managing our business over a 36-month horizon.

Alongside our new IBP process, we've continued to develop the Balanced Scorecard we deployed in FY16. The scorecard is used to measure our performance each month in the four categories of people, customers, operations and finance. In FY17 we made the scorecard a central part of the way we measure our success, and in FY18 we will cascade the company performance goals into individual initiatives for each employee.

We are about to embark on a two year initiative to refresh our information systems to ensure they support our current people and processes, and evolve to match our plans for further business growth. In this, we will review our systems for business planning, operations management, financial management and business intelligence, all in the context of anticipated growth.

STAFF PROFILES

"Through my work as the Integrated Business Planning (IBP) Manager, I have been able to lead a cross functional approach to business planning, and drive continuous improvement. The variation that comes from this kind of work really interests me, and being able to work with the Senior Leadership Team to move the business forward has been very rewarding."

Joshua Pederson.
IBP Manager

"Learning and development is all about harnessing talent to create great people, and in turn high performance. My purpose is to build that environment and create opportunities for our people to grow. Watching them succeed is what gets me out of bed every day."

Tess Martin.
Training Manager - Operations

"My role at Synlait requires me to investigate and put in place initiatives which make logistics and the warehouse much more efficient. It's all about streamlining the processes and changing things as the business evolves, and I love playing a part in this innovative and ambitious company."

Brent Rogers.
Logistics Analyst

"I enjoy having a role where I can work with a talented group of people to make change happen. I do this by prioritising and developing our future category opportunities. I'm proud to be part of a dynamic organisation with impressive growth potential and a great culture."

Elizabeth Reid.
Category Group Manager

"The regulatory environment in China is dynamic and each day I use my pharmaceutical and dairy industry experience to help our business grow. I'm able to challenge myself in a fast paced and exciting organisation by contributing to a range of business, customer and regulatory projects."

Ying Jin.
Regulatory and Science Affairs Director China

SENIOR LEADERSHIP TEAM

John Penno

MANAGING DIRECTOR AND CEO (ELT)

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.

Nigel Greenwood

CHIEF FINANCIAL OFFICER (ELT)

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 and legal.

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.

Boyd Williams

DIRECTOR, PEOPLE, CULTURE AND PERFORMANCE (ELT)

A senior international human resources executive, Boyd brings more than 30 years of experience to Synlait's Senior Leadership Team. He oversees the organisational development, human resource, health and safety, corporate communications and staff facilities functions.

Boyd started his career with Unilever and worked in senior roles throughout Africa, Asia, Europe and Australia. He joined DHL Express based in Singapore in 2005, providing strategic human resources leadership across Asia Pacific, Eastern Europe, Middle East and Africa. Following this, he became Chief Human Resources Officer for Foster's Group in 2010. Prior to joining Synlait, he was Human Resources Director (Asia Pacific) for Bacardi Group, a global business with more than 200 brands.

Boyd holds a Bachelor of Economics degree from the University of Sydney.

Chris France

DIRECTOR, STRATEGY AND TRANSFORMATION (ELT)

Chris brings more than 30 years business experience to Synlait and is responsible for leading strategy and business transformation. His expertise in strategic planning, leadership, and developing high performing teams puts Chris in a strong position to support Synlait's growth.

Chris focuses on Synlait being clear about where we want to go, and aligned on change programmes that will deliver on this vision. The value Chris brings to Synlait is to ensure the organisation is optimising its potential through clarity of vision and excellence of execution at a strategic level.

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

DIRECTOR, SALES AND BUSINESS DEVELOPMENT (ELT)

Martijn joined Synlait in September 2016 and provides leadership and direction for sales and business development. Martijn oversees strategy realisation across major new customer acquisitions, as well as product research and development, technical services, category planning and account management and sales. Business development is the central process where, by alignment between sales, category planning and research and development, significant value growth is realised for Synlait and its customers.

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 products.

Martijn has lived and worked in the Asia Pacific since 2002 and he holds a Bachelor of Business in International Marketing and Management.

Neil Betteridge

DIRECTOR, OPERATIONS (ELT)

Neil re-joined the Senior Leadership Team in January 2017 after a 12-month sabbatical to Tetra Pak in the Netherlands. In 2016 he was a recipient of a Prime Minister's Business Scholarship and completed INSEAD's Advanced Management Programme.

His current role requires him to have input into the company strategy, and to develop and run a world class supply chain and manufacturing operation.

He holds a Bachelor of Chemical and Process Engineering from Canterbury University, and a Diploma in Dairy Science and Technology from Massey University. He is also a Chartered Engineer with IPENZ.

Antony Moess

GENERAL MANAGER, MANUFACTURING

Antony has more than 20 years international experience in the dairy industry, and has worked in a number of locations including New Zealand, South East Asia and the Middle East. Most recently Antony was based in Singapore as Fonterra Brand's General Manager Operations and Supply Chain.

He holds a Bachelor of Food Technology and a Postgraduate Diploma of Business and Administration from Massey University.

His role requires him to lead the manufacturing function and ensure Synlait makes the right products, at the right time. He is also responsible for making sure our staff are safe, whilst making safe products for our customers. Antony started at Synlait in July 2017.

Callam Weetman

GENERAL MANAGER, SALES

Callam joined Synlait in April 2017 after an extensive period offshore managing international dairy markets and partners. He has more than 25 years of international B2B dairy experience across sales, business development, supply chain and product category management.

Callam brings strong commercial leadership with a focus on maximising customer development and growing Synlait's global partnerships.

He began his dairy career at the NZ Dairy Board in 1993 and progressed through a range of senior leadership roles. This allowed him to build up a depth of global experience in a range of key management areas which let him lead and perform at the highest levels of both regional and corporate businesses.

Daniel Burdett

GENERAL MANAGER, QUALITY

Daniel was appointed to the role of General Manager, Quality in May 2017, but has been in senior Quality roles since joining Synlait in May 2016. Prior to that he held senior food safety, regulatory and quality roles within Nestle and Treasury Wine Estates.

His role is to ensure the right food safety and product systems are in place throughout the business.

Daniel has a Higher National Diploma in applied biology from Sheffield Hallam University.

Matthew Foster

GENERAL MANAGER, STRATEGIC PROJECTS

Matthew joined Synlait in February 2012 as GM Supply Chain. In his role of GM Strategic Projects, Matthew is responsible for managing the delivery of various initiatives identified in the company's strategic plan.

He brings a wealth of supply chain management and dairy industry experience to Synlait Milk Limited 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.

Rob Stowell

GENERAL MANAGER, SUPPLY CHAIN

Rob joined Synlait in 2007 and is responsible for managing and developing Synlait Milk's supply chain activities from farmer to customer, plus oversight of the integrated business planning process (IBP).

Having previously held senior roles within finance, information services, supply chain, business transformation and most recently leading the implementation of IBP, Rob has an intimate understanding of the Synlait business and dairy industry, and contributes over 20 years of experience across a variety of disciplines and industries to the Senior Leadership Team.

Prior to joining Synlait Milk, Rob held senior finance positions within New Zealand and United Kingdom namely Duns Limited, Transport for London, PlaneStation Group, Royal Sun Alliance 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.

Roger Schwarzenbach

GENERAL MANAGER, INNOVATION AND TECHNICAL SERVICES

Roger joined the Senior Leadership Team in January 2017 and brings more than 20 years experience in international dairy Research and Development and product development. He previously worked at Glanbia in Ireland as the Technical Director, Fonterra as the Global Research and Development Manager, and Nestle in Switzerland as the Product Area Manager in children's nutrition.

His role as the General Manager of Innovation and Technical Services has three parts - to manage new product and technology development projects, to execute innovation process development, and to manage and lead the laboratory.

Roger has a Bachelor of Science in microbiology and chemistry, and a Postgraduate Diploma of Dairy Science and Technology – both from Massey University.

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, Synlait Milk Finance Limited and The New Zealand Dairy Company 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 Limited, Nyriad Limited and he chairs Advisory Boards for Pro-Form Limited and Rimanui Farms Limited. He is also a Director of a number of companies including FMG, Alliance Group Limited and FarmRight Limited.

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 a number of companies including 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 Limited and Fisher and Paykel Appliances 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.

Min Ben

BRIGHT DAIRY APPOINTED DIRECTOR

Min was appointed a director of Synlait Milk in November 2016. Min joined Bright Dairy in 2001 and holds a master degree of Business Administration. She was formerly the assistant to the Bright Dairy Chief Executive Officer and was a regional Human Resources director. Min is currently the Public Relations director of Bright Dairy.

Sihang Yang

BRIGHT DAIRY APPOINTED DIRECTOR

Sihang 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.

Sihang 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.

Sihang 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

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

MEMBERSHIP

As of 8 September 2016, Li Ke, one of four Bright Dairy-appointed Directors resigned from her role as Director of Synlait Milk Limited and Synlait Milk Finance Limited. Appointed in November 2010, she was also a member of the Remuneration and Governance Committee.

Li Ke was replaced in November 2016 by Min Ben. Min Ben joined Bright Dairy in 2001 and holds a masters degree in Business Administration. She was formerly assistant to the Bright Dairy Chief Executive Officer (CEO) and was regional Human Resources director. She is currently the Public Relations Director of Bright Dairy.

Also in November 2016 at the Annual Meeting of Shareholders (AMS), Sam Knowles retired and was re-elected as a Director in accordance with the Constitution.

At this year's AMS, Bill Roest will be retiring and available for re-appointment in accordance with our Constitution. Future retirements will be Graeme Milne in 2018 and Sam Knowles again in 2019. 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 52.

Governance highlights from FY17

- On 17 October 2016, we successfully completed our pro rata entitlement offer announced on 19 September 2016, raising $97.6 million in new equity. These funds were used for a mix of debt repayment and contributing to a three year, circa $300 million capital growth project programme. The capital raise was represented by the issue of 32,519,239 new ordinary shares. The capital growth project includes proposed investment in additional capacity for infant formula manufacturing, consumer packaging, infrastructure requirements and value added cream manufacturing. We will to continue to invest in our people, processes and systems, with a focus on customer and product development, operational planning and associated process improvements.
- On 24 November 2016, we became dual listed on the Australian Securities Exchange (ASX), with trading commencing on 25 November 2016. We listed as a foreign exempt issuer under a compliance listing. This dual listing has increased access for institutional investors in Australia and also opened up the company to Australian retail investors. We expect this dual listing will provide increased liquidity, as well as a broader and diversified shareholder base. We welcome our ASX investors and are pleased that both NZX and ASX investors have the opportunity to be part of our journey.
- During FY17, the Board held three workshops (November 2016, March 2017 and June 2017) where, in conjunction with the Senior Leadership Team (SLT), our purpose, vision, values and behaviours were reviewed and our strategy and key initiatives and targets were discussed. We increased the number of workshops during FY17. The Board and SLT value these sessions as they increase interaction between Board and the SLT, and align thinking with respect to the future of the business.
- Our SLT has evolved during FY17, and now includes five new members. We have a well-functioning SLT with a high level of experience covering all key areas of the business.
- Director and SLT succession planning was reviewed, updated and confirmed.

