synlait™
making more from milk

TO:DATE

Synlait Milk Limited Interim Report FY18

SIX MONTH HIGHLIGHTS

DEBT DOWN

NET DEBT H1 FY17
$147m

NET DEBT H1 FY18
$50m

PROFIT UP

NPAT H1 FY17
$10.6m

NPAT H1 FY18
$40.7m

ANNOUNCED INVESTMENT IN LIQUID MILK FACILITY IN DUNSANDEL

$125m

ACQUIRED SITE TO ESTABLISH OPERATIONS IN POKENO

OPENED
SYNLAIT AUCKLAND +
SYNLAIT PALMERSTON NORTH

FOODSTUFFS SOUTH ISLAND
CONTRACT WON TO MANUFACTURE
FRESH MILK + CREAM

ACHIEVED CFDA
REGISTRATION FOR
THE a2 MILK COMPANY'S™ INFANT FORMULA

COMMISSIONED
NEW WETMIX KITCHEN
AT SYNLAIT DUNSANDEL

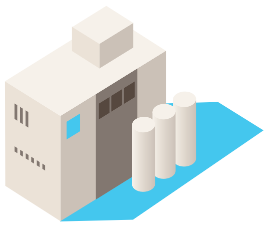
INGREDIENTS

INFANT NUTRITION

OUR CATEGORIES

TO:SUCCEED

OUR VALUE CHAIN



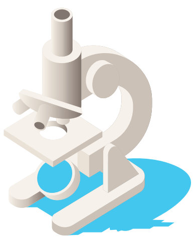
DIFFERENTIATED MILK SUPPLY → RESEARCH + CATEGORY DEVELOPMENT → MANUFACTURING EXCELLENCE

EVERYDAY DAIRY

ADULT NUTRITION

WE WILL LEVERAGE OUR UNIQUE VALUE CHAIN IN EACH CATEGORY TO BUILD SUCCESSFUL BUSINESSES THAT CONTRIBUTE TO OUR LONG-TERM SUCCESS

CONSUMER PACKAGING



QUALITY TESTING LABORATORY

REGULATORY CAPABILITY

LEADERSHIP UPDATE

Graeme Milne
CHAIRMAN

John Penno
MANAGING DIRECTOR AND CEO

Synlait is all about making the most from milk.

Compared to other half year milestones, we have come a long way in a much shorter space of time and with the momentum of growth constantly increasing, our FY18 update is both about solid progress against our ambition and the opportunities that lie ahead.

A SUCCESSFUL GROWTH STRATEGY

Our strategy is to manufacture high value dairy products by collaborating with New Zealand's best dairy farmers, and the most innovative international brand owners, to target the most discerning consumers in leading markets.

It is a strategy designed to gain access to the highest returning categories, products, markets and customer segments in dairy.

This strategy quickly led us from dairy ingredients into infant formula ingredients and finished consumer packaged infant formula products.

Over the past ten years, we have grown from a new entrant to one of the leading manufacturers in the global paediatrics industry, supplying ingredients to multinational infant formula companies and consumer-ready infant formula to innovative new entrant brand owners.

Wherever we can, we differentiate our product offering by working with our farmers to produce milk that delivers benefits for consumers. We then manufacture our products from those milks, streaming them into the final consumer product that our business to business (B2B) customers currently market and sell.

We have been in a cycle of continual investment in research and development (R+D) focused on product development for our customers, investment in state-of-the-art plant and equipment, and building a world class team, enjoying an annual compounding growth rate of 27% by volume and 38% by revenue since 2009.

High rates of return on capital are achieved by maintaining low cost structures through scale, high rates of plant utilisation, high yield and high quality.

Strong cash flow from operations is being channelled towards diversification and a business strategy that will thrive in the years ahead.

We have a flourishing R+D and market development program, we're building scale with value-added manufacturing capacity and we're maintaining a strong balance sheet with an expectation of organic and acquisitive growth in areas that support our strategy.

We will continue investing in the right kind of manufacturing capacity to support growth in infant formula volumes to meet customer demand.

However, we are also ready to begin to develop a new category, and are focusing on developing opportunities in everyday dairy – the dairy products consumed straight out of the pack or bottle at home each day.

By targeting these products in the New Zealand domestic market, we believe we will also create high value export opportunities.

IMPROVING UNDERLYING BUSINESS PERFORMANCE

In recent years, we have been working hard to improve the systems and processes, and operational performance we use to manage our rapidly growing business.

These efforts are beginning to demonstrate tangible performance improvements with greater plant throughput, lower levels of downgraded product and significantly lower inventory delivering improved margins on ingredient products and a stronger balance sheet.

Integrated Business Planning (IBP) has replaced our sales and operational planning process and now sits at the heart of our business driving our monthly planning and monitoring rhythm.

IBP has us focused on a three-year timeframe considering new categories, product and customer development, product demand, manufacturing and supply chain, and workforce planning. Changes to the plan are integrated through our budgeting and financial forecasting processes.

Management of our manufacturing team was restructured over the past 12 months placing commercial managers over each major process. These managers have been given responsibility and resources to drive performance measured by quality, safety, throughput, yield and cost. We have worked with them to align reporting through a system of balanced scorecards with targets and gap analysis.

We are rolling out Integrated Work Systems (IWS) across manufacturing and supply chain. IWS is a continuous performance improvement process developed by Procter and Gamble. Combined with our restructured management and reporting system, we expect IWS to deliver about 15,000 metric tonnes (MT) of additional production at Synlait Dunsandel in FY19 compared to FY17.

GROWING OUR PARTNERS' INFANT FORMULA BUSINESSES

Total sales of finished infant formula were 16,800 MT in the first half of this financial year (H118), representing 165% growth on H117, and 35% growth on H217.

