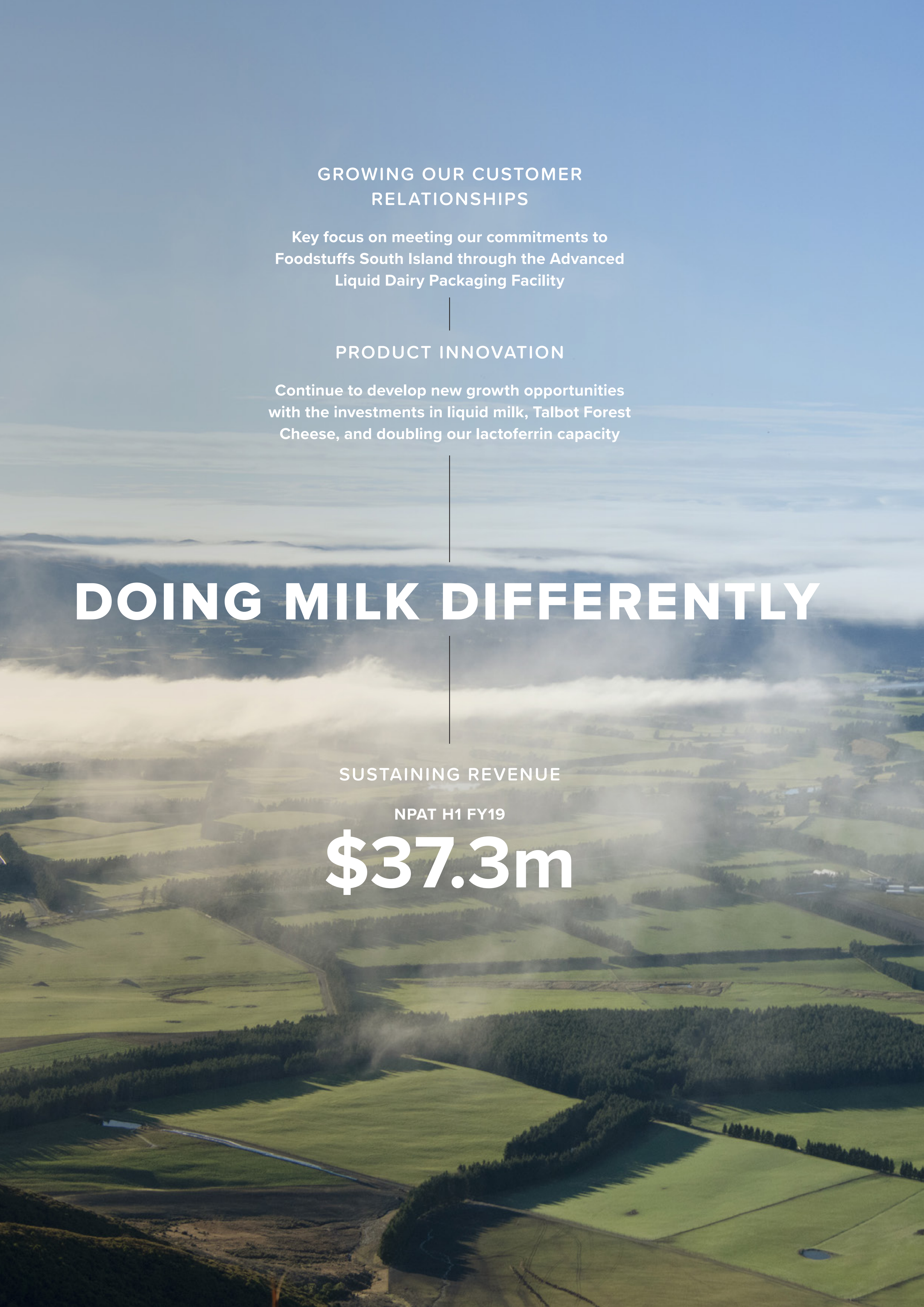
Synlait

OUR YEAR IN THE MAKING

INTERIM REPORT 2019



GROWING OUR CUSTOMER RELATIONSHIPS

Key focus on meeting our commitments to Foodstuffs South Island through the Advanced Liquid Dairy Packaging Facility

PRODUCT INNOVATION

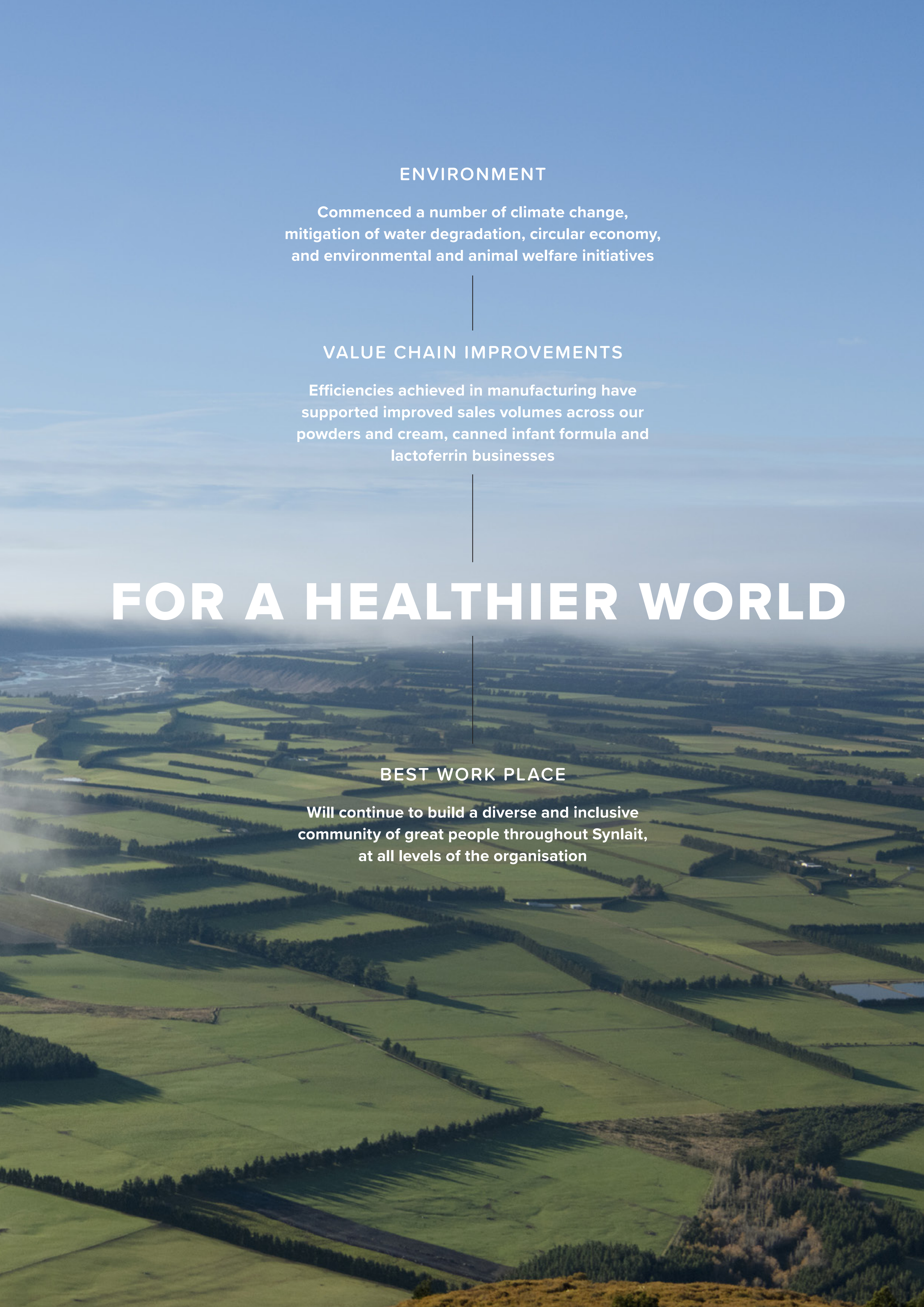
Continue to develop new growth opportunities with the investments in liquid milk, Talbot Forest Cheese, and doubling our lactoferrin capacity