OUR BOARD

Our Board is responsible for the overall corporate governance of Synlait Milk Limited, including strategic direction, determination of policy, approval of significant contracts and projects, capital and operating budgets and overall stewardship of our organisation. Our Board is committed to ensuring we not only make the most 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 in this regard. More details on the NZX waivers are detailed in our Statutory Information section of this Annual Report (page 121), but generally the waivers concern the appointment of our Directors.

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

We also 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 46 of this Annual 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).

A detailed summary of the governance arrangements under the waiver is set out further in section 2 of the Corporate Governance Report on page 53.

More details can be found in our Constitution on our website (www.synlait.com/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:** Seven meetings and three workshops (including two offshore).
- **Audit and Risk Committee:** Five meetings.
- **Remuneration and Governance Committee:** Three meetings.

OUR COMMITTEES

We have the following permanent Board Committees:

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

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

We also have a Continuous Disclosure Committee:

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

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. Accordingly, our corporate governance principles do not materially differ to the NZX Corporate Governance Best Practice Code contained in Appendix 16 of the NZX Listing Rules.

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, Appendix 1) 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 which each staff member receives on induction. Our Employee Handbook contains detailed whistle-blower provisions should these ever be needed. To date, we have not had any incidents or had these procedures used.

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 FY17 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 500-plus employees.

We have implemented a centralised software tool which assists staff and their managers to keep track of policies, training requirements, key documents, manuals and procedures.

This ensures 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.

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 in this regard. More details on the NZX waivers are detailed in our Statutory Information section in this Annual Report (page 121), but generally the waivers concern the appointment of our Directors.

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

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

- The Board must appoint a Managing Director who cannot be one of the Bright Dairy appointed Directors. The Managing Director is prohibited from voting or being part of the quorum on matters relating to his/her remuneration, removal and any matter relating to the appointment of a new Managing Director.

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

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

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

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). Since then, we have established regular workshops for these groups to attend together. Three detailed workshops for Directors and our SLT were held in FY17. As well as reviewing company values, strategy and initiatives, there was a focus on health and safety management.

In June 2016, the Board spent three days with our SLT in conjunction with several professors from the Stanford Business School in the U.S., 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. This satisfied the external performance review requirement for the Board in FY17. We are due to carry out our next formal performance review of Directors in 2018 / 2019.

In June the Board spent a week in China. They were hosted by New Zealand Trade And Enterprise (NZTE) and were given insight into how dairy and infant formula products are used in the Chinese market. This included a visit to consumers to understand their decision making processes when buying infant formula, and a presentation from an in-market expert on the changing dynamics of the Chinese market.

For FY18, governance training for Directors and SLT will cover talent management and quality strategy.

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

The Directors profiles are on our website (www.synlait.com/about/key-people/board-of-directors), and are detailed on pages 46-47 of this Annual Report.

3. BOARD COMMITTEES

As mentioned above, both our Audit and Risk Committee and Remuneration and Governance Committee 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).

Minutes are taken at meetings and all information is made 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) is also a member. Qikai Lu brings considerable financial and business experience to the Committee, and is a former public accountant in China with one of the 'big four' chartered accounting firms.

Our 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 page 46 and on our website (www.synlait.com/about/key-people/board-of-directors).

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

4. REPORTING AND DISCLOSURE

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

At each Board meeting the full Board is presented with a detailed Business Performance Report (BPR), which looks at the financial performance of the organisation and identifies any risks, issues and opportunities, and attempts to quantify the upsides and downsides should any of these items eventuate. 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 Business Performance Review (BPR) is reviewed in detail to understand the overall business performance.

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

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

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

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

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

After approval by the Audit and Risk Committee, the complete set of financial statements and annual report 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 annual report and give their approval (or not) in accordance with the Financial Markets Conduct Act 2013 and Companies Act 1993.

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 previously mentioned above, the Board formed a Continuous Disclosure Committee chaired by Graeme Milne, our Chairman of the Board. Other members are the CFO and CEO and Managing Director, with Bill Roest, the Chair of the Audit and Risk Committee as an alternate.

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 under the NZX Listing Rules.

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 as required by the NZX Listing Rules and the cross-filing obligations under the ASX Listing Rules. The Board can confirm during FY17 continuous disclosure obligations were complied with.

We have established robust systems and procedures to ensure all media releases are 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 our previous financial statements readily available for our shareholders (www.synlait.com/investors/annual-interim-reports), including all our analyst briefings and investor presentations (www.synlait.com/investors/presentations).

Analysts are strictly dealt with according to our published Analyst and Media Policy, also on our website (www.synlait.com/investors/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 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 126. 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:

Long Term Incentive scheme

In 2016 we reported that we had just completed the final year of a three year IPO incentive scheme for 18 senior staff. With that scheme completed a replacement long term incentive programme for senior staff was developed. A new Senior Leadership Team Long Term Incentive (SLT LTI) scheme was agreed and approved by the Board in March 2017.

As with the previous scheme, the SLT LTI scheme provides the opportunity of an award of shares in Synlait Milk Limited. The LTI share scheme is an annual scheme with Performance Share Rights (PSRs) granted to Board-approved participants each year. Participants receive PSRs which will be converted into ordinary shares in Synlait Milk Limited within 20 working days of the Board determining that the performance hurdles have been met during the assessment period, being the three financial years following the date of the award. The employee must remain employed up to the determination date, otherwise the PSRs will lapse. No cash consideration is payable by the employee on the grant of PSRs or on the issue of fully paid ordinary shares following vesting of PSRs.

The number of PSRs granted to participants is set at one quarter of their base salary divided by the volume weighted average price of our shares over the period beginning ten trading days before the first day of the first financial year of the assessment period and ending ten trading days on and from that date.

There are two performance hurdles, Total Shareholder Return (TSR) and Earnings Per Share (EPS). Vesting of half of the total award is dependent on the TSR target being met, and the remaining half, the EPS target being met, with the degree of vesting in each case determined by a progressive vesting scale.

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

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

For either performance hurdle to be met, our TSR must be positive over the assessment period. The LTI share scheme is an annual scheme with PSRs granted to Board-approved participants each year, noting however that the annual award is assessed over a three year period.

Vesting of annual awards is monitored to ensure that the value vested in any one year does not exceed 5% of market capitalisation as required by NZX listing rules. PSRs are non-transferable and have no voting or other share rights and are otherwise subject to the rules of the LTI and individual award agreements.

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

Going forward it is expected that participants will be chosen in July each year that the plan is operational.

Short Term Incentive Scheme

In 2016 we advised that the Board approved changes to the remuneration policy / approach for the SLT, removing any short term incentive (STI) from remuneration packages effective from 1 August 2016. The STI was incorporated into the base remuneration for those SLT members.

Additionally, it is our intention to remove the STI from remuneration packages for salaried staff effective FY18 by incorporating a portion of the STI into base remuneration.

We continue to operate a short term incentive scheme for waged staff at 5% of base remuneration. This consists of a mixture of company profit (exceeding budgeted Net Profit After Tax - 40%) and achievement of individual objectives (60%). It is our intention to review this plan in FY18.

Other

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

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

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 126.

6. RISK MANAGEMENT

We have a robust risk management framework, which details the processes that identify and manage potential and relevant risks for our business.

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 and it establishes 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:** This defines a "crisis", and puts the practical operational procedures in place to manage that crisis event should it ever occur.
- **Incident Management Plan:** This 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.

On a six monthly basis, 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.

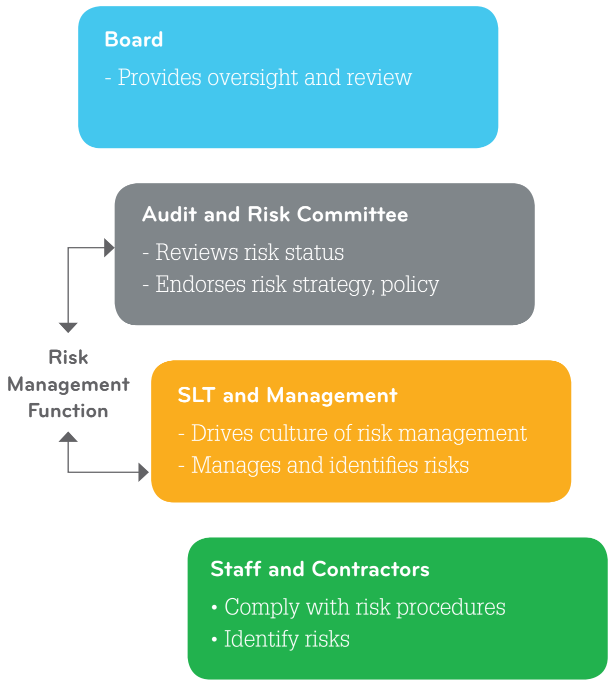
Our risk management strategy focuses around controlling and managing risks around seven key categories within our business:

- **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 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 and Risk Committee - Closely monitor extreme risks - Identify new and emerging risks
Risk owners	- Monitor and review the risks which they own - Prepare reports for the risks which they own - Provide their respective managers with information on the risks which they own - Identify new and emerging risks
Risk Management Function	- Prepare reports - Gather risk information 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. The lead audit partner on the engagement is Andrew Dick. More on Andrew can be found at (www2.deloitte.com/nz/en/profiles/andick.html).

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

Each year 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.

This has continued to be an area of focus for us in FY17, and we have further 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 in question.

In both March and September 2017, 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 FY17 is as follows:

AREA	OVERVIEW OF WORK INVOLVED	BASIS OF DECISION TO INVOLVE DELOITTE	INVOICED FEES
Taxation	- Various engagements including income tax return review, GST review, 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	$41,000

The above matters were closely examined by management and the Chair of the Audit and Risk Committee prior to engaging Deloitte on the tasks, to 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):

	2017	2016
Audit Work	$154,000	$140,000
Non-audit Work	$41,000	$168,000
Percentage (non-audit / audit)	27%	120%

The above trend demonstrates our improvement in the area of non-audit work awarded to Deloitte.