Our relationship with The a2 Milk Company™ continues to strengthen and we remain their exclusive manufacturer for the important Australia, New Zealand and China markets. Our R+D team is currently working on developing additional products for other markets as we support their strategy for regional growth.

Synlait received Chinese Food and Drug Administration (CFDA) approval in September 2017 for The a2 Milk Company's™ China-label range of infant formula, comprising stage 1, 2 and 3 products.

This allows these products to continue being imported and sold in China.

We have renegotiated our supply agreements with New Hope Nutritionals to manufacture their Akara and E-Akara range of infant formula and with Bright Dairy to manufacture their Pure Canterbury infant formula range.

Over the next five years we expect these products will become an important part of our infant nutrition portfolio.

They will offer a disproportionate contribution to earnings as the new agreements reflect the value of being allocated one of the limited CFDA registration slots available to us as a manufacturer.

Securing these agreements has cleared the way to proceed with CFDA registration of the New Hope Nutritional and Bright Dairy infant formula brands. However, while we are confident registration will be achieved and these processes are well underway, the time taken to negotiate these agreements means we expect registrations to be progressively granted in late FY18 and the first half of FY19. This is well after the deadline of 1 January 2018, which is when unregistered products can no longer be imported. We anticipate that this will delay significant orders for these products into early FY19.

A slower than expected process to receive regulatory approval to begin the sale of Munchkin's Grass Fed™ infant formula in the U.S. market is also delaying expected manufacturing volumes.

While we remain excited about the potential of our partnership with Munchkin, and confident of eventual approval from the U.S. regulatory authorities, significant increases in manufactured volume has been later than we initially anticipated.

Overall we expect modest growth in sales of canned infant formula in H218 compared to H118, before stronger growth resumes through FY19 as regulatory approval is gained for Akara, E-Akara and Pure Canterbury for China, and progressed for Munchkin Grass Fed™ in the U.S.

Our infant formula ingredient business is continuing to develop with growing volumes of infant-grade skim milk powders (SMP), whole milk powders (WMP), growing up milks and base powders being supplied to local and multinational infant formula manufactures customers.

We are also experiencing growing demand for infant formula-grade lactoferrin powders. This is resulting in price increases which has restored profitability to this business unit.

Over the past year, we have made two investments to expand our infant formula capacity.

In November 2017 we commissioned our new Wetmix kitchen, which allows us to blend sufficient wet infant formula base to operate both Dryer Two and Dryer Three simultaneously on infant formula base powder. This provides sufficient capacity for 80,000 MT per annum of base infant powder from total site production, which is some 145,000 MT of milk powder and cream products.

Also in November we commissioned our new infant formula blending and consumer packaging facility in Auckland. This was acquired partially finished in May 2017 and lifts our blending and consumer packaging capacity to 70,000 MT from 35,000 MT per annum.

As we look forward we can see an ongoing requirement to continue building capacity for the manufacture of infant grade ingredients and base powders.

It has also become important to mitigate the single-site risk we face with the large concentration of manufacturing and milk supply at our Dunsandel site for our branded infant formula customers.

Following a search over the past year, in February 2018 we announced that we had entered an agreement to purchase 28 hectares of industrial land in Pokeno in the northern Waikato region.

The site was selected for optimum long-term development and operating costs.

It is also close to two large ports for imported ingredients and within 50 km of our new Auckland canning site. Considering long-term milk, ingredient and finished product transport costs, there was a considerable advantage to this site compared to similar options we considered further south.

The immediate availability of gas and electricity for energy, fresh water for processing and sustainable wastewater treatment through the local municipal scheme also reduces the capital and long-term costs of developing and operating the site.

We have advanced plans for the initial development and intend to proceed once we have secured planning consent. This will also inform our timeline for commissioning Synlait Pokeno, however we are attempting to bring our new site to life as quickly as we can to meet growing customer demand.

We are pleased with the levels of enquiry that we have received from local farmers since announcing the Pokeno site purchase. We have several conversations underway and are confident of securing sufficient milk for our immediate plans and into the future.

EVERYDAY DAIRY AS A NEW CATEGORY

With our infant formula business continuing to mature, we have begun to develop everyday dairy opportunities, which we believe to be an exciting new category and market for Synlait.

The New Zealand domestic market is small relative to the amount of milk produced on New Zealand dairy farms, it requires only 5% of total milk production.

However, we estimate the wholesale value of everyday dairy in New Zealand to be $2 billion, making it a meaningful target category for Synlait.

In December 2017 we announced an agreement with Foodstuffs South Island to become their exclusive manufacturer of private label fresh milk and cream from early 2019. To support this contract, and open up new export opportunities, we are investing $125 million in a new advanced liquid dairy packaging facility at Synlait Dunsandel.

Milk is a wonderful food nutritionally and it's consumed globally. It has a good mix of healthy fatty acids in its cream, and the phospholipids that form membranes around the fat globules in cream develop and protect our brain cells. The amino acids in the casein and whey proteins contained in milk are fantastic for muscle growth and recovery. It's also a wonderful source of minerals, particularly calcium, which we need for bone growth and protection.

We are proud to be producing consumer milk products for our customers. There are literally millions of children and families who are healthier and happier because they are consuming products we manufacture from the milk we collect from our farmers.

For the last 50 years, New Zealand has manufactured much of our milk into milk powder in order to preserve and to concentrate it for storage and shipping. Much of our milk powder has been sold to places where fresh milk isn't available, or is very expensive, but most of it is then reconstructed back into liquid milk.

Traditionally reconstitution was done in the home, with families buying milk powder and then mixing it with water to provide drinking milk in one form or another. This is still the dominant way infant formula is delivered and used.

Over the years milk powder reconstitution has increasingly been done on an industrial scale. Milk powder is being blended with water in factories, then the milk is packaged in bottles or cartons as pasteurised or ultra-heat treated (UHT) long life milk.

