



Synlait

SUSTAINABILITY
AT SYNLAIT—FY19



CONTENTS

Our Strategy	6
Net Positive for the Planet	10
Climate	12
Water	16
Welfare	20
Circular Economy	22
A Healthier Synlait	24
Safe Workplace	26
Capability	28
Culture and Community	32
World Class Value Chain	34
Safe Food	36
Healthy Farming	38
Sustainable Supply	42
Transparency	44



In June 2018 we announced our refreshed commitment to sustainability. Since then we have been mobilising our staff, farmer suppliers and communities and have assembled our work into eleven areas – our Sustainable Innovation Platforms (SIPs) – across environment, people and enterprise. It is through the many initiatives we’re rolling out under each of these SIPs that we will transform our business for the better.

The bold 10-year targets we announced 18 months ago generated a great deal of interest from within New Zealand and from abroad. Our drivers for setting these targets were two-fold. First is that we’re responding to the majority of New Zealanders that are seeking an improvement from our industry - the very community that provides us with our social licence to operate. Secondly, our global customers and their discerning consumers have rapidly shifting expectations when it comes to care for planet, people and animals. We’re responding to both drivers and in doing so we’re confident that we will profit from purpose, enabling us to further invest in our sustainability strategy.

At the time of setting our targets, we were unsure if they would be achievable but we knew that setting the bar high would unleash creativity and urgency amongst our people. And that is exactly what has played out.

We’re most proud of the pathways we have mapped toward our greenhouse gas reduction targets for both our on-farm and off-farm systems. With today’s technology, executed brilliantly, our targets are achievable. In the people area, our safety performance has dramatically improved and our new diversity and inclusion programme has broken new ground. We’re also proud to be underway with Whakapuāwai - our initiative that is enabling our people and communities to live and breathe our purpose of "doing milk differently for a healthier world". On the enterprise front, we’ve negotiated a bank loan that rewards us for improving our sustainability performance - New Zealand’s first “ESG-linked loan.” We continue to aim for B Corp certification and we’ve joined 500 of the world’s leading companies in committing to setting Science Based Targets. An additional 43 farmers became certified to Lead With Pride, our on-farm sustainability standard, in FY19.

We’re in an ideal position to shape the change needed in our industry – we collect 4 percent of New Zealand’s milk so we’re agile and young but big enough to influence.

This document represents our first step in sharing our plans and our progress. We recognise we have a long way to go to reach our 2028 targets, but we’re off to a great start. We very much welcome your comments that will assist us in reaching those.

Leon Clement,
Chief Executive Officer

Hamish Reid,
Director of Sustainability and Brand



HANDS OUR STRATEGY



Sports Nutrition



Everyday Dairy



Infant Nutrition



Foodservice



Next Big Thing



2

2B IN REVENUE
DOUBLING OUR BUSINESS
1B TO 2B IN 5 YEARS



NET +VE IMPACT ON
PLANET AND COMMUNITIES
+VE PLACE TO GROW WITH
100% ENGAGEMENT



HEAD OUR AMBITION



DOING MILK
DIFFERENTLY FOR A
HEALTHIER WORLD



ZERO INJURIES
ZERO DEFECTS
ZERO LOSSES

INTRODUCTION: OUR PURPOSE, AMBITION AND STRATEGY

Welcome to Synlait's first comprehensive overview of the environmental and social sustainability strategies we are implementing, the actions we are taking, and the challenges we are facing as we grow into our second decade.

In 2018, we refined our company vision to clarify our purpose and provide a roadmap for the way we want to do business. The framework, which we call Heart, Head and Hands, defines our 'why, what and how'. It helps provide clarity for our people on why we exist, what we are aiming for, and where and how we will achieve it. It communicates Our Purpose, Ambition and Strategy, and our sustainability strategy is built directly out of its objectives.