In accordance with section 207T of the Companies Act, Deloitte will be automatically appointed at our AMS in November 2017 unless there is a resolution to the contrary. Our shareholders will be asked at the AMS whether or not they approve the Board to fix the auditor's fees and expenses for the current financial year (FY18) in accordance with section 207S of the Companies Act.

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

This area is regularly updated by our Communications team.

Our 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 Chairman of the Board. In November 2016, we hosted our AMS at the Tait Communications business park in Christchurch for the first time.

Over the past 12 months, Synlait has seen an increase in investor relations activity. This started with our simultaneous FY16 annual results release and capital raise and subsequent investor roadshows through New Zealand and Australia. This was built on with the completion of our dual listing on the ASX on 24 November 2016 and commencement of trading on 25 November 2016. The increased activity continued into 2017 with our FY17 interim results release and roadshow and three new research analysts initiating research coverage during the second half of FY17.

9. STAKEHOLDER INTERESTS

As a publicly listed company, we have important relationships with our investors, employees, customers, suppliers, bankers, creditors, 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 is transformational and guarantees the integrity of pure natural milk produced on certified dairy farms.

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

Each year, all 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, including Cameron Bagrie (Chief Economist, ANZ), and Nicole Rosie (CEO, WorkSafe NZ), supporting our conference theme of 'Synergy'. At the conference, we held our 2017 Dairy Honours Awards ceremony and recognised the achievements of our milk suppliers with nine major awards focused on best practice dairy farming. In addition, a number of suppliers were inducted into the LWP honour roll.

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

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

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

Being a good 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. In FY17 we made a donation of $20,000 towards the building of the new Dunsandel Community Centre. The Centre was officially opened in August 2017.

In FY17 we also continued to sponsor our local rugby club (Dunsandel-Irwell Rugby Football Club Inc.) via a sponsorship valued at $12,500. We are active supporters of farming and agricultural activities, conferences, workshops and programmes throughout rural Canterbury. Our Milk Supply team regularly makes its BBQ trailer available to grassroots fundraising and community events.

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

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

We also have policies governing all our interactions with these various stakeholders which establish a framework for acting fairly towards them, and this is enshrined at Board level within 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 2017

CONTENTS	PAGE

DIRECTORS' DECLARATION

31 JULY 2017

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiaries, Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, and Eighty Nine Richard Pearse Drive Limited (together "the Group") as set out on pages 64 - 116 for the year ended 31 July 2017.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the Group as at 31 July 2017 and the financial performance and cash flows for the year ended on that date.

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

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

For and on behalf of the Board.

Graeme Milne
CHAIRMAN
18 September 2017

John Penno
MANAGING DIRECTOR
18 September 2017

INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

	Notes	2017 $'000	2016 $'000
Revenue	1	758,994	546,866
Cost of sales	2	(648,585)	(446,424)
Gross profit		110,409	100,442
Other income	1	680	536
Share of loss from associates	18	(560)	(1,151)
Sales and distribution expenses	2	(16,731)	(14,300)
Administrative and operating expenses	2	(28,021)	(24,475)
Earnings before net finance costs and income tax		65,777	61,052
Finance expenses	9	(11,429)	(14,485)
Finance income	9	18	18
Loss on derecognition of financial assets	4,9	(802)	(517)
Net finance costs	9	(12,213)	(14,984)
Net movement in unrealised foreign exchange gains		-	2,326
Profit before income tax		53,564	48,394
Income tax expense	16	(15,341)	(14,011)
Net profit after tax for the year		38,223	34,383
Earnings per share			
Basic and diluted earnings per share (cents)	11	22.07	23.50

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 2017

	Notes	2017 $'000	2016 $'000
Profit for the period		38,223	34,383
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges		3,597	69,574
Net change in fair value of cash flow hedges transferred to profit and loss		-	218
Income tax on other comprehensive income	16	(1,007)	(19,542)
Total items that may be reclassified subsequently to profit and loss		2,590	50,250
Other comprehensive income for the year, net of tax		2,590	50,250
Total comprehensive income for the year		40,813	84,633

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 2017

Group	Notes	Share capital	Employee benefits reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 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	12,13	–	364	–	–	–	364
Total contributions by and distributions to owners		–	364	–	–	–	364
Equity as at 31 July 2016		172,247	435	14,032	20,276	49,583	256,843
Profit or loss for the year		–	–	–	–	38,223	38,223
Other comprehensive income							
Revaluation of property, plant and equipment		–	–	–	–	–	–
Effective portion of changes in fair value of cash flow hedges		–	–	4,265	–	–	4,265
Movement in time value hedge reserve		–	–	(668)	–	–	(668)
Net change in fair value of cash flow hedges transferred to profit and loss		–	–	–	–	–	–
Income tax on other comprehensive income		–	–	(1,007)	–	–	(1,007)
Total other comprehensive income		–	–	2,590	–	–	2,590
Issue of new shares	11	95,409	–	–	–	–	95,409
Employee benefits reserve	12, 13	–	19	–	–	–	19
Capitalisation of employee benefits reserve		418	(418)	–	–	–	–
Total contributions by and distributions to owners		95,827	(399)	–	–	–	95,428
Equity as at 31 July 2016		268,074	36	16,622	20,276	88,076	393,084

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 2017

		2017	2016
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents		73,827	2,045
Trade and other receivables	4	79,028	37,793
Goods and services tax refundable		5,080	656
Income accruals and prepayments		2,862	2,446
Inventories	5	82,695	73,885
Derivative financial instruments	14, 15	14,995	33,049
Total current assets		258,487	149,874
Non-current assets			
Property, plant and equipment	7	470,554	433,889
Intangible assets	8	3,246	4,140
Goodwill	8	3,643	–
Other investments	18	264	824
Derivative financial instruments	14,15	17,431	1,729
Total non-current assets		495,138	440,582
Total assets		753,625	590,456
Current liabilities			
Loans and borrowings	10	72,448	46,546
Trade and other payables	6	142,084	55,598
Current tax liabilities	16	13,894	11,702
Derivative financial instruments	14,15	3,904	6,737
Total current liabilities		232,330	120,583
Non-current liabilities			
Loans and borrowings	10	83,637	168,908
Deferred tax liabilities	16	39,557	35,569
Derivative financial instruments	14, 15	5,017	8,553
Total non-current liabilities		128,211	213,030
Total liabilities		360,541	333,613
Equity			
Share capital	11	268,074	172,247
Reserves	13	36,934	34,743
Retained earnings		88,076	49,853
Total equity attributable to equity holders of the Group		393,084	256,843
Total equity and liabilities		753,625	590,456

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 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash receipts from customers		738,042	586,398
Cash paid for milk purchased		(401,065)	(275,444)
Cash paid to other creditors and employees		(207,578)	(207,099)
Goods and services tax (payments) / refunds		(4,055)	584
Income tax payments		(10,169)	(19)
Net cash inflow from operating activities	3	115,175	104,420
Cash flows from investing activities			
Interest received		18	18
Acquisition of property, plant and equipment		(33,057)	(39,685)
Proceeds from sale of property, plant and equipment		19	80
Acquisition of intangible assets		(226)	(1,353)
Acquisition of subsidiaries, net of cash acquired	17	(26,906)	–
Net cash outflow from investing activities		(60,152)	(40,940)
Cash flows from financing activities			
Receipt of cash from issue of shares (net)	11	95,409	–
Repayments of borrowings		(92,405)	(88,624)
Receipt of borrowings		–	82,081
Net movement in working capital and trade finance facilities		25,902	(39,100)
Interest paid		(12,147)	(17,321)
Net cash inflow / (outflow) from financing activities		16,759	(62,964)
Net increase in cash and cash equivalents		71,782	516
Cash and cash equivalents at the beginning of the financial year		2,045	1,529
Cash and cash equivalents at end of year		73,827	2,045

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

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice 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 18 September 2017.

Basis of Measurement

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

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in New Zealand Dollars ($), which is the 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, the derecognition of financial assets, and the assessment of impairment of goodwill.

BASIS OF CONSOLIDATION

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

P = Accounting policies

E = Accounting estimates

STATEMENT OF ACCOUNTING POLICIES

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

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

- *NZ IFRS 9 (2014) 'Financial Instruments' (effective 1 January 2018)*
  NZ IFRS 9 (2014) consolidates previous issuances of NZ IFRS 9 and includes a framework for classification and measurement of financial instruments and a single forward-looking impairment model. This standard will be effective from the Group's 2019 financial year. Preliminary analysis indicates that this standard is unlikely to have a material impact on the Group's financial statements.

- *NZ IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)*
  NZ IFRS 15 has a single revenue recognition model that applies to revenue from contracts with customers across all industries. This standard 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 removes the current dual accounting treatment of leases and will apply a single on-balance sheet accounting treatment for all leases, similar to current finance lease accounting. This standard will be effective from the Group's 2020 financial year. Preliminary analysis indicates that this standard is unlikely to have a material impact on the Group's financial statements.

- *NZ IFRS 17 'Insurance Contracts' (effective 1 January 2021)*
  NZ IFRS 17 provides a consistent framework for accounting for insurance contracts. This standard will be effective from the Group's 2022 financial year. The impact of this standard has not yet been determined.

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

NOTES TO THE FINANCIAL STATEMENTS

To give readers an enhanced understanding of the performance of the Group, the notes to the financial statements have been structured in the following categories:

PERFORMANCE

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

1 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.

	2017	2016
	$'000	$'000
Dairy products	758,994	546,866
Other sundry income	680	536
Total income	759,674	547,402

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 48% (2016: 58%) are derived from the top three external customers.

