



AUDIT AND RISK COMMITTEE CHARTER

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1. Purpose

1.1 The Audit and Risk Committee (**Committee**) is a working group established by the Board to assist it in overseeing the financial reporting process to ensure the balance, transparency and integrity of published financial statements, including to:

- ensure the effectiveness of Synlait’s internal control and risk management systems;
- ensure the effectiveness of the independent audit process, including recommending the appointment and assessing the performance of the external auditor; and
- monitor Synlait’s process for complying with laws, regulations, internal standards (including the code of business conduct), policies and meeting the expectations of key stakeholders, including customers, employees and society as a whole.

1.2 In performing its duties, the Committee will report back to the Board on all material matters considered and where appropriate makes recommendations to the Board. The Committee will maintain effective working relationships with the Board, Management, and external and internal auditors.

1.3 To perform their role effectively, each Committee member must develop and maintain their skills and knowledge, including an understanding of the Committee’s responsibilities and of Synlait’s business, operations and risks.

2. Roles and Responsibilities of the Committee

2.1 The Committee’s roles and responsibilities include, to:

- review the integrity of the company’s financial reporting;
- ensure procedures for the receipt, retention and treatment of complaints received by Synlait regarding accounting, internal accounting controls, and/or auditing matters are established;
- be directly responsible for recommending the appointment of the external auditors to the board, oversee the independence of the external auditors, and oversight of the work of the external auditors; approve all audit engagement fees and terms, as well as reviewing policies for the provision of non-audit services by the external

auditor (including the framework for pre-approval of any such services).

- 2.2 Management are responsible for effecting adequate systems of internal control throughout the company. The Committee shall carry out its monitoring role by delegating the review of internal control effectiveness to the external auditors.
- 2.3 The Committee will carry out its responsibilities in accordance with the annual work plan agreed with the Board (**attached** as Appendix 1) and the detailed responsibilities (attached as **Appendix 2**). The Committee may also be requested by the Board to take on additional responsibilities.
- 2.4 The Committee shall have the authority of the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 2.5 For the avoidance of doubt, the auditors will remain responsible to the shareholders for the exercise of their statutory responsibilities to determine that:
- (a) the financial statements of Synlait comply with New Zealand generally accepted accounting practice and present a true and fair view of the results of and the state of the company's affairs;
 - (b) proper accounting records have been kept by Synlait; and
 - (c) Synlait's financial statements contain the information required by the Companies Act 1993, or other applicable statutes or regulations.

3. Committee Composition

- 3.1 The Board will nominate the Committee members and the Board will appoint the Chairperson. A majority of the Committee members must be independent Directors and the Chairperson must be an independent Director.
- 3.2 Each member of the Committee should have the skills and experience appropriate to Synlait's business with at least one member having accounting or related financial expertise.
- 3.3 The Board will review the membership of the Committee annually.

4. Committee Meetings

- 4.1 A majority of Committee members must be present at any meeting to form a quorum. All members of the Committee should try to attend all meetings. All Directors are entitled to attend Committee meetings.
- 4.2 The Chief Executive Officer and the Chief Financial Officer will not be members of the Committee, but may also attend meetings at the invitation of the Committee. The Chief Financial Officer shall act as the secretary of the Committee.
- 4.3 To ensure a coordinated and effective approach consistent with this Charter, the Chief Financial Officer has the responsibility of supervising and monitoring the internal control systems and any internal audit functions that may be in place.
- 4.3 External and internal auditors should be invited to attend Committee meetings and make presentations as appropriate. The Committee will meet with the external auditor at least once a year without management present.
- 4.4 The Committee meetings will be held at least four times a year, and should correspond with Synlait's financial reporting cycle. Special meetings may be convened as required.

5. Reporting

- 5.1 The Committee will regularly update the Board on its operation and activities during the year and make appropriate recommendations. The Committee will ensure the Board is aware of matters that may significantly affect the financial condition or affairs of the business.
- 5.2 The Committee will prepare any reports required by law or regulations, the NZX Listing Rules or requested by the Board, such as a report on the Committee's activities and duties to be included in the section on corporate governance in the Annual Report.
- 5.3 The Committee will receive an Annual Report from Management on the performance of Synlait in relation to the Treasury Policy and the Sales Policy. The Management Report will recommend any required changes to these Policies or their parameters.

6. Review of the Charter

- 6.1 At least once a year, the Committee will review its performance against this Charter, as well as the appropriateness of the Charter itself. This review will include consultation with the Board.
- 6.2 Any substantive changes to the Charter will be recommended by the Committee and formally approved by the Board.