Heart. Our Purpose. Tō Tātou Aronga

At the heart of Synlait is this purpose: "Doing milk differently for a healthier world". It is why we are here. Our purpose is driven by three elements: being different, essential nutrition and sustainability.

We are different because we believe that to be the best, we must think and act differently – and we're applying this attitude to all parts of our business, not just our approach to milk. We are a 21st century milk nutrition company. We believe in the nutritional benefits of milk and we are committed to delivering this nutrition to our customers. People and planet underpin all that we do. Our investments, and the choices we make, must be net positive for the planet and help all to thrive. We continually look for ways to improve, not just for Synlait – but all New Zealanders and the industry as a whole.

Head. Our Ambition. Tō Tātou Hao Nui

Our ambition, or 'head', is the goal that connects us to our purpose. It is a simple formula for success: 2 + Zero. This means our aspiration is to achieve \$2 billion in revenue, have a net positive impact on our planet and communities, and improve our operations so that we reach zero injuries, zero defects and zero losses.

Hands. Our Strategy. Tō Tātou Rautaki

Our hands are where we take action against an aligned heart (purpose) and head (ambition). This is our strategy. It is made up of two parts: our growth strategy (doing milk differently) and our enabling strategy (for a healthier world). It is our map to achieving 2 + Zero. Our growth strategy is made up of five key complementary opportunities designed to build on our success, diversify our business and optimise the milk coming into our factories. These are Infant Nutrition, Everyday Dairy, Foodservice, Sports Nutrition and the 'Next Big Thing'.



Net Positive for
the Planet



A Healthier
Synlait



World Class
Value Chain

OUR SUSTAINABILITY FRAMEWORK



Our enabling strategy allows us to strengthen our business and grow it in a coordinated way. This is supported by three pillars: Net Positive for the Planet, A Healthier Synlait and World Class Value Chain.

Net Positive for the Planet

represents the stand we are taking for the planet. We are beginning to deliver against the sustainability targets we launched in FY18 and look to be instrumental in agriculture's response to climate change, eliminate water degradation, implement the circular economy, and lead stewardship for animals, biodiversity and soil.

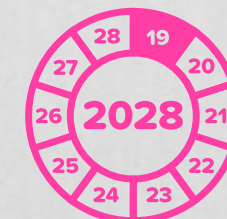
A Healthier Synlait

is about strengthening our company. It is about building systems that support our people, making sure that we are all safe and establishing a culture of kotahitanga or unity, strengthening our capabilities and continuing to manage our risks. This report details the progress we are making in this space.

World Class Value Chain

is core to our reputation. It covers healthier farming practices, safe food and market access, manufacturing excellence, building a sustainable supply chain, and transparency. Our teams are doing great work in this space because we are constantly asking ourselves: how can we think differently and make things better?

Out of our business strategy, we have built a sustainability framework based around ambitious environment, people and enterprise targets. We are working to these goals through 11 Sustainability Innovation Platforms (SIPs), detailed roadmaps for action that will both change the way we operate and hasten the transformation of our industry. To date, we have developed SIPs on Climate, Transparency, Community, Circular Economy, Welfare and Water.



In 2018 we established our 10 year plan for sustainability at Synlait, which outlines our bold goals for the year 2028.

KEY FIGURES

Production FY19

146,322MT^{+5%}

Excluding fresh milk

FY19 Revenue (m)

\$1,024.3^{+17%}

FY19 contracted milk supply ('000)

64,189KGMS^{+1%}

FY19 total employees

900⁺²¹⁸

FY19 milk suppliers

201⁺⁵

REPORT SCOPE

Except where otherwise indicated with a footnote, the data presented in this report covers the period of the 2019 financial year (1 August 2018 – 31 July 2019). The scope of the report includes off-farm data collected from our operations in Dunsandel, Palmerston North and in Auckland. On-farm data has been collected from our Canterbury farms only. Our Pokeno site was commissioned in September 2019 so data from that operation and from our new Waikato farm suppliers will be included in next year's report.