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

	2017	2016
China	8%	12%
Rest of Asia	37%	33%
Middle East and Africa	19%	16%
New Zealand	15%	11%
Australia	18%	9%
Rest of World	3%	19%
Total	100%	100%

2 EXPENSES

	2017	2016
	$'000	$'000
The following items of expenditure are included in cost of sales		
Depreciation and amortisation	20,059	19,984
Employee benefit expense	28,994	23,661
Kiwisaver contributions	680	556
Export freight	13,686	10,912
Rent	541	618
Repairs and maintenance	6,104	5,664
Consultancy	525	405
(Decrease) / increase in inventory provision	(1,441)	302
Increase / (decrease) in onerous contract provision	376	(547)
Research and development	566	386
The following items of expenditure are included in sales and distribution		
Depreciation and amortisation	1,610	1,325
Employee benefit expense	6,421	5,854
Kiwisaver contributions	161	126
Rent	2,389	1,604
Repairs and maintenance	816	685
Consultancy	1,085	859
Donations	20	3
The following items of expenditure are included in administrative and operating expenses		
Depreciation and amortisation	1,344	1,378
Employee benefit expense	12,676	9,219
Kiwisaver contributions	298	201
Repairs and maintenance	11	9
Directors fees	498	469
Share based payments expense	21	364
Consultancy, legal fees and strategic initiatives	3,636	4,204

Deloitte services included in administrative and operating expenses		
Statutory audit fee	125	112
Half year accounts review	29	28
Taxation advice	30	117
Accounting advice and other consulting	11	51
Total Deloitte services	195	308

Despite lower inventory holdings by volume at year end, as a result of higher inventory holdings by volume during the year, particularly at the peak of the season, our spend on external warehousing rent and associated freight has increased.

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.

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

	2017	2016
	$'000	$'000
Profit for the year	38,223	34,383
Non-cash and non-operating items:		
Depreciation and amortisation of non-current assets	23,013	22,687
(Gain) on sale of fixed assets	(19)	(12)
Write off intangibles	64	728
Share of loss from associate	560	1,151
Non-cash share based payments expense	19	364
Interest costs classified as financing cash flow	11,429	14,485
Interest received classified as investing cash flow	(18)	(18)
Loss on derecognition of financial assets	802	517
Deferred tax	2,981	2,427
(Loss) / gain on derivative financial instruments	(420)	218
Unrealised foreign exchange (gains)	-	(2,326)
Movements in working capital:		
(Increase) / decrease in trade and other receivables	(41,236)	31,124
(Increase) in prepayments	(416)	(221)
(Increase) in inventories	(8,810)	(10,080)
(Increase) / decrease in other current assets	(4,424)	584
Increase / (decrease) in trade and other payables	92,432	(3,156)
(Decrease) / increase in current tax liabilities	2,192	11,565
Working capital items acquired	(1,197)	-
Net cash inflow from operating activities	115,175	104,420

WORKING CAPITAL

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

4 TRADE AND OTHER RECEIVABLES

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

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

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

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

	2017	2016
	$'000	$'000
Trade receivables	77,550	36,654
Provision for doubtful receivables	(13)	(33)
Net trade receivables	77,537	36,621
Other receivables	1,491	1,172
Total receivables	79,028	37,793

The increase in trade receivables is predominantly due to increased commodity prices and increased sales volume during the last quarter across all product categories.

(a) Impaired receivables

As at 31 July 2017, trade receivables of $1.6m were overdue but not impaired (2016: $2.8m). All of the overdue receivables have since been collected.

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

	2017	2016
	$'000	$'000
Over due by		
0 to 30 days	732	2,433
30 to 60 days	855	148
Over 60 days	48	209
Total overdue trade receivables	1,635	2,790

(b) Allowance for bad and doubtful receivables

The Group has recognised a loss of $20,000 in relation to unrecoverable trade receivables during the year (2016: $146,000).

(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$77.1m (2016: $35.4m) of USD denominated trade receivables.

(d) Derecognised financial assets

E The Group has derecognised trade receivables that have been sold to two banks under the terms of receivables purchase agreements entered into during July 2015 and January 2016. The Group routinely assess the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the banks. Receivables selected for assignment are with customers with strong credit ratings and good payment histories. This minimises the risk (and therefore consequences) of late payment or default, as well as resulting in little volatility in the present value of future cash flows in relation to assigned receivables under the various scenarios detailed in the terms of the two agreements. An evaluation of external evidence of credit risk has also been performed for each customer. The Group has assigned $58.2m of receivables as at 31 July 2017 (31 July 2016: $47.2m).

The Group has assessed its continuing involvement in the assigned receivables and determined that the fair value of continuing involvement is immaterial. The Group reassesses the facility for qualification for derecognition at each reporting date, when the terms of the facility are amended, and assesses each new customer at the initial assignment of a receivable. There have been no new customers assigned during the period.

If the Group's customers defaulted on all trade receivables that have been derecognised at balance date, the Group would be required to pay a late payment charge of $1,665 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 $802,000 arising from derecognition of assigned receivables is the discount paid to the banks for acquiring these receivables.

5 INVENTORIES

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

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

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

	2017	2016
	$'000	$'000
Raw materials at cost	15,249	14,093
Finished goods at cost	54,930	54,145
Finished goods at net realisable value	12,516	5,647
Total inventories	82,695	73,885

Whilst the volume of inventory held as at reporting date is less than that held as at 31 July 2016, the valuation of inventory is higher as a consequence of an increased annual milk price and favourable product mix.

The total inventory provision as at reporting date was $1.8m (2016 $3.2m) of which $1.7m related to finished goods and $0.1m related to raw materials.

The total onerous contracts provision as at reporting date was $1.3m (2016 $0.9m).

6 TRADE AND OTHER PAYABLES

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

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

	2017	2016
	$'000	$'000
Trade payables	34,986	10,968
Accrued expenses	103,590	41,905
Employee entitlements	3,508	2,725
Total trade and other payables	142,084	55,598

Payables denominated in currencies other than the functional currency comprise NZ$0.4m (2016: $0.3m) of USD and AUD denominated trade payables and accruals.

The large increase in payables and accruals at reporting date from July 2016 has been driven by the increased annual milk price and proportionately lower advance payments during the year.

LONG TERM ASSETS

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

7 PROPERTY, PLANT AND EQUIPMENT

P RECOGNITION AND MEASUREMENT

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

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

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

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

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

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 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	3,499	72,969	236,806	3,990	146,284	463,548
Revaluation	757	(2,564)	(23,261)	–	–	(25,068)
Balance as at 1 August 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
Additions	68	–	–	–	27,403	27,471
Acquisitions through business combinations (note 17)	3,890	8,510	–	1,044	17,794	31.238
Reclassification / transfer	–	559	7,474	1,699	(9,732)	–
Disposals	–	–	(413)	(1)	–	(414)
Balance as at 31 July 2017	8,214	124,363	333,668	8,383	41,501	516,129
Accumulated depreciation						
Cost	–	–	–	2,442	–	2,442
Revaluation	–	–	–	–	–	–
Balance as at 1 August 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
Depreciation	–	3,668	15,393	857	–	19,918
Revaluation depreciation	–	182	1,635	–	–	1,817
Disposals	–	–	(103)	(1)	–	(104)
Balance as at 31 July 2017	–	7,365	34,039	4,171	–	45,575
Carrying amounts						
As at 31 July 2016	4,256	111,779	309,493	2,325	6,036	433,889
As at 31 July 2017	8,214	116,998	299,629	4,212	41,501	470,554

(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 carrying value is a fair estimate of current value. In accordance with policy, an independent valuation will be undertaken during the 2018 financial year.

On acquisition of Eighty Nine Richard Pearse Drive, the Group acquired the land and buildings owned by that company. Based on independent third party valuations, Synlait Milk Limited acquired the land and buildings for a fair market value of $12.4m, split $3.9m land and $8.5m buildings.

(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 $41.5m is significantly greater than 2016 ($6.0m) due to the construction of our new Wetmix kitchen and the Auckland blending and consumer packaging facility.

(d) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $0.1m (2016: $1.6m) on qualifying assets. Interest has been capitalised at the rate at which borrowing has been specifically drawn to fund the qualifying asset. The Auckland blending and consumer packaging facility was acquired on 31 May 2017 as part of a share acquisition, and was subsequently sold to Synlait Milk Limited on 28 July 2017, accordingly no interest has been capitalised in relation to its construction. Interest will be capitalised on the construction of the Auckland blending and consumer packaging facility from the 2018 financial year. The construction of the our new Wetmix kitchen has been funded by debt that has only been held for a short term.

8 INTANGIBLE ASSETS

E

GOODWILL

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

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

P

PATENTS, TRADEMARKS AND OTHER RIGHTS

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

COMPUTER SOFTWARE

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

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

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.

	Goodwill	Computer software	Patents, trademarks and other intangibles	Intangibles in progress	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 31 July 2016					
Opening net book amount	–	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 2)	–	(1,114)	(22)	–	(1,136)
Asset disposals	–	(728)	–	–	(728)
Closing net book value	–	3,520	340	280	4,140
Year ended 31 July 2017					
Opening net book value	–	3,520	340	280	4,140
Additions	–	49	–	431	480
Acquisition through business combination (note 17)	3,643	223	–	–	3,866
Development costs recognised as an asset	–	277	45	(577)	(255)
Amortisation charge (note 2)	–	(1,240)	(38)	–	(1,278)
Asset disposals	–	–	(64)	–	(64)
Closing net book value	3,643	2,829	283	134	6,889

Intangibles in progress of $0.1m at balance date is predominantly constituted of project to date spend on systems development.

(a) Impairment tests for goodwill

As at 31 July 2017 management has determined that there is no impairment of any cash-generating units containing goodwill.

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

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

- Forecast canned infant formula demand and assumed production volumes and shifts over the assessment period.
- Revenue per metric tonne based on external pricing information.
- Estimated operating costs based on production volumes and shifts over the assessment period.
- Estimated terminal growth rate of 0%.
- An allowance of 2.5% for increases in expenses.
- Post-tax discount rate of 9.5% based on current capital structure and cost of debt to derive a weighted average cost of capital.

The Board believes that any reasonably possible change in the key assumptions used in the calculation would not cause the carrying amount to exceed its recoverable amount.

DEBT AND EQUITY

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

9 FINANCE INCOME AND EXPENSES

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

	2017	2016
	$'000	$'000
Interest income on bank deposits	18	18
Settlement of ineffective portion of cash flow hedges	–	–
Total finance income	18	18
Interest and facility fees	(11,479)	(16,047)
Capitalised borrowing cost	50	1,562
Total finance costs	(11,429)	(14,485)
Loss on derecognition of financial assets	(802)	(517)
Net finance costs	(12,213)	(14,984)

10 LOANS AND BORROWINGS

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

	2017	2016
	$'000	$'000
Current liabilities		
Working capital facility NZD	–	25,200
Working capital facility USD	72,448	–
Trade finance facility	–	21,346
Total current liabilities	72,448	46,546
Non-current liabilities		
Revolving credit facility	84,000	169,405
Loan facility fees	(363)	(497)
Total non-current liabilities	83,637	168,908

(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 ANZ Bank and Bank of New Zealand.