DOING MILK DIFFERENTLY

SUSTAINING REVENUE

NPAT H1 FY19

$37.3m



ENVIRONMENT

Commenced a number of climate change, mitigation of water degradation, circular economy, and environmental and animal welfare initiatives

VALUE CHAIN IMPROVEMENTS

Efficiencies achieved in manufacturing have supported improved sales volumes across our powders and cream, canned infant formula and lactoferrin businesses

FOR A HEALTHIER WORLD

BEST WORK PLACE

Will continue to build a diverse and inclusive community of great people throughout Synlait, at all levels of the organisation

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

OUR CATEGORIES

Ingredients

Infant Nutrition

Everyday Dairy

Adult Nutrition

OUR SUSTAINABLE VALUE CHAIN

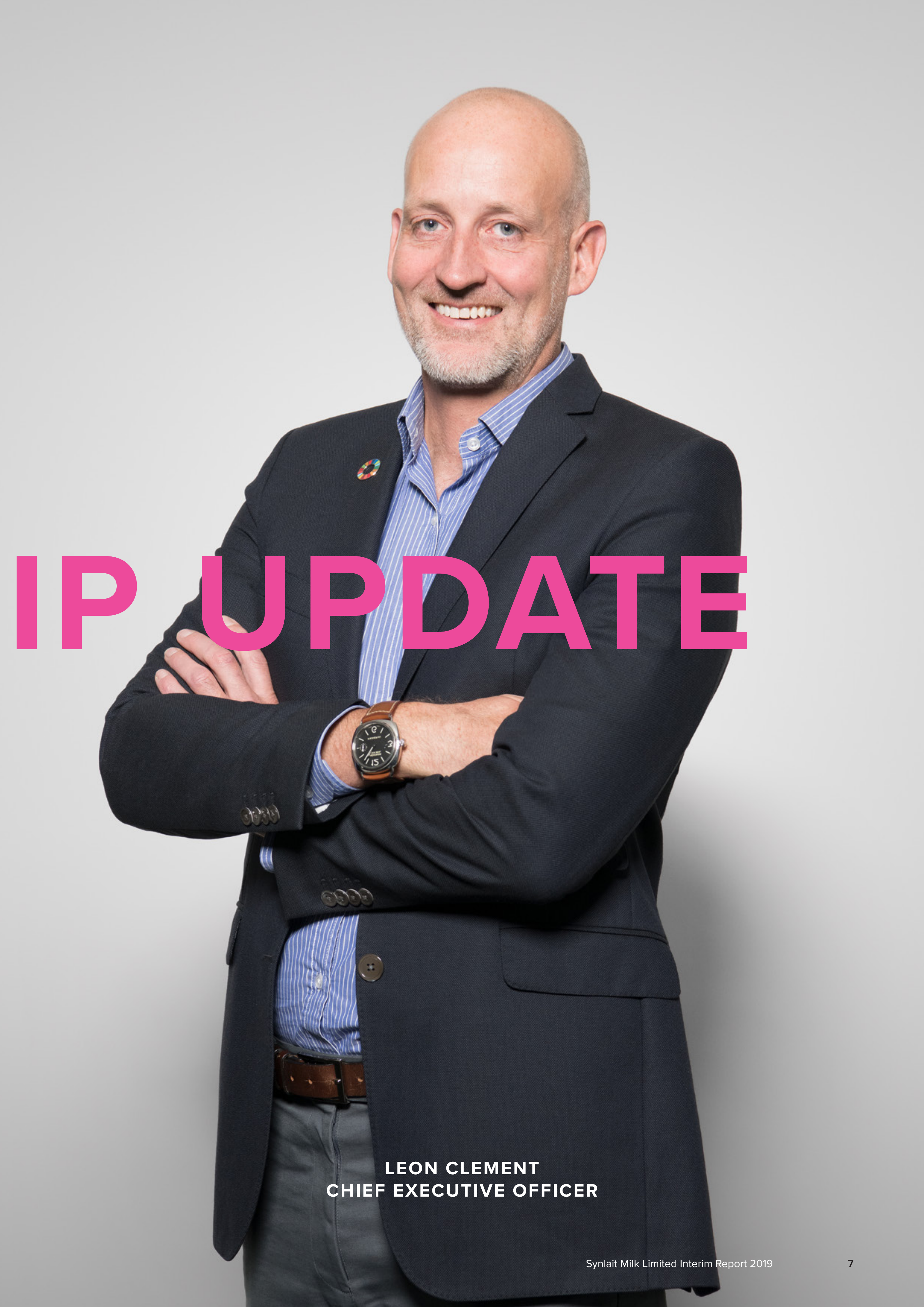
Environment

People

Enterprise

GRAEME MILNE
CHAIRMAN

IP UPDATE



LEON CLEMENT
CHIEF EXECUTIVE OFFICER

When we look back...