Data quality assessment

Synlait engaged an independent third party to undertake a review of key elements (marked with an asterisk *) of this report for completeness and accuracy.



ENVIRONMENT

NET POSITIVE FOR THE PLANET

Our aim is to have a net positive impact on the planet and re-imagine all aspects of our business for a low-emissions future. Achieving this means taking stock of our current environmental footprint and implementing on- and off-farm initiatives that reduce greenhouse gas emissions, eliminate water degradation, transition from a linear to a circular economy and improve the welfare of the animals and ecosystems we depend upon. We have developed four Sustainable Innovation Platforms (SIPs) that will inform our actions around environmental stewardship. They are:



CLIMATE

The ways we will contribute to the Paris Agreement target of staying well below 2°C of warming by 2100, and ideally, 1.5°C.



WELFARE

The ways we will care and respect for our animals and transition to regenerative farming systems.



WATER

The ways we plan to eliminate over-consumption and degradation of water resources.



CIRCULAR ECONOMY

The ways we will drastically reduce our manufacturing and packaging waste sent to landfill.





CLIMATE

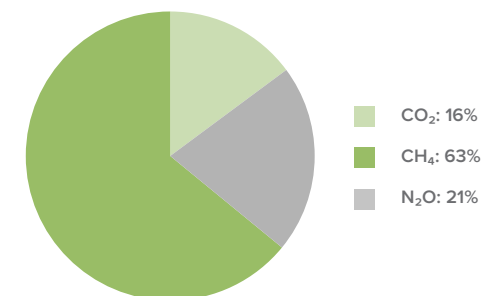
ON-FARM

Our farmer suppliers account for around **81%** of our **883,255 tonnes** of CO₂ equivalent emissions. According to our FY19 Greenhouse Gas (GHG) Inventory,¹ our on-farm emissions totalled **714,008 tCO₂e**, which can be further broken down into a quantum of carbon dioxide (16%), methane (63%) and nitrous oxide (21%). Since 2017-2018, we have been providing all our farmer suppliers with a unique greenhouse gas emissions profile.² Cumulatively, this information provides us with a baseline to understand and improve our own performance. We think that a combination of new technology and best-practice farm management will result in substantial reductions of on-farm emissions.

1. Synlait Milk Ltd Greenhouse Gas Inventory Report - FY19, https://www.synlait.com/wp-content/uploads/2019/11/Synlait-FY19-GHG-Inventory-Report_1-Nov-2019.pdf. The inventory was prepared in accordance with the requirements of the ISO 14064-1:2006 standard as well as the Greenhouse Gas Protocol.

2. Data is collected by Overseer, a software that models agricultural GHG emissions in New Zealand.

ON-FARM EMISSIONS BY TYPE*



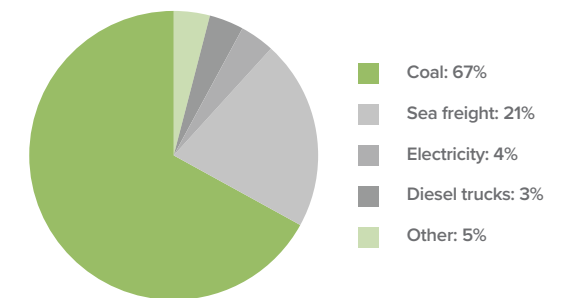
OFF-FARM

19% of our total emissions occur off-farm. The energy-intensive nature of our manufacturing processes and supply chain places us among a group of large New Zealand emitters. Our GHG Inventory highlights the use of coal, at 67%, as the largest source of our off-farm emissions, followed by sea freight, 21%, and electricity, 4%.

As 83% of electricity generated in New Zealand comes from renewable sources,¹ we see the electrification of our operations and supply chain, along with the use of alternative renewable sources of energy, as a solution to reducing the quantity of our carbon emissions.

1. As of June 2019, according to the official data tables for electricity published by the New Zealand Ministry of Business, Innovation and Employment.