The Group facilities include:

- A secured revolving credit facility of $175m that matures on 1 August 2020, with an amortisation of $30m on 1 August 2017 and $30m every twelve months thereafter.
- A secured working capital facility of NZD$120m with a USD$80m sublimit that matures on 21 August 2017.

The Group recently finalised revolver and working capital facility required for the 2018 financial year, at which point they extended for a period of twelve months.

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group has met all externally imposed capital requirements for the twelve months ended 31 July 2017 and 31 July 2016.

	Nominal Interest rate %	Financial year of maturity	Carrying amount 2017	Carrying amount 2016
Secured revolving credit facility - ANZ / BNZ	2.98%	2021	84,000	169,405
Secured working capital facility - ANZ / BNZ	2.24%	2018	72,448	25,200
Trade finance facility - Mitsui & Co. (NZ) Limited	–	2017	–	21,346

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

11 SHARE CAPITAL

P Ordinary shares are classified as equity.

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

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

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

	2017	2016	2017	2016
(a) Share capital	Shares	Shares	$'000	$'000
Ordinary shares				
On issue at beginning of period	146,341,197	146,341,197	172,247	172,247
Rights issue	32,519,239	–	95,409	–
IPO incentive scheme	362,592	–	419	–
On issue at end of period	179,223,028	146,341,197	268,075	172,247

The weighted average number of shares during the year of 173,204,858 (2016: 146,341,197) is used to calculate Earnings per Share.

(b) Ordinary shares

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

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

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

(c) Capital risk management

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

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

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

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

(d) Earnings per share

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

12 SHARE BASED PAYMENTS

The IPO incentive scheme matured on 31 July 2016. Options granted at maturation were settled during the year ended 31 July 2017.

The Group replaced the IPO incentive scheme with a new equity settled share based long term incentive scheme for senior management ("LTI share scheme"). The LTI share scheme provides a mechanism to enhance the alignment between shareholders and management of the Group as well as attract and retain senior management.

(a) IPO Incentive Scheme

The IPO incentive scheme matured on 31 July 2016, accordingly no new options were granted in 2017. However, the following number of options that vested on 31 July 2016 were exercised or forfeited during 2017:

	2017	2016
Outstanding 1 August	383,558	495,405
Granted during the year	–	–
Forfeited during the year	(20,966)	(111,847)
Exercised during the year	(362, 592)	–
Outstanding 31 July	–	383,558

The weighted average exercise price of shares forfeited during the year was $3.70. The weighted average exercise price of options exercised during the year was $3.24.

(b) LTI Share Scheme

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

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

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

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

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

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

	2017	2016
Outstanding 1 August	–	–
Granted during the year	276,070	–
Forfeited during the year	(22,385)	–
Exercised during the year	–	–
Outstanding 31 July	253,685	–

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

	2017 PSRs
Risk free rate	2.4 %
Volatility	32.7 %
Share price at entitlement date	$3.25
Share price at grant date	$3.75
Total value of options granted at grant date ($000's)	733

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

(c) 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:

	2017	2016
	$'000	$'000
Expenses for equity settled share based payment transactions	19	364

13 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:

14 FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

Foreign exchange risk

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

The Group has a Board approved treasury policy that sets the parameters under which foreign exchange cover is to be taken. As foreign exchange contracts are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates. As at 31 July 2017, the Group has hedged 39% of its exposure to foreign exchange risk on sales, and 25% of its exposure to foreign exchange risk on payables, over the following two years.

Interest rate risk

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

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

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

P

Commodity price risk

Dairy commodity price risk is the risk of volatility in profit and loss from the movement in dairy commodity prices to which the Group may be exposed. Volatility in global dairy commodity prices can have an adverse impact on the Groups earnings and milk price by eroding selling prices and increasing input costs.

The Group primarily manages its dairy commodity price risk by:

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

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

Credit risk

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

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains all the late payment risk in the derecognition of financial assets, as described in note 4.

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

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium term facility requirements.

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

Market risk

(i) Foreign exchange risk

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

	2017		2016	
	USD	AUD	USD	AUD
Statement of financial position exposure before hedging activities	$'000	$'000	$'000	$'000
Trade receivables	57,912	–	24,731	–
Trade payables	286	8	(8)	(260)
Working capital / trade finance facility	(54,383)	–	(15,428)	–

The Group's exposure to foreign currency in the period ended 31 July 2017 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:

	2017		2016	
	Weighted average exchange rate	Nominal balance	Weighted average exchange rate	Nominal balance
		USD'000		USD'000
Exports				
Less than 1 year	0.7034	172,100	0.6725	284,930
1 to 2 years	0.6915	168,200	0.6323	10,000
Imports	–	–	–	–
Less than 1 year	0.7232	(39,830)	0.7189	(12,325)

(ii) Interest rate risk

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

	2017		2016	
	Weighted average interest rate	Nominal Balance	Weighted average interest rate	Nominal Balance
	%	$'000	%	$'000
Less than 1 year	4.75%	84,000	4.70%	119,000
1 to 2 years	4.45%	79,000	4.53%	99,000
2 to 3 years	4.23%	79,500	4.46%	79,000
3 to 4 years	4.40%	45,000	4.23%	79,500
4 to 5 years	4.36%	40,000	4.38%	45,000
5 to 6 years	4.20%	30,000	4.34%	40,000
6 to 7 years	4.20%	30,000	4.18%	30,000
7 to 8 years	3.56%	10,000	4.18%	30,000
8 to 9 years	–%	–	3.51%	10,000

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

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

(iii) Sensitivity analysis

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

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

	2017		2016	
	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000
1% increase in interest rate	–	3,729	–	5,147
1% decrease in interest rate	–	(3,937)	–	(5,458)
5% increase in exchange rate	–	18,532	–	15,967
5% decrease in exchange rate	–	(20,336)	–	(16,189)
Total increase / (decrease)	–	(2,012)	–	(533)

(iv) Commodity derivatives

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

Liquidity risk

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

	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
At 31 July 2017					
Working capital facility	72,448	–	–	–	72,448
Trade and other payables	142,084	–	–	–	142,084
Trade finance facility	–	–	–	–	–
Inventory finance facility	–	–	–	–	–
Loans and borrowings	–	–	83,637	–	83,637
Derivative financial instruments	3,903	1,584	2,495	939	8,921
Total	**218,435**	**1,584**	**86,132**	**939**	**307,090**
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	6,737	1,159	3,826	3,568	15,290
Total	**108,880**	**1,159**	**172,734**	**3,568**	**286,341**

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

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.

	2017		2016	
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
	$'000	$'000	$'000	$'000
Foreign exchange risk				
Forward exchange contracts	16,953	–	25,391)	–
Foreign currency options	–	–	(176)	–
Foreign currency collars	(18,643)	–	48,349	–
Interest rate risk				
Interest rate swaps	5,367	–	(3,990)	–
Commodity price riskt risk				
Dairy commodity futures	(80)	–	–	–
Total	3,597	–	69,574	–

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

The Group has reclassified $3.5m of net losses from the cash flow hedge reserve to profit and loss upon realisation of hedged transactions during the reporting period.

15 FINANCIAL INSTRUMENTS

P CLASSIFICATION

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

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

(i) Financial instruments at amortised cost

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

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

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

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

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

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

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

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

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

E

FAIR VALUE ESTIMATION

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

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

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

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

P

OFFSETTING FINANCIAL INSTRUMENTS

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

P

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired, with the exception of assets that are fair valued through profit or loss. A financial asset or a group of financial assets is impaired and impairment losses are 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.

DERIVATIVE FINANCIAL INSTRUMENTS – HEDGE ACCOUNTING

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

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

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

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(a) Financial instruments by category

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

Financial liabilities	At amortised cost	At fair value through profit or loss	Total
	$'000	$'000	$'000
At 31 July 2017			
Derivative financial instruments	–	8,921	8,921
Working capital facility	72,448	–	72,448
Trade finance facility	–	–	–
Trade and other payables	142,084	–	142,084
Borrowings	83,637	–	83,637
Total	**298,169**	**8,921**	**307,090**
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
Trade and other payables	55,597	–	55,597
Borrowings	168,908	–	168,908
Total	**271,051**	**15,290**	**286,341**

All derivative financial instruments are designated in effective hedge relationships.

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

OTHER

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

16 INCOME TAX

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is 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 consolidated group

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

		2017	2016
		$'000	$'000
(a) Income tax expense			
Current tax expense:			
Current tax on profits for the year		(13,894)	(11,584)
Current tax on prior period adjustments		1,533	–
Total current tax		(12,361)	(11,584)
Deferred tax expense:			
Temporary differences		(1,815)	(2,043)
Tax losses utilised		–	(387)
Tax losses to carry forward		184	–
Adjustment to prior year tax losses brought forward		–	277
Other prior year adjustments		(1,349)	(274)
Total deferred tax		(2,980)	(2,427)
Income tax (expense) / benefit		(15,341)	(14,011)

(b) Reconciliation of effective tax rate			
Profit before income tax		53,564	48,394
Income tax using the Group's domestic tax rate - 28%		(14,998)	(13,550)
Other non deductible costs		(527)	(464)
		(15,525)	(14,014)
Adjustment to prior year tax losses brought forward		–	277
Other prior year adjustments		–	(274)
Tax losses to carry forward		184	–
		184	3
Income tax (expense) / benefit		(15,341)	(14,011)

(c) Imputation credits			
Imputation credits available directly and indirectly to the shareholders of the Group		25,308	11,702

(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 2017			
Cash flow hedges	3,597	(1,007)	2,590
Other comprehensive income	3,597	(1,007)	2,590
31 July 2016			
Cash flow hedges	69,792	(19,542)	50,250
Other comprehensive income	69,792	(19,542)	50,250

	2017	2016
	$'000	$'000
Deferred Taxation		
The balance comprises temporary differences attributable to:		
Assets		
Other items	1,046	1,714
Tax losses carried forward	184	–
Total deferred tax assets	1,230	1,714
Liabilities		
Property, plant and equipment	(34,293)	(31,801)
Derivatives	(6,463)	(5,457)
Other items	(31)	(25)
Total deferred tax liabilities	(40,787)	(37,283)
Total deferred tax	(39,557)	(35,569)

Movements - Group	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)
	Balance 1 Aug 2016	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Prior year adjustment**	**Balance 31 July 2017**
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	(31,801)	(1,674)	–	(817)	(34,292)
Derivatives	(5,457)	–	(1,007)	–	(6,464)
Other items	1,689	54	–	(728)	1,015
Tax losses carried forward	–	184	–	–	184
Total	(35,569)	(1,436)	(1,007)	(1,545)	(39,557)

17 BUSINESS COMBINATIONS

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

On 31 May 2017, Synlait Milk Limited acquired 100% of the share capital of The New Zealand Dairy Company Limited (NZDC) and Eighty Nine Richard Pearse Drive Limited (89RPD) for cash consideration of $21.6 million and $5.4 million respectively. At the time of acquisition, NZDC was in the process of constructing an infant formula blending and consumer packaging facility. 89RPD owned the land and buildings at which NZDC was constructing the blending and consumer packaging facility and leased the land and buildings to NZDC. Synlait Milk Limited acquired both companies to increase blending and consumer packaging capacity. Synlait Milk Limited will complete the construction of the blending and consumer packaging facility which is expected to be commissioned in October 2017. These consolidated financial statements include the results of NZDC and 89RPD from 1 June 2017 as Synlait Milk Limited obtained control of both companies from that date.