“WE WILL FEEL PROUD OF THE BOLD STANCE WE HAVE TAKEN, THE GLOBAL DIFFERENCE WE HAVE MADE AND THE SUSTAINABLE DIVERSIFIED COMPANY WE HAVE BUILT TOGETHER”

LEADERSHIP UPDATE

Graeme Milne and Leon Clement

HY19 OVERVIEW

- **NPAT half year profit of $37.3 million**
- **Re-confirmed guidance for canned infant formula volumes of 41,000 – 45,000 MT**
- **Manufacturing efficiencies have supported improved production and sales volumes**
- **Key growth projects including Synlait Pokeno and our Advanced Liquid Dairy Packaging Facility remain on track**
- **New growth opportunities in liquid milk, Talbot Forest Cheese and lactoferrin expansion**
- **New purpose 'Doing Milk Differently for a Healthier World' established**

SOLID HALF-YEAR EARNINGS PERFORMANCE

Our HY19 NPAT of $37.3 million is 9.7% lower than the $41.3 million achieved in HY18. This remains a solid result for the first half of the year, with increased sales volumes achieved across our powders and cream and lactoferrin businesses.

HIGHER SALES VOLUMES WERE ACHIEVED DUE TO OUR ABILITY TO INCREASE PRODUCTION VOLUMES OFF THE SAME ASSET BASE, A VERY PLEASING RESULT AND REPRESENTATIVE OF THE EFFICIENCIES WE ARE DEVELOPING IN MANUFACTURING THROUGH OUR INTEGRATED WORK SYSTEMS (IWS) PROGRAMME.

While our sales volumes of fully finished infant formula were slightly ahead of HY18, these were delivered at lower margins. This as a result of new pricing arrangements with major customers, as well as not having the benefit of the higher margin sales to our China based customers that we enjoyed in HY18. These brands are awaiting registration with the State Administration for Market Regulation (SAMR) in China.

The HY19 result also benefited from the increased efficiencies of our manufacturing plant. We processed 12.4% more milk than in HY18 into 90,495 Metric Tonnes (MT) of product, a 10.5% increase on FY18. This also reflected higher sales volumes of our powder and cream products at 56,116 MT (HY18 44,435 MT) and a higher closing finished goods inventory (HY19 44,344 MT versus HY18 35,040 MT)

LEADERSHIP UPDATE CONTINUED

Graeme Milne and Leon Clement

INVESTING FOR OUR NEXT PHASE OF GROWTH

The first half of FY19 has been characterised by the significant investments we have made to our manufacturing base across all our key categories. This is part of our focus on supporting the growth of our customers and diversifying our business. Nearly $200 million of capital expenditure was invested in the six months to 31 January 2019 as we progressed our four major growth projects.

Second infant processing facility at Pokeno

The build of our new infant-capable manufacturing facility in Pokeno continues to be on track for commissioning for the 2019 / 2020 milk season. This is a $260 million investment which will allow us to meet customer demand, whilst also eliminating our single-site risk.

At the same time, we are recruiting new milk suppliers in the area. We remain on track for the start of the 2019 / 2020 milk season and are encouraged by the warm welcome we've received from Waikato dairy farmers.

Accessing the Everyday Dairy market through our Advanced Liquid Dairy Packaging facility and the conditional acquisition of Talbot Forest Cheese

The build of the Advanced Liquid Dairy Packaging facility in Dunsandel was announced in early FY18 in conjunction with the Foodstuffs South Island (FSSI) supply agreement. The facility will cost $125 million and gives Synlait the foundation to explore other liquid milk product opportunities which will utilise the innovation and flexibility offered by the plant. We are on track for completing the new facility and we're excited by the discussions we are having with current and prospective customers.

At the end of 2018 Synlait entered into a conditional agreement to acquire selected Talbot Forest Cheese assets. The acquisition, which is expected to be in the range of $35 - $40 million, will help us optimise our value chain and supports our growth strategy. The agreement is structured in two parts and settlement is expected 1 August 2019, once aspects of the conditional agreement have been met. Synlait will then assume management and operational control of Talbot Forest Cheese, allowing us to manufacture a variety of cheese products that complement our existing product portfolio. The acquisition allows us to optimise our manufacturing assets (especially during peak seasonal flows), access new profit pools, and aligns with our approach to run high-quality, flexible dairy manufacturing capabilities that can be tailored to meet customer needs.

Lactoferrin capacity expansion complete

We've also just completed our $18 million expansion to our Dunsandel lactoferrin facility which has doubled our lactoferrin manufacturing capacity. This project was completed on time and on budget. We're already noticing growing demand for lactoferrin through external sales and in formulations with our infant formula customers.

OUR PLANT IS PRODUCING EXTREMELY HIGH QUALITY LACTOFERRIN, AND WE REMAIN EXCITED ABOUT THE POTENTIAL FOR THIS BUSINESS AS WE LOOK TO DRIVE CAPACITY INCREASES IN AN ATTRACTIVE CURRENT MARKET PRICING ENVIRONMENT.

BUILDING A STRONG TEAM

We have made a large investment in staffing which will support our next phase of growth. At the end of HY19 we had 748 employees compared to 597 at the same point in FY18. In particular, we have invested in the capability required to fill the growing number of roles at our new Pokeno facility, and support our move into the liquid milk market. We've also invested in our technical expertise to enable product and customer development, including at our Research and Development Centre at Palmerston North. Our increased spend on external consultancy has also focused on supporting our product and customer development.

As part of our commitment to looking after our people, we launched our Diversity and Inclusion working group at the end of 2018. The group aims to bring to life diversity and inclusion in our business. A special sub-group to support women leaders has also been launched.

LEADERSHIP UPDATE CONTINUED

Graeme Milne and Leon Clement

'DOING MILK DIFFERENTLY FOR A HEALTHIER WORLD'

We launched our new purpose and brand identity in November 2018, which speaks to our sustainability ambitions. 'Doing Milk Differently for a Healthier World' describes our forward-thinking and innovative attitude, as well as our aim for Synlait to contribute to a healthier planet, and healthier communities.