OFF-FARM EMISSIONS BY TYPE*



OUR COMMITMENT

We will not build another coal-fired manufacturing facility.

ON-FARM CLIMATE TARGET

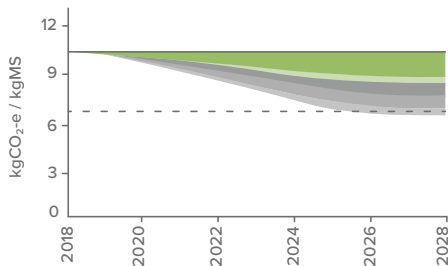
35%

Reduction in GHG per kgms (kilogram of milk solids) by 2028, versus 2017/2018 base year

ON-FARM CLIMATE ROADMAP

We’ve mapped out a pathway to our on-farm GHG reduction target out to FY28. We’re confident that with today’s best practices and emerging technologies, we will reach it.

ON-FARM CLIMATE
(COLOURS INDICATE SEPARATE INITIATIVES)



FY19 INITIATIVES

Tailored farm support

To achieve our on-farm GHG reduction target we are leveraging our Lead With Pride™ farm certification programme and tailoring support to each farm. Through Lead With Pride™ we provide farms with access to Practical On-Farm Greenhouse Mitigation Options, a guide to reducing emissions through fertiliser, feed, water and stock management. We have also introduced a GHG-reduction incentive payment into Lead With Pride™ to reward farms that are actively working to reduce emissions. To receive the incentive, farmers must create comprehensive, farm-specific GHG management plans and demonstrate a clear knowledge of GHG sources and mitigation strategies. GHG plans are evaluated and ratified by independent assessors. We have also introduced an incentive payment to reward farms that are palm kernel expeller (PKE) free. So far, 63 farms, or 32% of suppliers, have received this payment.

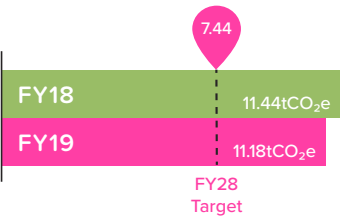
Solar PV feasibility study

On-farm carbon dioxide emissions are mainly created during the combustion of fossil fuels. Our aim is to promote renewable energy generation on farms to reduce carbon emissions and operating costs. We are soon to launch a five-farm feasibility study to establish the cost-to-benefit ratio of photovoltaic solar systems, with battery storage, powering the full farm system. This study will provide an understanding of the scale of the opportunity and case studies to demonstrate value to other suppliers.

FY19 RESULTS

	FY18	FY19	% +/-
Total on-farm GHG emissions*	727,500 tCO ₂ e	714,008 tCO ₂ e	-2%
On-farm GHG emissions per tonne MS*	11.44 tCO ₂ e	11.18 tCO ₂ e	-2%

ON-FARM GHG EMISSIONS PER TONNE OF MILK SOLIDS*



OFF-FARM CLIMATE TARGET

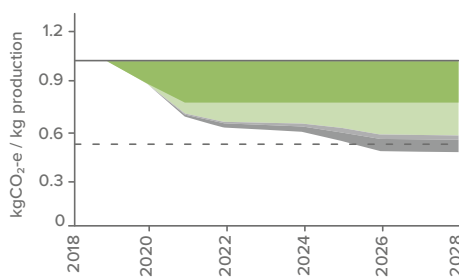
50%

Reduction in total GHG per kilogram of product by 2028, versus 2017/2018 base year.

OFF-FARM CLIMATE ROADMAP

We’ve mapped out a pathway to our off-farm GHG reduction target out to FY28. We’re confident that with today’s best practices and emerging technologies, we will reach it.