	NZDC	89RPD	Total
	$'000	$'000	$'000
Current Assets			
Cash and cash equivalents	62	70	132
Trade and other receivables	278	16	294
Goods and services tax refundable	380	(12)	368
Non-current Assets			
Property, plant and equipment	1,044	-	1,044
Capital work in progress	17,794	-	17,794
Land and buildings	-	12,400	12,400
Intangibles	223	-	223
Current Liabilities			
Trade and other payables	(1,824)	-	(1,824)
Accruals and accrued income	(36)	-	(36)
Non-current Liabilities			
Long term loan	-	(7,000)	(7,000)
Total identifiable net assets at fair value	**17,921**	**5,474**	**23,395**
Goodwill arising on acquisition	3,643	-	3,643
Total consideration	**21,564**	**5,474**	**27,038**
Less: cash and cash equivalents acquired	62	70	132
Net cash outflow on acquisition	**21,502**	**5,404**	**26,906**

The land and buildings owned by 89RPD have been recognised at fair value based on third party valuations. Due to their nature, the book value of all other assets and liabilities acquired has been assessed as a reasonable approximation of fair value.

Goodwill arose in the acquisition of the business operations of NZDC because the cost of acquisition reflected the benefit of future cash flows above the current fair market value of the assets acquired, and the synergies and future market benefits expected to be obtained from the blending and consumer packaging facility once commissioned.

Acquisition costs of $0.5 million have been recognised in the income statement.

Impact of the acquisitions on the results of the Group

From the date of acquisition, NZDC and 89RPD have collectively contributed $0.2 million to revenue, and ($0.4 million) to net profit after tax. Had the combination taken place at the beginning of the year, revenue of the Group from continuing operations would have been $759.6 million, and the net profit from continuing operations for the Group would have been $36.4 million.

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.

	2017	2016
	$'000	$'000
Equity securities	110	110
Investment in associates	154	714
Total other investments	264	824

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	
			2017	2016
			%	%
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
The New Zealand Dairy Company Limited (Subsidiary)	New Zealand	Ordinary	100	–
Eighty Nine Richard Pearse Drive Limited (Subsidiary)	New Zealand	Ordinary	100	–
Sichuan New Hope Nutritional Foods Co. Limited (Associate)	China	Ordinary	25	25

Associates

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

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

	2017	2016
	$'000	$'000
Loss from continuing operations	(560)	(1,151)
Total comprehensive income	(560)	(1,151)

The carrying value of the investment in New Hope Nutritionals was $0.1 million at balance date (2016: $0.7 million):

	2017	2016
	$'000	$'000
Opening balance	714	1,865
Investment cost	–	–
Share of losses	(560)	(1,151)
Carrying value of investment	154	714

19 RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.04% of the shares issued by Synlait Milk Limited (2016: 39.12%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the People's Republic of China.

Other related entities

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

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

In May 2017 Synlait Milk Limited acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and consumer packaging facility in Auckland. Eighty Nine Richard Pearse Drive Limited owns the land and buildings at which the Auckland blending and consumer packaging facility is being constructed. Eighty Nine Richard Pearse Drive Limited leased its land and buildings to The New Zealand Dairy Company Limited, and now leases them to Synlait Milk Limited.

Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other benefits paid or due to directors and executive officers as at 31 July 2017. The total short-term benefits paid to the key management and personnel is set out below.

	2017	2016
	$'000	$'000
Short-term benefits	5,082	2,516
Share based payments expense (note 12)	19	288

During the year the Group has invested in its Senior Leadership Team (SLT) to meet the changing needs of the business. The SLT has grown from eight members to 13 members during the year ended 31 July 2017.

(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 2017 (2016: $nil).

(ii) Other transactions and balances

Directors of Synlait Milk Limited control 3.5% of the voting shares of the company at balance date (2016: 3.8%)

(b) Transactions with other related parties

	2017	2016
	$'000	$'000
Purchase of goods and services		
Bright Dairy and Food Co Limited - Directors fees	141	111
Sale of goods and services		
Bright Dairy and Food Co Limited - Sale of milk powder products	2,698	9,461
Bright Dairy and Food Co Limited - Reimbursement of costs	(157)	(53)
Sichuan New Hope Nutritional Foods Co. Limited - Sale of milk powder products	16,371	8,344

(c) Outstanding balances

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

	2017	2016
	$'000	$'000
Current receivables (sales of goods and services)		
Bright Dairy and Food Co Limited - Sale of milk powder products	1,364	264
Bright Dairy and Food Co Limited - Reimbursement of costs	(102)	(118)
Sichuan New Hope Nutritionals Limited - Sale of milk powder products	1,039	733

20 CONTINGENCIES

As at 31 July 2017 the Group had no contingent liabilities or assets (2016: $nil).

21 COMMITMENTS

(a) Capital commitments

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

	2017	2016
	$'000	$'000
New Wetmix kitchen	22,052	–
Auckland blending and consumer packaging facility	12,569	–
Dryer 3	–	1,107
Administration and laboratory building	–	187
Other	–	724
Total capital commitments	34,621	2,018

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.

	2017	2016
	$'000	$'000
Less than one year	1,716	141
Between one and five years	450	165
Total	2,166	306

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

During August 2017 Synlait Milk Limited and New Hope Nutritionals entered into a new five year supply agreement for production of New Hope Nutritional's infant formula brands. The new supply agreement secures a threefold volume increase over the five year period.

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 Limited.

Goods and Services Tax (GST)

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

OPINION

We have audited the consolidated financial statements of Synlait Milk Limited (the 'Company' or 'Synlait') and its subsidiary (the 'Group'), which comprise the consolidated statement of financial position as at 31 July 2017, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 64 to 116, present fairly, in all material respects, the consolidated financial position of the Group as at 31 July 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

BASIS FOR OPINION

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

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

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

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

AUDIT MATERIALITY

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2,500,000.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Sales to international customers	
The Group's revenue primarily consists of the sale of dairy products which totaled $759 million for the year ending 31 July 2017. As outlined in Note 1 of the financial statements approximately 85% of sales are to customers outside of New Zealand. The contract terms for international customers, which determine the point at which the significant risks and rewards of ownership transfer and revenue should be recognised vary by customer. The application of the incorrect terms to revenue recognition for a contract for an international customer may result in revenue being recorded in the incorrect period. We have included the application of the correct contract terms to revenue recognition for international customers as a key audit matter due to the significance of the revenue balance to the Group and the potential impact that would arise from revenue being recorded in the incorrect period.	We have evaluated the application of sale contract terms for international customers to recognise revenue by performing the following: - We obtained an understanding of and evaluated the design and implementation of internal controls used by the Group to ensure that the correct sale contract terms for international customers are used to recognise revenue at the appropriate time. - For a sample of sales recognised for international customers for the period prior to and after 31 July 2017 we obtained the specific documentation that outlined the sales and delivery terms. We read this documentation, noted the specific terms and conditions and checked that revenue was recognised at the appropriate time in accordance with those conditions. We have found that revenue has been appropriately recognised in the correct years.

Derecognition of trade receivables

The Group has purchase agreements relating to trade receivables of certain customers with two banks. Subject to certain criteria, the Group sells individual invoiced amounts such that the cash received from these customers belong to the banks and the related receivable is derecognised by the Group. This arrangement is explained in Note 4 of the consolidated financial statements. The total trade receivables derecognised from the consolidated financial statements as at 31 July 2017 were $58.2 million.

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

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

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

- We obtained and read:
  - the agreements for the assignment of receivables between the respective banks and Synlait; and
  - management's assessment of why substantially all of the risks and rewards of ownership of assigned trade receivables has transferred at 31 July 2017.
- We evaluated management's assessment against the requirements of the appropriate accounting standards in relation to the key terms of the agreements.
- We tested the mathematical accuracy of management's quantitative analysis of whether substantially all the risks and rewards have been transferred.
- We compared the inputs used by management to independent sources and market information (for applicable inputs) and performed retrospective reviews of each individual customer historically assigned.
- We confirmed with the respective banks the quantum of trade receivables that had been purchased as at 31 July 2017 and whether any late payment fees were incurred and compared their responses to management's analysis.

We found the accounting treatment to derecognise assigned accounts receivable to be reasonable.

OTHER INFORMATION

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

AUDITOR'S REPORT CONTINUED

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

RESTRICTION ON USE

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

Andrew Dick
Partner for Deloitte Limited
Auckland, New Zealand
18 September 2017

Deloitte Limited

STATUTORY INFORMATION

STATUTORY INFORMATION

STOCK EXCHANGE LISTING

Our shares are listed on the Main Board operated by NZX Limited (NZX) and on the Australian Securities Exchange (ASX). We were admitted to the Official List of ASX Limited as a foreign exempt issuer under a compliance listing on 24 November 2016 and trading of our shares on that exchange commenced on 25 November 2016.

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

SHARES ON ISSUE

As at 31 July 2017 there were 179,223,028 ordinary shares on issue.