We have always brought a disruptive attitude to our industry and we'll continue doing that into the future.

WE HAVE SOME CLEAR GOALS AROUND OUR STRENGTH IN BEING A CATALYST FOR CHANGE. WE WANT TO CREATE MORE VALUE FOR NEW ZEALAND.

Our new purpose is helping to clarify our ambition and strategic focus, and reflects how we will continue to succeed through leveraging our unique sustainable value chain across the environment, our people and enterprise. These principles will be applied to each category to build successful relationships that contribute to our long-term success.

WE CONTINUE TO INTEGRATE OUR SUSTAINABLE SUPPLY CHAIN PRINCIPLES INTO OUR CORE BUSINESS.

In June last year, Synlait announced its renewed commitment to sustainability. Since then, we've continued to progress these initiatives in a range of ways.

Our farming programme Lead With Pride™ was given a boost in June 2018 under the new sustainability strategy. Higher incentive payments have led to many more of our farmers moving towards certification, with our Lead With Pride™ certified milk supply increasing to over 60 farms.

The programme recognises and rewards milk suppliers who achieve dairy farming best practice. We introduced greenhouse gas (GHG) emissions targets and incentives for farmers with palm kernel expeller (PKE) free farms in June.

Synlait wants to achieve on-farm reduction of GHGs by 35% per kgMS, reduce water consumption by 20% per kgMS and reduce nitrogen loss by 45% by 2028. As part of this work we have been investigating methane reduction and will pilot an on-farm methane inhibitor later this year.

We also have targets for our manufacturing sites including reductions of GHGs and water consumption by 50% and 20% per kgMS respectively.

A major step towards reducing off-farm GHGs by 2028 was made with the commissioning of New Zealand's first large-scale electrode boiler earlier this month at Synlait Dunsandel. The boiler uses electricity rather than coal in the new Advanced Liquid Dairy Packaging Facility. Over a ten-year period the electrode boiler's estimated emissions savings are roughly equal to the emissions which would be produced by 9,600 households.

The installation was undertaken with the help of Orion, who delivered infrastructure upgrades to the Dunsandel electricity network to provide the necessary power for the electrode boiler.

SYNLAIT HAS PLEDGED TO NOT BUILD ANY MORE COAL INFRASTRUCTURE, AND WE'RE LOOKING AT WAYS TO ADDRESS EXISTING COAL USE.

In January we lodged our first submission in the certification process to become a Certified B Corporation. B Corp is a global movement which will measure us objectively to an international community standard. There are currently 16 Certified B Corporations in New Zealand, and most are small to medium enterprises (SMEs). We are aiming to be the first large scale, NZX-listed business to join this pioneering cohort.

LEADERSHIP UPDATE CONTINUED

Graeme Milne and Leon Clement

OUR MILK SUPPLY

We continue to be supported by our Canterbury milk suppliers, and we're excited to be welcoming our new Waikato farmers into the fold. As previously mentioned, we're confident in our ability to attract North Island milk, and we're on-track for our 2019 / 2020 milk season.

Environmental challenges, Mycoplasma bovis, and a shifting attitude towards dairy have all contributed to a somewhat turbulent year for dairy farming. But many of the difficulties we face also provide an opportunity to further add value. We know what current best practice looks like and so do our farmers.

We now have over 60 farmers Certified as Lead With Pride™. We are also working alongside Munchkin to make the most of New Zealand's natural grass-fed system, and we have a well-established a1 protein-free programme. All three of these special milks programmes enable value to flow back to farmers via incentive payments over and above the base milk price. This means the value is being added behind the farm gate and farmers are being rewarded for creating this additional value.

The demand for dairy remains strong with governments around the world encouraging dairy as a natural source of good nutrition. Increasing wealth in developing countries continues to drive increased demand.

NEW ZEALAND DAIRY PRODUCTS HAVE A GREAT REPUTATION GLOBALLY FOR TASTE, QUALITY AND SAFETY. THERE IS PLENTY OF OPPORTUNITY FOR US TO FURTHER DIFFERENTIATE AND ADD VALUE.

REGULATORY UPDATE

In January we obtained registration renewal of our Dunsandel plant with the General Administration of Customs of the People's Republic of China (GACC) which allows us to continue to export canned infant formula to China.

SYNLAIT AUCKLAND HAS ACHIEVED GACC GENERAL DAIRY REGISTRATION AND IS PROGRESSING WITH THE GACC INFANT NUTRITION PROCESS.

Whilst it is difficult to be definitive on timelines, we expect to obtain State Administration for Market Regulation (SAMR) registration for New Hope's Akara and E-Akara brands and Bright Dairy's Pure Canterbury brand by the end of 2019. The applications have been lodged with SAMR and we're working with New Hope and Bright Dairy on the application process.

STRONG GROWTH EXPECTED IN THE SECOND HALF OF FY19

We remain on track for our full year canned infant formula (IFC) volume guidance at between 41,000 – 45,000 MT, with significantly higher volumes forecast to be delivered in the second half of FY19 compared to the second half of FY18, which saw only an 11% uplift on the first half.

The volume growth in the second half of FY19 is driven by strong growth in The a2 Milk Company's™ (a2MC) infant formula products. We maintain our outlook that full year profitability is expected to increase in FY19, but not at the same rate as FY18.

Graeme Milne
CHAIRMAN

Leon Clement
CHIEF EXECUTIVE OFFICER

HY19 FINANCIAL STATEMENTS

SYNLAIT MILK LIMITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2019

CONTENTS **PAGE**

DIRECTORS' DECLARATION

31 January 2019

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 16 to 30 for the six months ended 31 January 2019.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2019 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