The current industry structure supports the dairy manufacturing sector to produce some of the highest quality milk powder in the world at huge scale, and this powder is shipped to in-market businesses that reconstitute it and manufacture it in consumer packs for distribution, often in the form of long life milk and fermented drinks.

But there have been three important changes underway challenging the underlying assumptions shaping current infrastructure.

Firstly, the cost of shipping dairy or infant formula in its whole form has markedly reduced relative to the cost of manufacturing spray dried milk products. Secondly, wealthy consumers are increasingly prepared to pay a premium for product from places like New Zealand. And finally, the world is waking up to the environmental cost of industrial processes.

Producing milk, using huge amounts of water and energy to dry it and package it, only to ship it to factories in Asia where the milk powder is blended with water again and packaged for distribution just doesn't make sense anymore.

We have learnt through our infant formula business that significant value that can be created by manufacturing the final consumer packaged products within the company.

This starts by providing fresh milk through Foodstuffs South Island's extensive network of New World, PAK'NSAVE, Four Square and On The Spot stores in their Pams and Value banded products.

This will only utilise about one-third of the capacity for the advanced liquid dairy packaging facility we are building in Dunsandel.

The other two-thirds of capacity in our $125 million facility will provide capacity for branded domestic and export focused products, shipped as food service and consumer packaged milk, cream, dairy beverage and infant formula products.

The plant has been configured with a focus on developing innovative new products for both the domestic and export markets. We see our channels to market developing through our traditional business to business model, and potentially by developing our own portfolio of branded products

This is a new journey for Synlait. It is like the moment we decided to pursue the infant formula category a decade ago. We firmly believe that in the years to come it will prove to be just as important.

INNOVATION FOCUS CONVERGING ON SYNLAIT PALMERSTON NORTH

We have always invested heavily in R+D with much of this innovation focused on new product development for our infant formula customers, and on our unique lactoferrin manufacturing process. It's been practical hands on innovation around differentiated milk streaming, unique farm systems, high-specification manufacturing and recipe formulation.

Of course we also have some traditional research and development underway, but arguably we haven't had enough, and perhaps what we have done hasn't been sufficiently well focused on clearly identified market opportunities.

The appointment of Dr Roger Schwarzenbach as General Manager of Technical and Innovation signalled our intention for a larger and more focused research and development effort. This effort is both supporting our existing ingredient and infant formula businesses, and helping us prepare for the everyday dairy and adult nutrition categories we intend to move into.

Already our spend on research and development has grown from $2.25 million in FY16 to $4.75 million in FY17 and is forecast at $7 million in FY18. We intend to lift this to 1.5% of revenue within the next few years, which will see it double again. While this investment is dwarfed in comparison to other companies, the highly targeted nature of our efforts are matched to the significant market opportunities we've identified and in return we will realise the value many times over.

We have decided to base the first Research and Development Centre beyond Dunsandel in Palmerston North because it has allowed us to partner with Massey University.

Importantly, this partnership secures ongoing access to their FoodPilot™ pilot plant and equipment they have on site, which are ideally suited for the products we are looking to develop.

Above all else great research and development comes from great people working together collaboratively in effective teams. Being located in the heart of the Massey University campus is allowing us to attract great people to our team, and for those staff to work alongside technical and scientific experts and students at the University. It also provides a base for our technical and manufacturing people from Dunsandel and Auckland when they are bought in to be part of projects running on the FoodPilot™ plant.

BUILDING THE BEST TEAM IN THE WORLD

The momentum and success created by the step change in our leadership team capability in FY16 and FY17 continues to drive greater performance as a business, but also as an organisation responsible for the careers of more than 600 people.

It was with great pleasure we announced in January Dr Suzan Horst would be joining the Senior Leadership Team (SLT) as Director of Quality, Regulatory and Laboratory Services from 1 April 2018.

One of the best in her field globally, Suzan's executive experience with large multinational dairy companies like FrieslandCampina and Nutreco B V will complement the breadth of leadership and commercial capability in the SLT. Her role carries significant responsibility across our value chain with oversight of food safety systems and risk management programmes.

We also welcomed Deborah Marris to the SLT as our General Counsel and Head of Commercial in March. With an extensive international legal career featuring senior roles based in New Zealand, China, the United Kingdom and India, Deborah has the skills, foresight and experience we need in this area.

Lastly, we began working with Hamish Reid in late 2017 to better understand our ambitions around sustainability. As it's transpired, Hamish has played a pivotal role in this on-going discussion and has taken on the role of Chief Sustainability Officer to focus on our aspirations in this area. Hamish is also our General Manager of Brand and we will leverage his deep experience in food and beverage marketing to continue evaluating potential consumer brand opportunities.

THREE SIGNIFICANT APPOINTMENTS TO THE SENIOR LEADERSHIP TEAM IN H1 FY18

Dr. Suzan Horst - DIRECTOR OF QUALITY, REGULATORY AND LABORATORY SERVICES

Deborah Marris - GENERAL COUNSEL AND HEAD OF COMMERCIAL

Hamish Reid - GENERAL MANAGER OF BRAND AND CHIEF SUSTAINABILITY OFFICER

Across the business we continue to grow and deepen the capability of our people. New roles are primarily focused on supporting strategic initiatives and our category growth, and we're pleased that we continue to attract high calibre talent to our organisation.

In the first six months of this financial year we have created 70 new roles. We are a significant regional employer in New Zealand and take this responsibility very seriously. The best evidence of this is an effective induction programme for all new starters, a genuine focus on increasing staff engagement and a number of initiatives to develop and grow our people in their roles.

In November John Penno signalled his decision to step down from his CEO role in 2018. As a co-founder and long-time executive of the organisation, John recognises Synlait is the strongest it has ever been and believes it is the best time to transition to a new CEO with the skills and experience Synlait needs to succeed in the future.