During the year ended 31 July 2017, 32,519,239 shares were issued to certain shareholders and other investors as part of our accelerated pro rata entitlement offer of new ordinary shares, and 362,592 shares were issued as part of employee remuneration under the IPO incentive scheme established at the time of our IPO.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2017 are as follows:

Rank	Name	Shares at 31 July 2017	% of Shares
1.	Bright Dairy Holding Limited	69,968,944	39.04
2.	JBWere (NZ) Nominees Limited	14,634,119	8.17
3.	HSBC Nominees (New Zealand) Limited – NZCSD	9,866,317	5.51
4.	Mitsui & Co Limited	9,011,849	5.03
5.	Munchkin Inc.	6,933,523	3.87
6.	John Penno	6,101,577	3.40
7.	Mitsui & Co.(Australia) Limited	6,007,901	3.35
8.	JP Morgan Nominees Australia Limited	5,433,505	3.03
9.	HSBC Nominees (New Zealand) Limited A/C State Street – NZCSD	3,212,628	1.79
10.	FNZ Custodians Limited	2,676,680	1.49
11.	Accident Compensation Corporation – NZCSD	2,403,858	1.34
12.	JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct – NZCSD	1,858,217	1.04
13.	FNZ Custodians Limited	1,846,780	1.03
14.	BNP Paribas Nominees (NZ) Limited	1,336,712	0.75
15.	Custodial Services Limited	1,308,409	0.73
16.	Paul Leslie Lancaster & Bronwyn Anne Lancaster	1,098,723	0.61
17.	Bond Street Custodians Limited	995,695	0.56
18.	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited – NZCSD	990,752	0.55
19.	Therese Roche	900,000	0.50
20.	National Nominees Limited	854,571	0.48
Totals: Top 20 Holders of Ordinary Shares		147,440,760	82.27
Total Remaining Holders Balance		31,782,268	17.73

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 2017 are as follows:

	Fully Paid Ordinary Shares	Percentage of Paid Capital
Bright Dairy Holding Limited	69,968,944	39.04%
Mitsui & Co. Limited	15,019,750	8.38%
The a2 Milk Company (New Zealand) Limited and The a2 Milk Company Limited	14,634,119	8.17%
BT Investment Management Limited, BT Investment Management (Fund Services) Limited and BT Investment Management (Institutional) Limited	10,150,000	5.66%

As at 31 July 2017, there were 179,223,028 fully paid ordinary shares on issue.

DISTRIBUTION OF SHAREHOLDERS

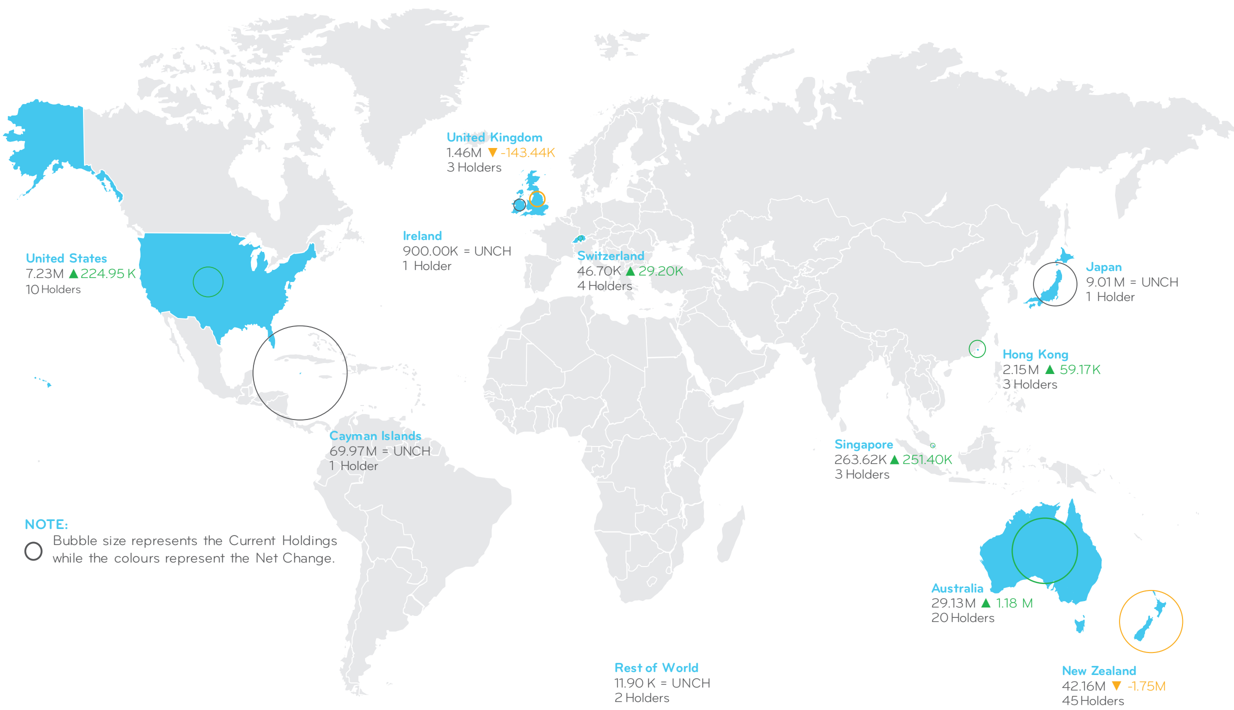
As at 31 July 2017, our shareholding is distributed as follows:

Range	Total holders	Units	% of Issued Capital
1 – 99	7	285	0.00
100 – 199	41	5,312	0.00
200 – 499	133	44,132	0.02
500 – 999	191	130,243	0.07
1,000 – 1,999	419	553,871	0.31
2,000 – 4,999	943	2,848,324	1.59
5,000 – 9,999	444	2,995,492	1.67
10,000 – 49,999	406	7,399,454	4.13
50,000 – 99,999	31	1,965,214	1.10
100,000 – 499,999	33	8,224,733	4.59
500,000 – 999,999	12	8,586,376	4.79
1,000,000 – 999,999,999	12	146,469,592	81.72
Rounding Total (+0.01)	2,672	179,223,028	100.00

STATUTORY INFORMATION CONTINUED

LOCATION OF TOP SHAREHOLDERS

Set out below is the location of our top shareholders[1] based on their registered addresses (as at 31 July 2017).



[1] Our top 94 shareholders based on number of shares held.

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

	2017	2016
Minimum:	$2.95 (14 December 2016)	$2.04 (14 Aug 2015)
Maximum:	$4.46 (11 July 2017)	$3.60 (27 April 2016)
Range:	$2.95 - $4.46	$2.04 - $3.60
Total Shares Traded:	22,945,251	18,830,498

STATUTORY INFORMATION CONTINUED

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 2017.

NZX WAIVERS

The following waivers from the NZX Listing Rules were granted to us or relied upon by us during FY17 (any defined terms in this section carry the same meaning as in the NZX Listing Rules):

On 24 June 2013, we were granted a waiver from various NZX Listing Rules to allow our Constitution and composition of our Board to reflect our non-standard governance arrangements. A summary of those arrangements is set out in section 2 of the Corporate Governance Report on page 52. Full details of this waiver can also be found at the following link (www.nzx.com/files/attachments/178616.pdf)

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

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

- NZX Listing Rule 7.3.1(a), so that Synlait Milk Limited is not required to obtain shareholder approval for the issue of New Shares in connection with the Offer. This waiver is subject to the conditions that the issue be conducted in accordance with NZX Listing Rule 7.3.4(a) (read in conjunction with NZX Listing Rules 7.3.4(d) to 7.3.4(h)), except that the entitlement to subscribe for New Shares (Entitlement) need not be renounceable and Synlait Milk Limited ensures that the institutional bookbuild and retail bookbuild, described under the Offer document, occur.
- NZX Listing Rule 7.10.1, to enable eligible institutional shareholders to be notified of their Entitlement prior to the record date for the Offer and to enable that notification to occur by means other than physical letters of entitlement.
- NZX Listing Rule 7.10.2, to the extent it would otherwise require the institutional entitlement component of the Offer to remain open for 12 Business Days, subject to the condition that Synlait Milk Limited's announcement of the Offer, and the Offer document, clearly state that a shorter than usual offer period will be available to eligible institutional shareholders under the institutional entitlement component of the Offer.
- NZX Listing Rule 7.10.8, to the extent it would have required Synlait Milk Limited to notify NZX of the Offer five Business Days prior to the ex date for the Offer, subject to the condition that the Offer is notified to NZX in accordance with NZX Listing Rule 7.10.8 no later than the ex date for the Offer.
- NZX Listing Rule 7.11.1, to the extent that it would require allotments of New Shares to be made to Bright Dairy Holding Limited (Bright) within five Business Days of closing of the institutional entitlement component of the Offer, subject to the condition that allotment to Bright occurs in part on the institutional component settlement date and in part on the retail component allotment date.

- NZX Listing Rule 9.2.1, so that Related Parties of Synlait Milk Limited (including Bright and Synlait's Directors and Senior Leadership Team) can participate in the Offer without shareholders' approval. This waiver is subject to the conditions that:
  - the Independent Directors certify, in a form acceptable to NZX, that:
    - the terms of the Offer are fair and in the best interests of Synlait Milk Limited shareholders, other than the Related Parties or Synlait Milk Limited shareholders that are Associated Persons of the Related Parties;
    - Synlait Milk Limited will pay and receive fair value under the Offer;
    - Synlait Milk Limited was not influenced in its decision to enter into the Offer by the interests of the Related Parties; and
    - the Related Parties will derive no benefit as a result of the Related Party relationship, over and above the Takeovers Code benefit to Bright allowing it to participate pro-rata in the Offer without breaching the Takeovers Code;
  - the allotment of New Shares to Bright occurs, in part, on the allotment date for the institutional entitlement component of the Offer, and in part, on the allotment date for the retail entitlement component of the Offer; and
  - the Offer is conducted in accordance with the condition to the waiver from NZX Listing Rule 7.3.1(a) set out above.