OFF-FARM CLIMATE
(COLOURS INDICATE SEPARATE INITIATIVES)



FY19 INITIATIVES

New electrode boiler

In March 2019 we commissioned a large-scale electrode boiler for our advanced dairy liquids facility at Dunsandel. Traditionally, dairy processors have relied on coal as a cost-effective way of creating the large volumes of process heat (energy used in the form of steam or hot water) required to turn fresh milk into powder. The electrode boiler at Dunsandel requires a significantly greater investment than coal. However, compared to a coal alternative, the carbon equivalent saving is 13,714 tCO₂e per annum. We estimate that after 10 years of operation, the electrode boiler’s emissions savings will be roughly equivalent to the emissions produced by 9,600 houses. Beyond this achievement, we plan to work on strategies to address the footprint of our existing coal infrastructure at Dunsandel.

Forkhoist electrification

We are phasing out LPG-powered forklifts and purchasing electric forklifts as replacements (excluding the larger vehicles required for container-handling). Our current fleet is comprised of 46 forklifts: 32 in Dunsandel, of which nine are now electric; seven in Auckland, including three electric forklifts; and seven electric forklifts in Pōkeno. The replacement roll-out is expected to take five years.

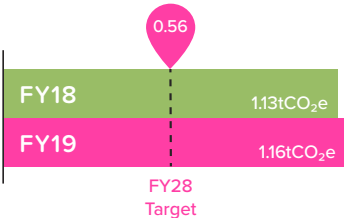
FY19 RESULTS

	FY18	FY19	% +/-
Total off-farm GHG emissions*	157,148 tCO ₂ e	169,247 tCO ₂ e	+8%
Off-farm emissions per tonne of product*	1.13 tCO ₂ e	1.16 tCO ₂ e	+3%
Total energy consumption*	344,994 MWh	374,820 MWh	+9%
Energy consumption per tonne of product*	2,473 kWh	2,562 kWh	+4%
Total Coal consumption*	54,137 tonnes	56,807 tonnes	+5%
Coal consumption per tonne of product*	0.39 tonnes	0.39 tonnes	0%

Our total production volume increased and our manufactured mix moved to more energy-intensive products.

1. This indicator includes energy consumption (electricity, gas, coal) for our manufacturing operations. It excludes energy used for transportation, such as our diesel or LPG-powered forklifts.

OFF-FARM EMISSIONS PER TONNE OF PRODUCT*



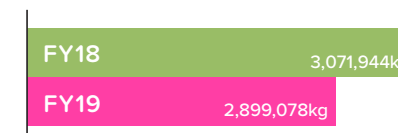


WATER

ON-FARM

Water is a local issue that requires different approaches in different places depending on the ground conditions. In June 2019, we defined a roadmap to address on- and off-farm water quality and consumption issues. Our goal is to work with farmer suppliers to use less water and eliminate any contributions to waterway degradation in the areas where we operate. The priority is to reduce the impact of nitrates on waterways and freshwater catchments by focusing on best on-farm practices and adopting new technologies.

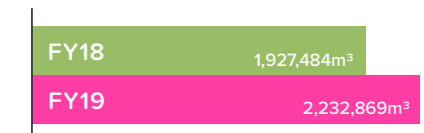
TOTAL ON-FARM NITROGEN LOSS*



OFF-FARM

Our goals are to reduce the volume of water we use throughout all aspects of our manufacturing processes and improve the quality of wastewater that leaves our factory. The maximum water use at manufacturing facilities is determined by council consents. At Dunsandel, despite the rise in water usage resulting from our new fresh milk and lactoferrin plants, we are maintaining production levels within current consent limits. Wastewater at Dunsandel is currently treated and used for irrigation on neighbouring farms.