The Board of Directors has embarked on an international search for the right person to take on the CEO role and while this is progressing well, the Board remains committed alongside John to make the transition as orderly as possible when the time comes.

John will continue as a Director for the company after the transition, and an update around progress will be shared as it is known. We can assure our shareholders that they continue to be well served by our people at all levels of the business. It is a great team to work with and they are delivering an exciting future.

WHAT TO EXPECT FROM THE REST OF THIS YEAR.

Synlait is an increasingly robust business moving forward at pace.

The material increases in first half earnings has been achieved from both large increases in manufacture and sales of our highest margin products, as well as improved margins and earlier sales of our ingredients products.

This earlier phasing of ingredients sales, combined with increasing commitments to R+D and business development, means earnings in the second half are expected to be lower than the first half.

Although the second half of FY18 is not expected to be as strong as the first half, we continue to forecast strong overall earnings growth for the full year. Looking forward into FY19, ongoing growth in infant formula volumes are expected to continue to grow earnings.

Kind regards,

Graeme Milne	John Penno
CHAIRMAN	MANAGING DIRECTOR
20 March 2018	20 March 2018


INLOAD 4
REGULAR
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making more from milk
37739
www.synlait.com
7P454
PATCHELL
PATCHELL TRAILERS
PATCHELL TRAILERS

FINANCIAL UPDATE

Nigel Greenwood

CHIEF FINANCIAL OFFICER

OVERVIEW

Reported after tax earnings for the first half of FY18 (H1 FY18) were a profit of $40.7 million compared to $10.6 million for the same period last year (H1 FY17).

Strong margin growth of $41.5 million before tax has been primarily driven by increased canned infant formula sales volumes.

FINANCIAL PERFORMANCE

SALES

For the period ended 31 January 2018 our revenue at $439.3 million is up 52.2% on last year's $288.7 million. Increased canned infant formula sales volumes and higher dairy commodity prices have both driven increased revenue compared to the same period last year.

Total volume sold for H1 FY18 at 61,303 metric tonnes (MT) was 0.4% above 61,062 MT in H1 FY17.

	H1 FY17	H1 FY18	Growth %
Sales MT			
Powders and cream	54,693	44,435	-18.8%
Consumer Packaged	6,349	16,839	165.2%
Specialty Ingredients	19	28	48.6%
Total	61,062	61,303	0.4%

Powders and cream sales volumes have decreased compared to the first half of last year, predominantly as a consequence of a sell down of aged inventory in the first half of last year. However it is anticipated that powders and cream sales volumes in the first half will represent approximately 50% of our total annual sales volumes (H1 FY17 – 45%)

Consumer packaged sales increased 165.2% over the same period last year and are 36% up on the second half of FY17 where the sales volume was 12,427 MT. H1 FY18 sales volumes are expected to represent approximately 48% of our total sales volumes compared to only 34% in H1 FY17.

PRODUCTION

Total milk solids processed have reduced by 8.7% over H1 FY17, despite a consistent contracted milk supply (41.4 million kgMS). The increase in infant formula production has limited the volume of milk that we have been able to process through the peak on-farm milk production months and so we have sold 3.3 million kgMS to other milk processers during this period.

	H1 FY17	H1 FY18	Growth %
Net Production MT			
Powders and Cream	75,886	64,001	-15.7%
Consumer Packaged	7,088	17,821	151.4%
Specialty Ingredients	6	6	0%
Total	82,980	81,815	-1.4%

In addition it should be noted that by the end of H1 FY17 we had processed approximately 64% of our estimated total annual milk production. This will result in a second half drag associated with under-recovered manufacturing overheads.

There has been an increased focus on sales deliveries, particularly of ingredient products, which has enabled Synlait to reduce our half year finished goods inventory from 42,962 MT to 35,040 MT, an 18.4% decrease year over year.

GROSS MARGIN

Synlait generated a gross profit in H1 FY18 of $85.2 million, a $41.5 million improvement on the $43.7 million generated H1 FY17.

Margin growth has been driven by increased infant volumes with canned infant formula volumes increasing by 10,490 MT to 16,839 MT.

Gross margins per MT has increased from $716 per MT to $1,390 per MT. The largest driver of this improvement has been improved product mix with canned infant formula representing 27% of total sales volume, up from 10% in H1 FY17. We have also achieved and estimated sales phasing margin gain of approximately $4.7 million as a result of contracting higher than anticipated sales in the early part of the season when prices were high.

The improved gross profit per MT has also been supported by the dilutive impacts of ingredient volume sell downs and onerous contract provisions experienced in H1 FY17 not reoccurring in H1 FY18.

OVERHEAD EXPENDITURE

In total our overhead expense for H1 FY18 at $24.5 million is $2.8 million (or 13.1%) up over H1 FY17's $21.7 million. The key driver is increased employee costs, predominantly in the areas of research and development, business development and the leadership team as Synlait reinvests for future growth.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA at $74.1 million increased 122.7% on H1 FY17's $33.3 million, with the $41.5 million improvement in gross margin being the major driver.

NET FINANCING COSTS

Net financing costs at $4.6 million were $2.4 million lower than H1 FY17's $6.9 million. Gross term debt interest costs have decreased by $2.0 million following the capital raise in October 2016 and strong cash flow enabling debt repayments in the second half of FY17.

	H1 FY17	H1 FY18	Variance
Net Finance Costs ($ millions)			
Gross term debt interest	(5.2)	(3.3)	2.0
less Capitalised interest	–	0.2	0.2
Net term debt interest	(5.2)	(3.0)	2.2
Working capital funding interest	(1.5)	(1.5)	0.1
Interest received	0.1	0.5	0.4
Loss on derecognition of financial instruments	(0.3)	(0.6)	(0.3)
Net financing costs	(6.9)	(4.6)	2.4

EARNINGS PER SHARE

Our reported basic and diluted Earnings Per Share (EPS) for H1 FY18 was 22.69 cents against H1 FY17's earnings of 6.34 cents.