19 March 2019

Willem (Bill) Jan Roest
INDEPENDENT DIRECTOR

19 March 2019

INCOME STATEMENT

For the six months ended 31 January 2019

		Period ended		Year ended
		31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	Notes	$'000	$'000	$'000
Revenue	3	**470,950**	439,316	879,001
Cost of sales	5	**(385,061)**	(353,307)	(712,533)
Gross profit		**85,889**	86,009	166,468
Other income	3	**337**	326	430
Share of (loss)/profit from associates		**(580)**	189	426
Sales and distribution expenses	5	**(12,410)**	(8,574)	(20,603)
Administrative and operating expenses	5	**(16,782)**	(15,873)	(33,636)
Earnings before net finance costs and income tax		**56,454**	62,077	113,085
Finance expenses		**(4,097)**	(4,497)	(8,969)
Finance income		**741**	536	1,023
Loss on derecognition of financial assets		**(755)**	(591)	(1,329)
Net finance costs		**(4,111)**	(4,552)	(9,275)
Profit before income tax		**52,343**	57,525	103,810
Income tax expense		**(15,025)**	(16,208)	(29,257)
Net profit after tax for the period		**37,318**	41,317	74,553
Earnings per share				
Basic and diluted earnings per share (cents)		**20.82**	23.05	41.60

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2019

		Period ended		Year ended
		31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	Notes	$'000	$'000	$'000
Profit for the period		**37,318**	41,317	74,553
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		**14,529**	1,043	(38,081)
Income tax on other comprehensive income		**(4,068)**	(292)	10,663
Total items that may be reclassified subsequently to profit and loss		**10,461**	751	(27,418)
Other comprehensive income for the period, net of tax		**10,461**	751	(27,418)
Total comprehensive income for the year		**47,779**	42,068	47,135

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2019

	Notes	Share capital Unaudited $'000	Employee benefits reserve Unaudited $'000	Cash flow hedge reserve Unaudited $'000	Retained earnings Unaudited $'000	Total equity Unaudited $'000
Equity as at 1 August 2017		268,074	36	16,622	91,984	376,716
Profit or loss for the period		–	–	–	41,317	41,317
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	41,317	42,068
Employee benefits reserve		–	238	–	–	238
Total contributions by and distributions to owners		–	238	–	–	238
Equity as at 31 January 2018		268,074	274	17,373	133,301	419,022
Equity as at 1 August 2018		268,074	930	(10,796)	166,536	424,744
Profit or loss for the period		–	–	–	37,318	37,318
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		–	–	14,383	–	14,383
Movement in time value hedge reserve		–	–	146	–	146
Income tax on other comprehensive income		–	–	(4,068)	–	(4,068)
Total other comprehensive income		–	–	10,461	–	10,461
Total comprehensive income		–	–	10,461	37,318	47,779
Employee benefits reserve		–	293	–	–	293
Total contributions by and distributions to owners		–	293	–	–	293
Equity as at 31 January 2019		268,074	1,223	(335)	203,854	472,816

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2019

		Period ended		Year ended
		31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	Notes	$'000	$'000	$'000
Current assets				
Cash and cash equivalents		**13,493**	88,878	32,129
Trade and other receivables	7	**45,191**	47,055	47,145
Intangible assets	11	**4,170**	170	2,951
Goods and services tax refundable		**4,851**	4,599	6,536
Income accruals and prepayments		**2,416**	2,081	4,340
Inventories	8	**234,879**	170,071	145,404
Derivative financial instruments	14	**7,140**	19,279	2,906
Other current assets	9	**19,738**	–	1,375
Total current assets		**331,878**	332,133	242,786
Non-current assets				
Property, plant and equipment	10	**698,408**	480,009	537,669
Intangible assets	11	**10,435**	5,505	8,100
Goodwill		**3,643**	3,643	3,643
Other investments		**110**	453	690
Derivative financial instruments	14	**4,903**	11,329	793
Total non-current assets		**717,499**	500,939	550,895
Total assets		**1,049,377**	833,072	793,681
Current liabilities				
Loans and borrowings	12	**131,099**	54,944	49,321
Trade and other payables		**193,458**	204,013	152,199
Current tax liabilities		**40,806**	29,774	27,391
Derivative financial instruments	14	**7,234**	3,609	7,783
Total current liabilities		**372,597**	292,340	236,694
Non-current liabilities				
Loans and borrowings	12	**169,291**	83,667	97,065
Deferred tax liabilities		**29,958**	34,106	24,364
Derivative financial instruments	14	**4,715**	3,937	10,814
Total non-current liabilities		**203,964**	121,710	132,243
Total liabilities		**576,561**	414,050	368,937
Equity				
Share capital	13	**268,074**	268,074	268,074
Reserves		**887**	17,647	(9,866)
Retained earnings		**203,855**	133,301	166,536
Total equity attributable to equity holders of the Group		**472,816**	419,022	424,744
Total equity and liabilities		**1,049,377**	833,072	793,681

Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to the statement of accounting policies.

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 2019

		Period ended		Year ended
		31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	Notes	$'000	$'000	$'000
Cash flows from operating activities				
Cash receipts from customers		484,155	470,931	893,618
Cash paid for milk purchased		(299,317)	(268,216)	(494,695)
Cash paid to other creditors and employees		(155,065)	(128,215)	(285,163)
Net movement in goods and services tax		1,684	481	(1,456)
Income tax (payments)/refunds		–	–	(13,914)
Net cash inflow from operating activities	6	31,457	74,981	98,390
Cash flows from investing activities				
Interest received		741	536	1,023
Acquisition of property, plant and equipment		(174,635)	(34,492)	(110,416)
Proceeds from sale of property, plant and equipment		8	–	(168)
Other investments - Talbot		(17,238)	–	–
Acquisition of intangible assets		(4,790)	(3,175)	(9,873)
Net cash (outflow) from investing activities		(195,914)	(37,131)	(119,434)
Cash flows from financing activities				
Drawdown of borrowings		72,300	–	13,700
Net movement in working capital and trade finance facilities		81,778	(17,504)	(23,126)
Interest paid		(8,257)	(5,295)	(11,228)
Net cash inflow / (outflow) from financing activities		145,821	(22,799)	(20,654)
Net (decrease) / increase in cash and cash equivalents		(18,636)	15,051	(41,698)
Cash and cash equivalents at the beginning of the period		32,129	73,827	73,827
Cash and cash equivalents at end of the period		13,493	88,878	32,129

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2019

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 (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.

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 has been two significant changes in accounting policies during the current period. NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 (2014) Financial Instruments have been adopted from 1 August 2018. Apart from the impact of these two standards, 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 2018.

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.

(a) Changes in Accounting Policies

The Group adopted a policy of revaluing its property, plant and equipment in 2009 with the first revaluation applied with an effective date of 31 July 2012. The Group has relied upon independent valuations of such assets for determining fair value. As dairy processing assets are specialised in nature and there is a limited market for trading them in New Zealand revaluations have been prepared on a depreciated replacement cost basis to determine the fair market value.