APPENDIX 1- Annual Work Plan

Note: To be discussed and agreed by the Audit and Risk Committee.

1 HALF YEAR

- 1.1 Half year accounting issues and risks
- 1.2 Half year accounts and supporting schedules
- 1.3 Banking covenants
- 1.4 Areas of judgement
- 1.5 Legal and regulatory review
- 1.6 Non –audit fees
- 1.7 Management and Directors representation letter
- 1.8 Internal Audit
- 1.9 External audit plan and budget
- 1.10 External auditors reports

2 FULL YEAR

- 2.1 Full year accounting issues and risks
- 2.2 Full year financial statements and supporting schedules
- 2.3 Banking covenants
- 2.4 Areas of judgement
- 2.5 Legal and regulatory compliance review
- 2.6 Non audit fees
- 2.7 Management and Directors representation letter
- 2.8 Internal Audit
- 2.9 External audit report and opinion

3 OTHER

- 3.1 Insurance renewal
- 3.2 Treasury review
- 3.3 Committee Performance review
- 3.4 Board Policy and Charter updates
- 3.5 Business Risk & Continuity Review
- 3.6 Risk review
- 3.7 Review external auditor
- 3.8 Review Tax management
- 3.9 Review Sales Management policy effectiveness

APPENDIX 2: DETAILED RESPONSIBILITIES

Risk Management and Internal Control

The Committee's responsibilities are to:

- evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and management of risk;
- ensure that management has appropriate processes for identifying, assessing and responding to risks in a manner that is in accordance with the Synlait's risk appetite, and that those processes are operating effectively;
- understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data;
- understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review;
- evaluate the overall effectiveness of the internal control and risk management frameworks, including the risk of fraud, and consider whether management has implemented recommendations made by internal and external auditors;
- consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a system breakdown or to protect against computer fraud or misuse;
- participate in the appointment, promotion or dismissal of the head of risk management;
- meet separately with the head of risk management without management personnel being present; and
- ensure a direct reporting line between the head of risk management and the Committee is established.

Financial reporting

The Committee's responsibilities are to:

- gain an understanding of the current areas of greatest financial risk and how these are being managed;
- review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports;
- oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements before their release;
- review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information, and is balanced and transparent, particularly regarding GAAP vs. non GAAP data;
- meet with management and the external auditor to review financial statements, key accounting policies and decisions, related party transactions and the results of the audit;

- ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with external auditors; and
- review the other sections of the annual report before its release and consider whether the information is understandable and consistent with Committee members' knowledge about Synlait and its operations, and lacks bias.

Legislative and NZX compliance, internal policies and industry standards

The Committee's responsibilities are to:

- review the effectiveness of the system for monitoring Synlait's compliance with relevant laws, regulations, NZX Listing Rules, NZX Policies and Guidelines, internal policies and industry standards, and the results of any management investigations or follow-ups (including disciplinary action) or fraudulent acts or non-compliance;
- obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on Synlait's financial statements, strategy, operations or reputation;
- be satisfied that all regulatory compliance matters related to the business of Synlait have been considered in the preparation of the financial statements;
- review the findings of any examinations by regulators;
- approve and review policies, processes and frameworks for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution;
- participate in the appointment, promotion or dismissal of the head of compliance and general counsel; and
- separately meet with head of compliance and general counsel (without other management present where required).

External audit

The Committee's responsibilities are to:

- review the professional qualification of the external auditor (including background and experience of partner and auditing personnel);
- consider the independence of the external auditor and any potential conflicts of interest;
- review on an annual basis the performance of the external auditor and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditor;
- review the external auditor's proposed audit scope and approach for the current year in light of Synlait's circumstances and changes in regulatory and other requirements;
- discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information;
- ensure that significant findings and recommendations made by the external auditor and management's proposed response are received, discussed and acted on appropriately;
- discuss with the external auditor the appropriateness of the accounting policies applied in Synlait's financial reports and whether they are considered to be aggressive, balanced or

conservative;

- meet separately with the external auditor at least once a year to discuss any matters that the Committee or auditor believes should be discussed privately. Ensure the external auditor has access to the Chair of the Committee when required;
- review policies for the provision of non-audit services by the external auditor and, where applicable, the framework for pre-approval of audit and non-audit services; and
- ensure Synlait has appropriate policies for hiring audit firm personnel for senior positions.