The accelerated rights entitlement offer completed in October 2016, and ordinary shares issued to members of senior management who participated in the IPO incentive scheme, increased the number of shares on issue from 146,341,197 to 179,223,028. The weighted average number of shares on issue during the period was 179,223,028 (FY16: 167,309,098).

FINANCIAL POSITION

OVERVIEW

Operating cash flow for the 12 months ended 31 January 2018 of $204.3 million has fully funded capital expenditure for growth and enabled a reduction of net debt from $146.6 million to $49.7 million. This has resulted in Synlait's leverage ratio reducing from 1.8 times EBITDA to 0.4 times EBITDA, leaving Synlait well positioned to invest for future growth.

TRADE AND OTHER RECEIVABLES

At $47.1 million, trade and other receivables are down on H1 FY17's $62.0 million. This decrease is predominantly driven by improving product mixes, enabling increased assignments of receivables.

INVENTORIES

Total inventory at $170.1 million is 13.9% lower than the $197.5 million held at the same time last year.

The major driver of the reduction is 18.4% lower finished goods inventory (35,040 MT compared to 42,962 MT H1 FY17) which has been partially offset by a higher inventory cost per metric tonne due to higher forecast farm gate milk price.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at $501.5 million increased $72.7 million over the same time last year ($428.8 million). Major investments of note were the Wetmix kitchen and the Auckland consumer packaging facility.

$ millions	Location	H1 FY18	Total	Commissioned
Wetmix kitchen	Dunsandel	18.4	34.5	Nov 17
Consumer Packaging Facility	Auckland	11.2	32.9	Nov 17
Other capital Expenditure		4.9		
Total Capital Expenditure		34.5		

TRADE AND OTHER PAYABLES

Trade and other payables at $204.0 million is up $46.1 million (29.2%) on last year's $157.9 million.

Approximately half of the increase is due to an increase in the value of deposits received from customers as canned infant formula volumes increase. An increased amount remaining payable to milk suppliers due to a higher milk price relative to last season is the other major driver of the increase.

TOTAL NET DEBT

Total Net Debt for H1 FY18, including both current and term debt facilities less cash on hand, was $49.7 million. This is a reduction of $96.8 million from January 2017 as a consequence of strong operating cash flow in the second half of FY17 and H1 FY18.

$ millions	H1 FY17	H1 FY18
Current Debt	66.4	54.9
Term Debt	83.5	83.7
Cash on Hand	(3.3)	(88.9)
Net debt	146.6	49.7

OPERATING CASH FLOWS

Operating cash flow at $75.0 million were $89.2 million up on H1 FY17's negative $14.2 million. The improved operating cash flow has been predominantly driven by increased EBITDA ($40.8 million increase) and increased customers deposits, both a consequence of higher canned infant formula sales volumes.

BANK FACILITIES AND COVENANTS

We have two syndicated bank facilities in place with ANZ and BNZ after refinancing in August 2016, refinancing the Mitsui trade finance facility and completing the capital raise.

1. Working capital facility (multi-currency) – reviewed annually and facility limit of $120.0 million
2. Revolver facility – matures 1 August 2020 and facility limit of $145.0 million

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

1. Interest cover ratio – EBITDA to interest expense of no less than 3.00× based on full year forecast result
2. Minimum shareholders funds – no less than $296.0 million
3. Working capital ratio – inventory and debtors to working capital facility outstanding of no less than 1.5:1
4. Leverage ratio – Total debt to EBITDA is no greater than 3.75×

We were compliant with our bank covenants at all times during H1 FY18.

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.

Nigel Greenwood, Chief Financial Officer


EXIT

FINANCIAL STATEMENTS

HY18

SYNLAIT MILK LIMITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

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DIRECTORS' DECLARATION

31 JANUARY 2018

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the condensed interim 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 22 to 34 for the six months ended 31 January 2018.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2018 and the financial performance and cash flows for the six months ended on that date.

The Directors consider that the condensed interim 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
20 March 2018

John Penno
MANAGING DIRECTOR
20 March 2018

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

		Period ended		Year ended
		31 January	31 January	31 July
		2018	2017	2017
		Unaudited	Unaudited	Audited
	Notes	$'000	$'000	$'000
Revenue		439,316	288,696	758,994
Cost of sales	4	(354,128)	(244,959)	(648,585)
Gross profit		85,188	43,737	110,409
Other income		326	367	680
Share of profit/(loss) from associates		189	(481)	(560)
Sales and distribution expenses	4	(8,661)	(8,235)	(16,731)
Administrative and operating expenses	4	(15,873)	(13,464)	(28,021)
Earnings before net finance costs and income tax		61,169	21,924	65,777
Finance expenses		(4,497)	(6,746)	(11,429)
Finance income		536	95	18
Loss on derecognition of financial assets		(591)	(278)	(802)
Net finance costs		(4,552)	(6,929)	(12,213)
Profit before income tax		56,617	14,995	53,564
Income tax expense		(15,954)	(4,384)	(15,341)
Net profit after tax for the period		40,663	10,611	38,223
Earnings per share				
Basic and diluted earnings per share (cents)		22.69	6.34	22.07

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

		Period ended		Year ended
		31 January	31 January	31 July
		2018	2017	2017
		Unaudited	Unaudited	Audited
	Notes	$'000	$'000	$'000
Profit for the period		40,663	10,611	38,223
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		1,043	3,911	3,597
Income tax on other comprehensive income		(292)	(1,095)	(1,007)
Total items that may be reclassified subsequently to profit and loss		751	2,816	2,590
Other comprehensive income for the period, net of tax		751	2,816	2,590
Total comprehensive income for the year		41,414	13,427	40,813