During the year ended 31 July 2018, the Group elected to make a voluntary change in accounting policy in relation to the measurement basis for property, plant, and equipment and move to a cost basis as it is reliable and more relevant. The cost basis is considered a reliable basis for measurement of property, plant, and equipment as the Group has maintained its fixed asset register with comprehensive records of the cost and accumulated depreciation of all assets. Cost will become increasingly relevant as the Group continues to expand into new business segments in multiple geographical locations. Cost aligns with both local and global dairy industry practice for similar long lived core operating assets. Cost also aligns with the policy of the Group's largest shareholder, Bright Dairy & Food Co., Ltd.

The change in accounting policy has been applied retrospectively to the year ended 31 July 2012 which is the effective date of the first revaluation the Group applied to its property, plant, and equipment. The Group has maintained detailed cost records which have allowed for property, plant, and equipment to be restated at actual historical cost less subsequent accumulated depreciation in each of the previous fiscal years dating back to 31 July 2012.

For further information, please refer to the Group's FY18 Annual Report available on the Group's website.

The change in accounting policy has had the following impacts on the prior years presented in the financial statements:

	31 January 2018	31 January 2017	31 January 2016	31 January 2015	31 January 2014	31 January 2013	31 January 2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Decrease in depreciation	908	908	908	300	300	300	–
Increase in income tax expense	(254)	(254)	(254)	(84)	(84)	(84)	–
Increase in profit for the year	654	654	654	216	216	216	–
Decrease in property, plant and equipment	(21,529)	(23,346)	(25,162)	(9,560)	(10,159)	(10,758)	–
Decrease in deferred tax	5,816	6,325	6,833	2,629	2,797	2,964	–
Decrease in asset revaluation reserve	(20,276)	(20,276)	(20,276)	(8,008)	(8,008)	(8,008)	–

	31 January 2018 Unaudited	31 January 2017 Unaudited	31 January 2016 Unaudited	31 January 2015 Unaudited	31 January 2014 Unaudited	31 January 2013 Unaudited	31 January 2012 Unaudited
	$	$	$	$	$	$	$
Increase in basic and diluted earnings per share ($)	0.004	0.004	0.004	0.002	0.002	0.002	0.000

(b) Revenue recognition

NZ IFRS 15 establishes a single comprehensive revenue recognition model that applies to revenue arising from contracts with customers across all industries. The Group adopted NZ IFRS 15 from 1 August 2018 and applied the new standard on a modified retrospective basis, which means no adjustments are required for comparative periods. In line with management expectation, the new standard has had an immaterial impact on the Group and no adjustments were required. The Group will continue to monitor the impact of this standard.

(c) Financial Instruments

NZ IFRS 9 establishes the principles for hedge accounting measurement, classification and impairment of financial assets. The Group has previously adopted NZ IFRS 9 (2013) effective from 1 August 2014. NZ IFRS 9 (2014) is the final replacement of IAS 39 and consolidates previous issuances of NZ IFRS 9. The Group adopted NZ IFRS 9 (2014) from 1 August 2018 and applied the new standard on a retrospective basis. The Group adopted the simplified approach to recognise lifetime expected credit losses for financial assets as required or permitted by NZ IFRS 9 (2014). During the period, an impairment loss of $0.06m was recognised. In line with management expectation, the new standard has not had a material impact for the Group.

3 REVENUE RECOGNITION

Sales of goods
The Group manufactures and sells a range of milk powder and milk powder related products to customers.

Revenue from contracts with customers is recognised when the control of the goods has been transferred to customers, being at the point when the goods are delivered. Delivery of goods is completed (i.e. the performance obligation is fulfilled) when the goods have been delivered pursuant to the terms of the specific contract agreed with the customer and the risks associated with ownership have been transferred to the customer.

Revenue is measured according to the contracted price agreed with customers, which represents fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The payment terms vary depending on the individual contracts. No deemed financing components are present as there are no significant timing differences between the payment terms and revenue recognition.

	Period ended		Year ended
	31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Dairy products	470,950	439,316	879,001
Other sundry income	337	326	430
	471,287	439,642	879,431

4 SEGMENT INFORMATION

The Group currently 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 64% are derived from the top three external customers (31 January 2018: 68%, 31 July 2018: 69%).

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

	Period ended		Year ended
	31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
China	11%	11%	8%
Rest of Asia	28%	21%	24%
Middle East and Africa	8%	11%	9%
New Zealand	29%	32%	30%
Australia	22%	22%	26%
Rest of World	2%	4%	3%
Total	100%	100%	100%

5 EXPENSES

		Period ended		Year ended
		31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	Notes	$'000	$'000	$'000
The following items of expenditure are included in cost of sales				
Depreciation and amortisation		12,059	10,519	22,354
Employee benefit expense		21,990	20,067	42,948
(Decrease)/increase in inventory provision	8	(4,162)	2,717	393
Increase/(decrease) in onerous contracts provision	8	1,793	1,116	(12)
The following items of expenditure are included in sales and distribution				
Depreciation and amortisation		765	775	1,640
Employee benefit expense		4,955	3,913	8,964
Rent		1,635	943	2,450
Product and regulatory testing		470	19	280
Sales and marketing		792	291	949
Consultancy		514	245	1,128
The following items of expenditure are included in administrative and operating				
Depreciation and amortisation		863	749	1,562
Employee benefit expense		8,687	8,067	17,141
Directors fees		344	288	601
Share based payments expense		331	238	588

Across the business, there has been an increase in employee benefit expenditure. The increase for sales and distribution is driven by the significant investment into the Categories team, and Innovation and Technical Services team, particularly due to research and development, and continuous improvement. Administrative and operating employee benefit expenditure has increased primarily to support the business' continued growth and for cost of sales the increase predominantly relates to the new liquid milk plant, which is due for commissioning in March 2019.