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

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

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

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors (and past Directors) for services to the company and the subsidiaries* for the year ended 31 July 2017 were as follows (including comparative figures for 2016):

Director	Class	Position	Retired / Appointed	2017 – Total Remuneration[1]	2016 – Total Remuneration
Graeme Milne	Independent	Chairman		115,333	108,000
Bill Roest	Independent	Audit and Risk Committee Chair		71,333	66,000
Sam Knowles	Independent	Director	Retired and Reappointed 29 November 2016	63,333	60,000
John Penno[2]	Board Appointed	Managing Director		1,200,188	780,771
Hon. Ruth Richardson	Bright Appointed	Remuneration and Governance Chair		71,333	66,000
Sihang Yang	Bright Appointed	Director		63,333	60,000
Qikai Lu	Bright Appointed	Director		63,333	38,795
Min Ben	Bright Appointed	Director	Appointed 29 November 2016	43,667	-
Li Ke	Bright Appointed	Director	Resigned 8 September 2016	6,500	60,000

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

[1]An increase in Director Fees was approved at the Annual Meeting on 29 November 2016 effective from 1 April 2017, so these reflect the 8 months at the old rates and 4 months at the new rates. Full year Director Fees at the new rates are as follows: Chairman of the Board $130,000, Chair of Committee $82,000 and Director $70,000.

[2]As Managing Director, John Penno does not receive Director's Fees. His remuneration listed above constitutes payment for his position as Managing Director and Chief Executive Officer. In the year to 31 July 2017, his remuneration was made up of a fixed salary of $925,388 (2016: $698,331) and performance based bonus of $274,800 (2016: $82,440). Each year the remuneration and bonus arrangement of the Managing Director and CEO are recommended by the Remuneration and Governance Committee and approved by the Board (excluding the Managing Director).

John Penno was granted 225,341 performance rights under the Group's IPO incentive scheme. In the year ended 31 July 2017, 75,114 performance rights were vested. The remaining 150,277 performance rights were forfeited in the first two years of the IPO incentive scheme due to performance conditions not being met. John Penno is a participant of the company's new long term incentive scheme which commenced in June 2017. He was granted 70,154 performance rights under the scheme in the year ended 31 July 2017. Further details on the IPO incentive scheme and the new long term incentive scheme are disclosed in section 5 of the Corporate Governance Report on page 52 and in Note 12 in the financial statements on page 92.

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

DIRECTORS' INTERESTS

In addition to the disclosures made elsewhere in this Annual Report, the Directors have disclosed under section 140(2) of the Companies Act 1993 the following interests in the Interests Register of the company and the subsidiaries (Synlait Milk Finance Limited, The New Zealand Dairy Company Limited, and Eighty Nine Richard Pearse Drive Limited) as at 31 July 2017:

Nature of Interest
Graeme Milne
Member University of Waikato Council
Chairman Terracare Fertilisers Limited
Trustee Rockhaven Trust
Partner G R & J A Milne
Chairman of Nyriad Limited
Director Farmers Mutual Group Insurance Limited
Director Alliance Group Limited
Director Elviti Holdings Limited and subsidiaries
Director PF Olsen Group Limited and subsidiaries
Director FarmRight Limited
Chairman Rimanui Farms Limited Advisory Board
Chairman Pro-Form Ltd Advisory Board
Chairman Synlait Milk Limited
Chairman Synlait Milk Finance Limited
Chairman The New Zealand Dairy Company Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

Hon. Ruth Richardson
Chair Kula Fund Advisory Committee
Director Ruth Richardson [NZ] Limited
Chair SYFT Technologies Limited
Chair Kiwinet
Chair New Zealand Merino Company
Director Bank of China (NZ)
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Bill Roest
Director Fisher & Paykel Appliances Limited
Director Housing Foundation Limited
Trustee New Zealand Housing Foundation
Trustee WJ & IJ Family Trust
Director Metro Performance Glass Limited
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Qikai Lu
Director Ba'emek Advanced Technologies Limited
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Min Ben
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

STATUTORY INFORMATION CONTINUED

Sihang Yang
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
John Penno
Trustee John Penno Trust
Director Sichuan New Hope Nutritional Foods Co., Limited
Managing Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Director Okuora Holdings Limited
Shareholder in Okuora Holdings Limited
Director Thorndale Dairies Limited
Shareholder in Thorndale Dairies Limited
Shareholder in Synlait Milk Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Sam Knowles
Director Opus International Consultants Limited
Director Trustpower Limited
Director Rangatira Limited
Director Umajin Limited
Director Partners Life Limited
Chairman OnBrand Limited
Chairman Adminis Limited
Director Magritek Limited
Trustee Ruby Family Trust
Director Com Investments Limited
Director Growthcom Limited
Director Habourside Rentals Limited
Director of Montoux Limited
Trustee Com Trust and Ian Samuel Knowles Children's Trust
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

Directors disclosed the following acquisitions or disposals of relevant interests in shares in the company during FY17:

	Date of Acquisition / Disposal	Number of Ordinary Shares Acquired / (Disposed)	Nature of Relevant Interest	Consideration per share
John Penno	21 April 2017	5,000	Registered holder and beneficial owner	$3.50
	12 April to 13 April 2017	14,178	Registered holder and beneficial owner	$3.44
	24 November 2016	75,114	Registered holder and beneficial owner	Nil[1]
	17 October 2016	602,646	Registered holder and beneficial owner	$3.00
Graeme Milne	17 October 2016	13,227	Registered holder and beneficial owner	$3.00
Hon. Ruth Richardson	17 October 2016	10,222	Shareholder of registered holder	$3.00
Sam Knowles	17 October 2016	10,000	Shareholder of registered holder	$3.00
Bill Roest	17 October 2016	5,000	Registered holder and beneficial owner	$3.00

[1]Issue of shares on the exercise of vested performance share rights issued under IPO incentive scheme.

The Directors' respective shareholding in Synlait as at 31 July 2017 is as follows, with comparative figures for 2016:

	2017	2016
John Penno[1]	6,120,755	5,423,817
Graeme Milne	72,753	59,526
Hon. Ruth Richardson	56,222	46,000
Sam Knowles	55,000	45,000
Bill Roest	27,750	22,750
Min Ben[2]	0	N/A
Qikai Lu	0	0
Sihang Yang	0	0
Li Ke[3]	0	0

[1]John Penno was also granted 70,154 performance rights under the Group's new long term incentive scheme in the year ended 31 July 2017.

[2] Min Ben was appointed on 29 November 2016.

[3] Li Ke resigned on 8 September 2016.

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2017:

1. Synlait Milk Finance Limited

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

2. The New Zealand Dairy Company Limited

Sole Director: Graeme Milne

3. Eighty Nine Richard Pearse Drive Limited

Sole Director: Graeme Milne

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

DIVERSITY

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

In accordance with NZX requirements, our reported gender breakdown at Senior Leadership Team and Board level as at 31 July 2017 is:

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

Our reported gender breakdown as at 31 July 2016 was:

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

In addition, we have the following alternative measures of diversity which may be of interest to investors. As at 31 July 2017:

Ethnicity: Based on the place of birth

	New Zealand	Asia	Other
Board	4	3	1
Senior Leadership Team	7	-	5

Domicile: Based on the place of current residence

	New Zealand	Asia	Other
Board	5	3	-
Senior Leadership Team	12	-	-

Languages spoken

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

Highest qualifications held

	Bachelor degree	Post-graduate degree
Board	2	6
Senior Leadership Team	6	5

STATUTORY INFORMATION CONTINUED

EMPLOYEE REMUNERATION

During the year ended 31 July 2017 the following employees and former employees received individual remuneration over $100,000 (with comparative figures for 2016).

Note that Synlait Milk Limited now has three subsidiary companies: Synlait Milk Finance Limited, Eighty Nine Richard Pearse Drive Limited, and The New Zealand Dairy Company Limited. The first two of these have no employees. The New Zealand Dairy Company Limited has three employees, whose remuneration data is included below.

Remuneration range	2017	2016
	Number of employees	Number of employees
$100,000 – $110,000	20	15
$110,000 – $120,000	9	4
$120,000 – $130,000	13	4
$130,000 – $140,000	9	13
$140,000 – $150,000	11	5
$150,000 – $160,000	7	7
$160,000 – $170,000	7	1
$170,000 – $180,000	3	2
$180,000 – $190,000	1	1
$190,000 – $200,000	0	1
$200,000 – $210,000	1	0
$210,000 – $220,000	0	2
$220,000 – $230,000	1	0
$230,000 – $240,000	0	0
$240,000 – $250,000	0	1
$250,000 – $260,000	0	0
$260,000 – $270,000	0	1
$270,000 – $280,000	0	1
$280,000 – $290,000	0	0
$290,000 – $300,000	0	0
$300,000 – $310,000	3	1
$310,000 – $320,000	1	0
$320,000 – $330,000	0	0
$330,000 – $340,000	1	0
$340,000 – $350,000	1	0
$350,000 – $360,000	1	1
$360,000 – $370,000	0	1
$370,000 – $380,000	1	0
$380,000 – $390,000	0	0
$390,000 – $400,000	0	1

Two employees were between $440,000 - $450,000 in 2017. One employee was between $480,000 - $490,000 in 2016.

STATUTORY INFORMATION CONTINUED

DONATIONS

For the year ended 31 July 2017 we donated $20,000 to support the building of the Dunsandel Community Centre, which officially opened in August 2017. For more information on our sponsorships and donations see section 9 of Our Corporate Governance Report on page 61.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

CURRENCY

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

CREDIT RATING

We do not have a credit rating.

ANNUAL SHAREHOLDER MEETING

Our annual shareholders meeting will be held on Wednesday 29 November 2017 in Christchurch, unless otherwise notified. We will confirm the time and location details for the meeting by notice to all our shareholders nearer to that date.

ANNUAL REPORT

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

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

FURTHER SHAREHOLDER INFORMATION ONLINE

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

DIRECTORY

REGISTERED OFFICE

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

BOARD OF DIRECTORS AS AT 31 JULY 2017

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

Qikai (Albert) Lu – Bright Dairy Director

Sihang (Edward) Yang – Bright Dairy Director

Min Ben – 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

Neil Betteridge – Director, Operations

Chris France – Director, Strategy and Business Transformation

Martijn Jager – Director, Sales and Business Development

Boyd Williams – Director, People, Culture and Performance

Daniel Burdett – General Manager, Quality

Matthew Foster – General Manager, Strategic Projects

Robert Stowell – General Manager, Supply Chain

Antony Moess – General Manager, Manufacturing

Callam Weetman – General Manager, Sales

Roger Schwarzenbach – General Manager, Innovation and Technical Services

AUDITOR

Deloitte
151 Cambridge Terrace
Christchurch 8013
New Zealand

LAWYERS

MinterEllisonRuddWatts
Lumley Centre
88 Shortland St
Auckland 1010

BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited

SHARE REGISTRAR

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

MANAGING YOUR SHAREHOLDING ONLINE

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

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

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

OTHER INFORMATION

Please visit us at our website www.synlait.com

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