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

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

		Share capital	Employee benefits reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2016		172,247	435	14,032	20,276	49,853	256,843
Profit or loss for the period		–	–	–	–	10,611	10,611
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		–	–	4,792	–	–	4,792
Movement in time value hedge reserve		–	–	(881)	–	–	(881)
Income tax on other comprehensive income		–	–	(1,095)	–	–	(1,095)
Total other comprehensive income		–	–	2,816	–	–	2,816
Issue of new shares		95,412	–	–	–	–	95,412
Employee benefits reserve		–	(17)	–	–	–	(17)
Capitalisation of employee benefits reserve		418	(418)	–	–	–	–
Total contributions by and distributions to owners		95,830	(435)	–	–	–	95,395
Equity as at 31 January 2017		268,077	–	16,848	20,276	60,464	365,665
Equity as at 1 August 2017		268,074	36	16,622	20,276	88,076	393,084
Profit or loss for the period		–	–	–	–	40,663	40,663
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		–	–	668	–	–	668
Movement in time value hedge reserve		–	–	375	–	–	375
Income tax on other comprehensive income		–	–	(292)	–	–	(292)
Total other comprehensive income		–	–	751	–	–	751
Total comprehensive income		–	–	751	–	40,663	41,414
Issue of new shares		–	–	–	–	–	–
Employee benefits reserve		–	238	–	–	–	238
Capitalisation of employee benefits reserve		–	–	–	–	–	–
Total contributions by and distributions to owners		–	238	–	–	–	238
Equity as at 31 January 2018		268,074	274	17,373	20,276	128,739	434,736

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2018

	Notes	Period ended 31 January 2018 Unaudited $'000	Period ended 31 January 2017 Unaudited $'000	Year ended 31 July 2017 Audited $'000
Current assets				
Cash and cash equivalents		88,878	3,307	73,827
Trade and other receivables	6	47,055	61,953	79,028
Goods and services tax refundable		4,599	5,117	5,080
Income accruals and prepayments		2,081	1,506	2,862
Inventories	7	170,071	197,455	82,695
Derivative financial instruments	11	19,279	27,082	14,995
Total current assets		331,963	296,420	258,487
Non-current assets				
Property, plant and equipment	8	501,538	428,795	470,554
Intangible assets		5,674	3,810	3,246
Goodwill		3,643	–	3,643
Other investments		453	343	264
Derivative financial instruments	11	11,329	8,022	17,431
Total non-current assets		522,637	440,970	495,138
Total assets		854,600	737,390	753,625
Current liabilities				
Loans and borrowings	9	54,944	66,350	72,448
Trade and other payables		204,011	157,886	142,084
Current tax liabilities		29,774	14,522	13,894
Derivative financial instruments	11	3,609	5,228	3,904
Total current liabilities		292,338	243,986	232,330
Non-current liabilities				
Loans and borrowings	9	83,667	83,528	83,637
Deferred tax liabilities		39,923	38,228	39,557
Derivative financial instruments	11	3,937	5,983	5,017
Total non-current liabilities		127,527	127,739	128,211
Total liabilities		419,865	371,725	360,541
Equity				
Share capital	10	268,075	268,077	268,074
Reserves		37,923	37,124	36,934
Retained earnings		128,737	60,464	88,076
Total equity attributable to equity holders of the Group		434,735	365,665	393,084
Total equity and liabilities		854,600	737,390	753,625

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

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

		Period ended		Year ended
		31 January	31 January	31 July
		2018	2017	2017
		Unaudited	Unaudited	Audited
	Notes	$'000	$'000	$'000
Cash flows from operating activities				
Cash receipts from customers		470,931	267,931	738,042
Cash paid for milk purchased		(268,216)	(201,489)	(401,065)
Cash paid to other creditors and employees		(128,215)	(76,152)	(207,578)
Net movement in goods and services tax		481	(4,460)	(4,055)
Income tax refunds		–	–	(10,169)
Net cash inflow / (outflow) from operating activities	5	74,981	(14,170)	115,175
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		–	–	(26,906)
Interest received		536	95	18
Acquisition of property, plant and equipment		(34,492)	(7,454)	(33,057)
Proceeds from sale of property, plant and equipment		–	16	19
Acquisition of intangible assets		(3,175)	(314)	(226)
Net cash outflow from investing activities		(37,131)	(7,657)	(60,152)
Cash flows from financing activities				
Receipt of cash from issue of shares (net)		–	95,412	95,409
Repayments of borrowings		–	(85,405)	(92,405)
Net movement in working capital and trade finance facilities		(17,504)	19,803	25,902
Interest paid		(5,295)	(6,721)	(12,147)
Net cash (outflow) / inflow from financing activities		(22,799)	23,089	16,759
Net increase / (decrease) in cash and cash equivalents		15,051	1,262	71,782
Cash and cash equivalents at the beginning of the period		73,827	2,045	2,045
Cash and cash equivalents at end of the period		88,878	3,307	73,827

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

1 REPORTING ENTITY

The consolidated condensed interim 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.

2 BASIS OF PREPARATION OF SIX MONTHLY FINANCIAL REPORT

The unaudited consolidated condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as appropriate for interim financial statements. They comply with International Accounting Standard 34 (IAS 34) and New Zealand equivalent to International Accounting Standard 34 (NZ IAS 34) Interim Financial Reporting and other applicable financial reporting standards appropriate for profit oriented entities.

Synlait Milk Limited is subject to seasonal fluctuations which have an impact on both revenue and production levels due to northern hemisphere dairy market demand and the dairy milking season. Synlait Milk Limited recognises this is the nature of the industry and plans and manages the business accordingly. Certain comparative figures have been changed to reflect current expense allocations between cost of sales, sales and distribution and administative and operating expenses.