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

	Period ended		Year ended
	31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Profit for the period	37,318	41,317	74,553
Non-cash and non-operating items:			
Depreciation and amortisation of non-current assets	13,687	12,043	25,556
(Loss)/Gain on sale of fixed assets	(8)	3	168
Write off intangible assets	–	–	175
Share of loss/(profit) from associate	580	(189)	(426)
Non-cash share based payments expense	331	238	588
Interest costs classified as financing cash flow	4,154	4,497	9,001
Interest received classified as investing cash flow	(741)	(536)	(1,023)
Loss on derecognition of financial assets	698	591	1,297
Deferred tax	1,487	328	1,846
(Loss)/gain on derivative financial instruments	(463)	1,487	323
Movements in working capital:			
Decrease in trade and other receivables	1,953	31,974	31,884
Decrease/(increase) in income accruals and prepayments	1,924	781	(1,477)
(Increase) in inventories	(89,475)	(87,375)	(62,709)
Decrease/(increase) in other current assets	1,684	481	(1,456)
Increase in trade and other payables	44,913	53,461	6,592
Increase in current tax liabilities	13,415	15,880	13,498
Net cash inflow from operating activities	31,457	74,981	98,390

7 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 2019, the Group amended a receivable assignment agreement to include an additional existing customer. No trade receivables have yet been sold for this customer.

8 INVENTORIES

	Period ended		Year ended
	31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Raw materials at cost	46,739	27,337	22,833
Finished goods at cost	157,413	137,041	94,881
Finished goods at net realisable value	30,727	5,693	27,690
Total inventories	234,879	170,071	145,404

Both the value and tonnage of both finished goods inventory and raw materials has increased significantly from comparative periods. Inventory holdings at half year are generally higher than year end due to the seasonality of milk.

Finished goods inventories at $188.1m (44,344 MT) have increased significantly from comparative periods (January 2018:$142.7m, 35,040 MT; July 2018: $122.6m, 26,726 MT). The increase is primarily due to increased volumes of canned infant formula forecast to be sold in the second half of FY19, and a strong milk production season which has exceeded expectations.

Raw materials at $46.7m (11,836 MT) are up on comparative periods (January 2018: $27.3m, 6,921 MT; July 2018: $22.8m, 6,737 MT) due to high levels of holdover stock required to meet forecast second half canned infant formula sales.

The total inventory provision as at reporting date was $2.3m (31 January 2018: $4.5m, 31 July 2018: $2.1m) which entirely related to finished goods

Included within this is the onerous contracts provision, which as at reporting date totalled $2.0m (31 January 2018: $0.2m, 31 July 2018: $1.3m). Onerous contracts have risen in value due a rise in the exchange rate, decreasing NZD returns from USD contracts, and a rise in commodity prices, driving up cost to manufacture and therefore cost on hand.

9 CURRENT ASSETS – OTHER CURRENT ASSETS

On 18 September 2018, the Group entered into a conditional agreement to acquire selected assets of Talbot Forest Cheese Limited and Talbot Forest Properties Limited (the Vendor) with settlement expected in August 2019. Prior to the 2019 settlement date, Synlait is providing the Vendor with a secured loan facility. This loan facility enables the Vendor to complete a capital works programme and satisfy other aspects of the conditional agreement. During the period, the loan advanced was $17.2m (31 January 2018: $nil).

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2019, $175.9m has been added to capital work in progress primarily relating to two capital projects (Synlait Pokeno and the Advanced Liquid Dairy Packaging Facility). During this period, $52.9m of historical capital work in progress as well as additions during the six months have been transferred to fixed assets.

11 INTANGIBLE ASSETS

New Zealand Units (NZUs) are purchased to offset carbon emissions under the New Zealand Emissions Trading Scheme. The units are measured at cost. As at 31 January 2019, the Group held $4.2m of current NZUs and $1.1m of non-current NZUs (31 January 2018: $0.2m current, $nil non-current, 31 July 2018: $3.0m current, $0.0 non-current).

12 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 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Current liabilities			
Working capital facility (syndicated) NZD	93,400	–	–
Working capital facility (syndicated) USD	37,699	54,944	49,321
	131,099	54,944	49,321
Non-current liabilities			
Bank loans	170,000	84,000	97,700
Loan facility fees	(709)	(333)	(635)
	169,291	83,667	97,065

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 (Facility A) of $150m that matures on 31 July 2021, with an amortisation of $30m on 1 August 2020.
- A secured revolving credit facility (Facility B) of $100m that matures on 31 July 2023.
- A secured working capital facility of NZD $225m that matures on 20 August 2019.

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 2019, 31 January 2018 and the year ended 31 July 2018.

13 SHARE CAPITAL

The Group had 179,223,028 ordinary shares on issue as at 31 January 2019 (31 January 2018: 179,223,028, 31 July 2018: 179,223,028).

14 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.

15 RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited holds 39.04% of the shares issued by the Synlait Milk Limited (31 January 2018: 39.04%, 31 July 2018: 39.04%). Bright Dairy Holding Limited is a subsidiary of Bright Food (Group) Co. Limited, a State Owned Enterprise domiciled in the Peoples Republic of China.

Other related entities

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

In January 2015, the Group acquired 25% of the shares of 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. The New Zealand Dairy Company was constructing a blending and canning plant in Auckland. Eighty Nine Richard Pearse Drive Limited owns the land and buildings at which the Auckland blending and canning plant has been constructed. Eighty Nine Richard Pearse Drive leased its land and buildings to The New Zealand Dairy Company Limited, and now leases them to Synlait Milk Limited.

(a) Transactions with other related parties

	31 January 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Purchase of goods and services			
Bright Dairy and Food Co Ltd – Directors fees	96	84	176
Sale of goods and services			
Bright Dairy and Food Co Ltd – Sale of milk powder products	6,464	361	584
Bright Dairy and Food Co Ltd – Reimbursement of costs	(91)	(61)	(150)
Sichuan New Hope Nutritional Foods Co. Ltd – Sale of milk powder products	–	7,301	7,301

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 2019 Unaudited	31 January 2018 Unaudited	31 July 2018 Audited
	$'000	$'000	$'000
Current receivables (sales of goods and services)			
Bright Dairy and Food Co Ltd – Sale of milk powder products	1	1	1
Bright Dairy and Food Co Ltd – Reimbursement of costs	(133)	(125)	(129)
Sichuan New Hope Nutritionals Ltd – Sale of milk powder products	(68)	(27)	(66)
Sichuan New Hope Nutritionals Ltd – Reimbursement of costs	280	263	283

16 CONTINGENCIES

As at 31 January 2019 the Group had no contingent liabilities or assets (31 January 2018: $nil, 31 July 2018: $nil).