Internal Audit

The Committee's responsibilities are to:

- review the activities, resources and organisational structure of the internal audit function and ensure there are no unjustified restrictions or limitations;
- participate in the appointment, promotion or dismissal on the internal audit head and discuss with the external auditor the standard of work of internal audit staff;
- review the effectiveness of the internal audit function and ensure it has appropriate standing within Synlait;
- meet separately with the head of internal audit to discuss matters that the Committee or internal auditor believe should be discussed privately. Ensure a direct reporting line between the head of internal audit and the Committee is established;
- ensure that significant findings and recommendations made by the internal audits and management's proposed response are received, discussed and appropriately acted on; and
- review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.

Tax management

The Committee's responsibilities are to:

- ensure management has in place and is implementing an effective tax strategy, which consists of a tax policy and tax management plan;
- ensure that Synlait pays the correct amount of tax within the framework of prudent tax management;
- ensure Synlait has in place and operates systems to ensure it meets all tax compliance responsibilities, and observes all applicable laws and regulations;
- ensure Synlait accurately reports tax matters and their impact within the financial statements and internal management reports of Synlait;
- ensure the legal structure of Synlait and its related entities are optimal and efficient from a tax-perspective; and
- confirm any material tax matters, issues, questions or concerns with external advisers or government representatives as required.

Treasury Management

The Committee's responsibilities are to:

- ensure management has in place and is implementing an effective treasury management

policy which effectively minimises and manages treasury risk;

- ensure Synlait is operating within its banking covenants, and manages and monitors any exceptions (and the applicable consenting process with the banks); and
- ensure Synlait has in place systems to regularly monitor, manage and report on all material treasury aspects to the Committee.

Sales Management

The Committee's responsibilities are to:

- ensure management has in place and has implemented an effective sales management policy which effectively minimises and manages sales phasing, sales pricing, sales delivery risk against industry sales patterns;
- ensure management has in place systems to regularly monitor, manage and report on all aspects of the above policy to management and the Committee; and
- ensure management has measures and expertise in place to regularly review the policy parameters against latest industry information and all material changes are reported back through to the Committee.

APPENDIX 3 – INDUCTION PLAN

The Committee will ensure the implementation of the Board Succession Planning programme.

The Chair of the Committee will ensure that the following information or activities are provided to any new member of the Committee:

Additional Induction Pack information	Additional Induction programme aspects
12 months copies of Committee minutes	Meet with CFO
12 months financial statements – latest Annual Report and Interim Report	Meet with Partner of Audit Firm (currently Deloitte)
Copies of A&R Charter, Securities Trading Policy and Guidelines, Continuous Disclosure Policy, Related Party Transactions Policy, Foreign Exchange Policy, Treasury Management Policy, Internal Transfer Pricing Policy, Sales Management Policy, Risk Management Policy, Delegated Authorities Policy	Meet with head of Risk and Internal Audit
Copy of any internal audit reports / recommendations	Meet with Financial Controller
Risk Management Framework (including all subsidiary documents – Risk Register)	Meet with lead Banking Relationship Manager
Last 6 months Compliance Reports	Meet with General Counsel
Insurance recommendations / current insurances	Meet with Insurance Broker Relationship Manager

APPENDIX 4 – EVALUATION QUESTIONNAIRE

[questions are based for sections A and B on a scale of 1-5, with 1 being strongly agree, 3 being neutral and 5 being strongly disagree]

A. How the Committee adds value

1. The Committee calendar ensures all essential tasks are adequately performed
2. The Committee ensures accountability and oversight in relation to the financial statements
3. The Committee ensures that all Audit Reports thoroughly represent an accurate assessment of audit issues
4. The Committee understands company risks and compliance issues
5. The Committee has a good understanding and comprehension of internal control issues and internal audit issues
6. The Committee understands the insurance programme and company requirements
7. Each member of the Committee understands their Director's duties, the A&R Charter and the role they are to perform to add value

B. How the Committee functions

8. The members of the Committee attend all meetings and are actively engaged in discussions during meetings
9. The Committee prioritises and spends adequate time on important issues during meetings
10. The Committee has adequate preparation time prior to meetings
11. The Committee discusses issues openly and ensures all views are considered during the meeting
12. The Committee has a good relationship with Management, and trusts Management
13. Committee minutes and Committee papers are clear, concise and produced in a timely manner
14. Members of the Committee feel supported, and able to ask Management any specific questions or queries including additional information if believed to be required)
15. The Chair of the Committee facilitates open dialogue and consensus decision making during meetings
16. The Chair provides strong leadership and guidance to the Committee
17. The Committee ensures accountability of Management for all audit and risk matters for Synlait

C. Future focus

18. What are two things that are working well?
19. What are two things that need to be improved?
20. If you could make one change to the Committee to make it more effective or efficient, what would it be?
21. Any other comments or suggestions?