Items included in the condensed interim 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).

There have been no significant changes in accounting policies during the current period. The same accounting policies and methods of computation are followed in these financial statements as the most recent annual financial statements for the year ended 31 July 2017.

Milk accrual

At interim reporting date, the milk accrual is a key management estimate. The milk accrual represents the amount the Group is forecasting to pay its suppliers for the current year less advance payments made during the period. The Group's policy is to value its inventory using the weighted average monthly milk price necessary to achieve the Group's forecast annual milk price for the season. Managements' forecast of the milk price for the season is the basis of the calculation of the milk accrual and at interim reporting date requires judgement from management. Key assumptions in the calculation of the forecast annual milk price for the season include dairy commodity prices, on-farm milk composition, sales and production curve, annual foreign exchange conversion rate and other conversion costs.

3 SEGMENT INFORMATION

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 68% are derived from the top three external customers (31 January 2017: 50%, 31 July 2017 48%).

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

	Period ended		Year ended
	31 January	31 January	31 July
	2018	2017	2017
	Unaudited	Unaudited	Audited
	$'000	$'000	$'000
China	11%	9%	8%
Rest of Asia	21%	39%	37%
Middle East and Africa	11%	20%	19%
New Zealand	32%	12%	15%
Australia	22%	15%	18%
Rest of World	4%	5%	3%
Total	100%	100%	100%

4 EXPENSES

		Period ended		Year ended
		31 January	31 January	31 July
		2018	2017	2017
		Unaudited	Unaudited	Audited
	Notes	$'000	$'000	$'000
The following items of expenditure are included in cost of sales				
Depreciation and amortisation		11,340	9,929	20,059
Employee benefit expense		20,067	13,962	29,674
(Decrease) / increase in inventory provision	7	2,717	(1,926)	(1,441)
Increase / (decrease) in onerous contracts provision	7	1,116	5,277	376
The following items of expenditure are included in sales and distribution				
Depreciation and amortisation		862	812	1,610
Employee benefit expense		3,913	3,374	6,582
The following items of expenditure are included in administrative and operating				
Depreciation and amortisation		749	617	1,344
Employee benefit expense		8,067	5,352	12,974
Directors fees		288	240	498
Share based payments expense		238	(16)	21
ASX listing fees		–	402	–

For cost of sales and sales and distribution, employee numbers have increased following the commissioning of both the Auckland blending and consumer packaging facility and the new Wetmix kitchen in November 2017, as welll as the new Research and Development Centre which opened in March 2018. Administrative and operating employee benefit expenses has increased to support the business' growth.

5 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Period ended		Year ended
	31 January	31 January	31 July
	2018	2017	2017
	Unaudited	Unaudited	Audited
	$'000	$'000	$'000
Profit for the period	40,663	10,611	38,223
Non-cash and non-operating items:			–
Depreciation and amortisation of non-current assets	12,951	11,358	23,013
Gain on sale of fixed assets	3	–	(19)
Write off intangible assets	–	–	64
Share of (profit)/loss from associate	(189)	481	560
Non-cash share based payments expense	238	(17)	19
Interest costs classified as financing cash flow	4,497	6,746	11,429
Interest received classified as investing cash flow	(536)	(95)	(18)
Loss on derecognition of financial assets	591	278	802
Deferred tax	74	1,564	2,981
(Loss) / gain on derivative financial instruments	1,487	(494)	(420)
Movements in working capital:			
(Increase) / decrease in trade and other receivables	31,974	(24,439)	(41,236)
(Increase) / decrease in income accruals and prepayments	781	941	(416)
(Increase) / decrease in inventories	(87,375)	(123,570)	(8,810)
(Increase) / decrease in other current assets	481	(4,460)	(4,424)
(Decrease) / increase in trade and other payables	53,461	104,106	92,432
(Decrease) / increase in current tax liabilities	15,880	2,820	2,192
Working capital items acquired	–	–	(1,197)
Net cash inflow from operating activities	74,981	(14,170)	115,175

6 TRADE AND OTHER RECEIVABLES

The Group has derecognised trade receivables that have been sold pursuant to the terms of receivables purchase agreements that the Group has entered into with its bankers. The Group has assessed the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the respective banks. During the six months ended 31 January 2018, the Group has not entered into any new receivable assignment agreements with any new customers however some amendments to the terms of two existing agreements have been made.

7 INVENTORIES

	Period ended		Year ended
	31 January	31 January	31 July
	2018	2017	2017
	Unaudited	Unaudited	Audited
	$'000	$'000	$'000
Raw materials at cost	27,337	15,184	15,249
Finished goods at cost	137,041	160,055	54,930
Finished goods at net realisable value	5,693	22,216	12,516
Total inventories	170,071	197,455	82,695

The valuation of inventory as at 31 January 2018 is lower than the valuation as at 31 January 2017 due to the product mix of inventory held. Total quantity of finished goods held at 31 January 2018 is lower than 31 January 2017.

The total inventory provision as at 31 January 2018 was $4.5m (31 January 2017: $1.3m, 31 July 2017: $1.8m) all of which related to finished goods, a $3.2m increase from prior year. The increase is primarily due to an increase in volume of product not expected to be sold at cost.

The total onerous contracts provision as at 31 January 2018 was $0.2m (31 January 2017: $6.2m, 31 July 2017: $1.3m). Onerous contracts typically occur in a rising commodity market when there is a material time delay between pricing and manufacturing an order, and delivery. Due to the steep rise in commodity prices at the end of 2016, standard cost of manufacture and therefore weighted average cost of inventory increased, resulting in a $6.2m onerous contract provision as at 31 January 2017. The onerous contract provision reduced to $0.2m as at 31 January 2018 due to a stable commodity market.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ending 31 January 2018, capital work in progress has increased by $45.6m with the majority relating to two major capital projects ($13.5m Auckland blending and consumer packaging facility and $25.2m for the new Wetmix kitchen). In November 2017, historical capital work in progress as well as additions during the six months ended 31 January 2018 relating to these two projects have been transferred to fixed assets ($34.3m Auckland blending and consumer packaging facility and $35.8m for the new Wetmix kitchen).