17 COMMITMENTS

The Group has committed expenditure for the construction of a new liquid milk processing plant of $26.3m as at 31 January 2019 (31 January 2018: $95.9, 31 July 2018: $74.0). The total value of this construction contract is $125m. The Group is also in the process of constructing the Pokeno processing plant and has committed expenditure of $140.0 as at 31 January 2019 (31 January 2018: $nil, 31 July 2018: $163.8m). The total value of this construction contract is $260.0m. As at 31 January 2019, there is no further capital commitment (31 January 2018: $nil, 31 July 2018: $9.0m).

18 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no events occurring subsequent to 31 January 2019 which require adjustment to or disclosure in the financial statements.

INDEPENDENT REVIEW REPORT

31 January 2019

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 2019, 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 16 to 29.

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.

Other than in our capacity as auditor and the provision of taxation compliance services, we have no relationship with or interests in Synlait Milk Limited or its subsidiaries. These services have not impaired our independence as auditor of the Company and 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 2019 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

19 March 2019

Chartered Accountants
AUCKLAND, New Zealand

DIRECTORY

1 REGISTERED OFFICE

1028 Heslerton Road
RD13, Rakaia 7783
New Zealand
Telephone: +64 3 373 3000
Email: info@synlait.com

2 BOARD OF DIRECTORS

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

Min Ben – Bright Dairy Director

Ian Samuel (Sam) Knowles – Independent Director

Qikai (Albert) Lu – Bright Dairy Director

Dr. John William Penno – Board Appointed Director

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

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

Sihang (Edward) Yang – Bright Dairy Director

3 SENIOR LEADERSHIP TEAM

Leon Clement – Chief Executive Officer

Nigel Greenwood – Chief Financial Officer

Neil Betteridge – Director, Operations

Matthew Foster – General Manager, Strategic Projects

Chris France – Director, Strategy and Business Transformation

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

Martijn Jager – Director, Sales and Business Development

Deborah Marris – Director, Legal, Risk and Governance

Antony Moess – General Manager, Manufacturing

Hamish Reid – Director, Sustainability and Brand

Roger Schwarzenbach – General Manager, Innovation and Technical Services

Rob Stowell – General Manager, Supply Chain

Callam Weetman – General Manager, Sales

Boyd Williams – Director, People, Culture and Performance

4 AUDITOR

Deloitte Limited
80 Queen Street
Auckland 1010
New Zealand

5 LAWYERS

MinterEllisonRuddWatts
Lumley Centre
88 Shortland St
Auckland 1010

6 BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

7 INVESTMENT BANKERS

First NZ Capital Securities Limited

8 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

9 MANAGING YOUR SHAREHOLDING ONLINE

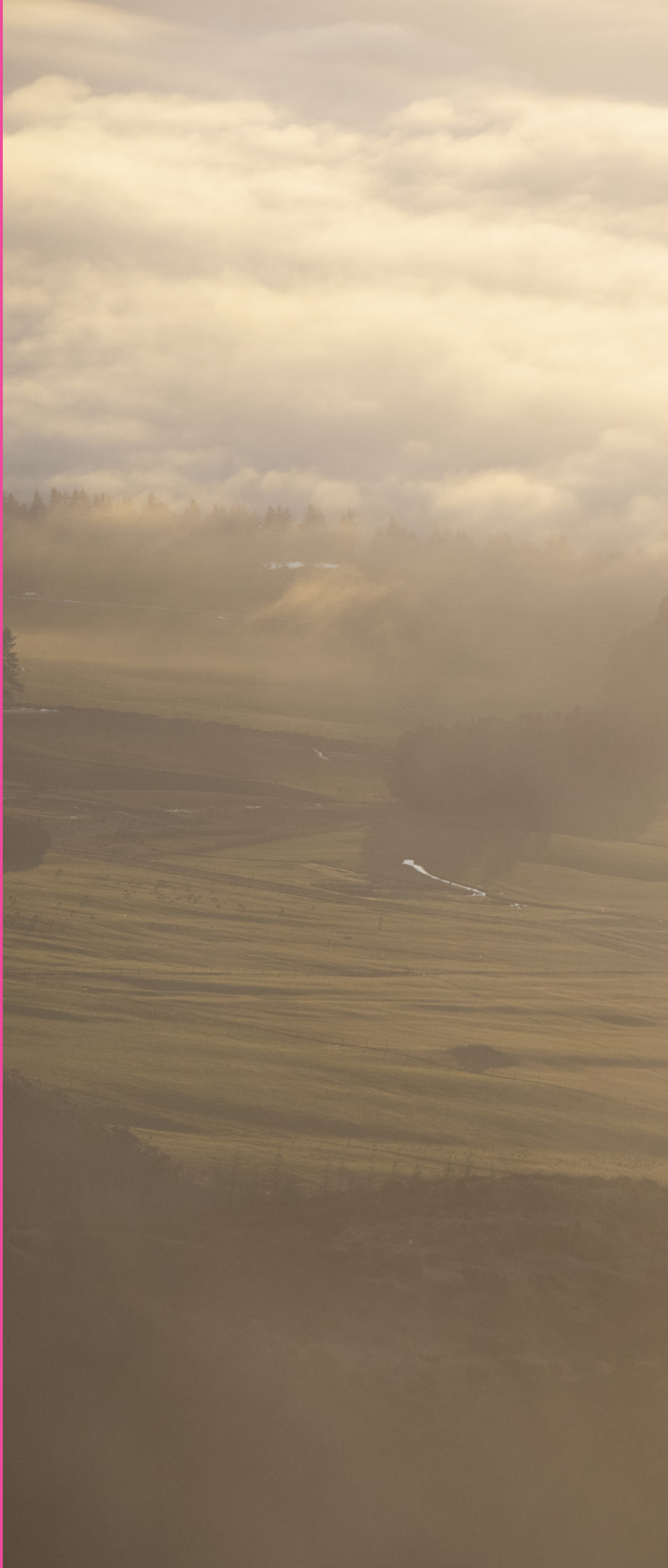
To change your address, update your payment instructions and to view your registered details including transactions, please visit www.investorcentre.com/nz

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



Synlait

SYNLAIT MILK LIMITED

1028 Heslerton Road
RD13, Rakaia 7783
Private Bag 806
Ashburton 7740
P + 64 3 373 3000
www.synlait.com