9 LOANS AND BORROWINGS

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 consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

	Period ended		Year ended
	31 January	31 January	31 July
	2018	2017	2017
	Unaudited	Unaudited	Audited
	$'000	$'000	$'000
Current liabilities			
Working capital facility (syndicated) NZD	–	14,100	–
Working capital facility (syndicated) USD	54,944	52,250	72,448
	54,944	66,350	72,448
Non-current liabilities			
Bank loans	84,000	84,000	84,000
Loan facility fees	(333)	(472)	(363)
	83,667	83,528	83,637

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

- A secured revolving credit facility of $145m that matures on 1 August 2020, with an amortisation of $30m on 1 August 2018 and
- A secured working capital facility of NZD $120m with a USD $80m sublimit that matures on 21 August 2018.'

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 six months ended 31 January 2018, 31 January 2017 and the year ended 31 July 2017.

10 SHARE CAPITAL

The Group had 179,223,028 ordinary shares on issue as at 31 January 2018 (31 January 2017: 179,149,619, 31 July 2017: 179,223,028).

11 FINANCIAL INSTRUMENTS

Commodity derivatives

During the 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.

12 RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.04% of the shares issued by the Synlait Milk Limited (31 January 2017: 39.06%, 31 July 2017: 39.04%). 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 Sichuan 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. Following the acquisition, Synlait Milk Limited completed the construction of 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 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 following the acquisition.

(a) Transactions with other related parties

	31 January 2018 Unaudited $'000	31 January 2017 Unaudited $'000	31 July 2017 Audited $'000
Purchase of goods and services			
Bright Dairy and Food Co Ltd – Directors fees	74	72	141
Sale of goods and services			
Bright Dairy and Food Co Ltd – Sale of milk powder products	1,610	719	2,698
Bright Dairy and Food Co Ltd – Reimbursement of costs	(42)	(27)	(157)
Sichuan New Hope Nutritional Foods Co. Ltd – Sale of milk powder products	7,177	4,876	16,371

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

(b) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	31 January 2018 Unaudited $'000	31 January 2017 Unaudited $'000	31 July 2017 Audited $'000
Current receivables and payables (sales of goods and services)			
Bright Dairy and Food Co Ltd – Sale of milk powder products	1	250	1,364
Bright Dairy and Food Co Ltd – Reimbursement of costs	(125)	(162)	(102)
Sichuan New Hope Nutritionals Ltd – Sale of milk powder products	236	1,783	1,039

13 CONTINGENCIES

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

14 COMMITMENTS

The Group has awarded the contract for the construction of a new wet milk processing plant. The total value of the construction contract is $125m (31 January 2017: $nil, 31 July 2017: $nil). As at 31 January 2018, there is no further capital commitment (31 January 2017: $29.2m, 31 July 2017: $34.6m).

15 EVENTS OCCURRING AFTER THE REPORTING PERIOD

During February 2018 Synlait Milk Limited and Bright Dairy Holding Limited entered into a new five year supply agreement for packaged infant formula. Overall, the agreement targets a fourfold increase from current volumes over the five-year term.

In addition, on 27 February 2018 Synlait Milk Limited announced the conditional purchase of 28 hectares of land in Pokeno, North Waikato, to establish a second nutritional powder manufacturing site. Synalit expects to invest around $260m on the undeveloped site over the coming years. The conditional purchase of land is subject to Overseas Investment Office (OIO) approval.

Deloitte.

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

We have reviewed the condensed consolidated interim financial statements of Synlait Milk Limited and its subsidiaries ('the Group') which comprise the consolidated statement of financial position as at 31 January 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information on pages 22 to 34.

This report is made solely to the Group's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 engagement, for this report, or for the opinions we have formed.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

OUR RESPONSIBILITIES

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. As the auditor of Synlait Milk Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm carries out other assignments for Synlait Milk Limited in areas of taxation advice. These services have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in the Group.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2018 and its financial performance and cash flows for the period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

Deloitte Limited

20 March 2018

Chartered Accountants

AUCKLAND, NEW ZEALAND

DIRECTORY

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2 BOARD OF DIRECTORS

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

Min Ben – Bright Dairy Director

Qikai (Albert) Lu – Bright Dairy Director

Sihang (Edward) Yang – Bright Dairy Director

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

3 SENIOR LEADERSHIP TEAM

Dr. John Penno – Chief Executive Officer and Managing Director

Nigel Greenwood – Chief Financial Officer

Dr. Suzan Horst – Director, Quality, Regulatory and Laboratory Services

Boyd Williams – Director, People, Culture and Performance

Martijn Jager – Director, Sales and Business Development

Neil Betteridge – Director, Operations

Chris France – Director, Strategy and Business Transformation

Deborah Marris – General Counsel and Commercial Manager

Matthew Foster – General Manager, Strategic Projects

Roger Schwarzenbach – General Manager, Innovation and Technical Services

Rob Stowell – General Manager, Supply Chain

Antony Moess – General Manager, Manufacturing

Callam Weetman – General Manager, Sales

Hamish Reid - Chief Sustainability Officer and General Manager, Brands

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The Bank of New Zealand

7 INVESTMENT BANKERS

First NZ Capital Securities Limited

8 SHARE REGISTRAR

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9 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.

10 OTHER INFORMATION

Please visit us at our website www.synlait.com

TO:BE CONTINUED

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