OFF-FARM WATER CONSUMPTION*



ON-FARM WATER TARGETS

20%

Reduction in water use per kilogram of milk solids by 2028

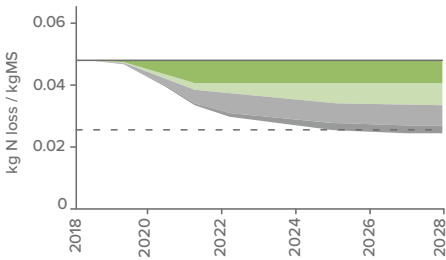
45%

Reduction in nitrogen loss to waterways per kilogram of milk solids by 2028

ON-FARM WATER ROADMAP

Below is the roadmap we have defined to achieve our 2028 nitrogen loss target. By applying today’s technologies and best practices, we believe it is achievable.

ON-FARM NITROGEN LOSS
(COLOURS INDICATE SEPARATE INITIATIVES)



FY19 INITIATIVES

Better environmental advice

We are helping farmers gain a better understanding of water-related issues by providing the tools and guidance they need to make improvements. Together, our farmer suppliers and environmental advisers are developing specific strategies to reduce water consumption (by changing irrigation practices or modernising equipment, for instance) and limiting nitrogen loss (through fertiliser and feed management, beneficial soil strategies, irrigation and effluent management). Lead With Pride™ certified farms currently meet strict targets around water use and quality. During farm audits, assessors verify compliance with water management plans and account for water use and nutrient management.

Defining best-practice

In the dairy industry, the main causes of excessive on-farm water usage are over-irrigation, inefficient irrigation infrastructure, and a lack of access to appropriate data. Water pollution derives mostly from cow urine and dung, the over-application of fertilisers, over-irrigation and intensive winter grazing, which can also have a detrimental effect on soil and animal health. To address this, we are initiating research to identify best-practice options. We are also preparing to trial new technologies to reduce nitrogen leaching from cow urine.

FY19 RESULTS

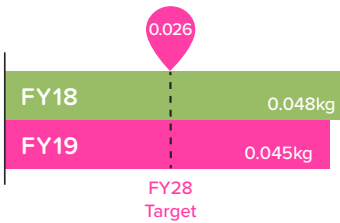
	FY18	FY19	% +/-
Total on-farm water consumption*	NA	266,075,593 m³	NA
On-farm water consumption per kg of MS*	NA	4.17 m³	NA
Total on-farm nitrogen loss*	3,071,944 kg	2,899,078 kg	-6%
On-farm nitrogen loss per kg of MS*	0.048 kg	0.045 kg	-6%

The FY19 ‘water year’ covers 1 July – 30 June. Several factors currently affect the overall accuracy of this data, including: missing data from farms; the inability to distinguish between large blocks and individual farms in some water consents and irrigation schemes; data recording gaps and spikes from water meters. In addition, milking shed water usage is not recorded on most farms and water usage from year to year varies significantly depending on the weather conditions. We’re endeavouring to improve the accuracy of water data.

100%

Of waterways fenced to the stock-exclusion standard of Sustainable Dairying Water Accord in FY19*

ON-FARM NITROGEN LOSS PER KG OF MS*



OFF-FARM WATER TARGETS

20%

Reduction in water use per kilogram of product by 2028

20%

Reduction in nitrogen discharge per cubic meter of wastewater by 2028¹

20%

Reduction in SAR (Sodium Adsorption Ratio)¹

FY19 INITIATIVES

Accounting for water

At Dunsandel, water usage is measured at site level and in some specific areas but there has been an insufficient number of meters to monitor the contribution of each manufacturing process or facility. Our site services team is currently installing new water meters in key areas to enable precise monitoring. The aim is to attribute all treated water usage to the correct business units, to benchmark our performance and, ultimately, to identify ways of reducing our consumption.

Water recovery at Pōkeno

At Pōkeno, several water recovery systems have been installed to manage the recycling of wastewater. These include 200m³ of Condensate of Whey (COW) water storage, which allows water recovered from whey, a by-product of milk processing, to be used for cleaning procedures; and 100m³ of recovery flushing storage, which is expected to recycle 94% of COW water, or 800m³ per day. The milk reverse osmosis plant also has a permeate polisher that will recover an additional 200m³ per day when the plant is manufacturing skim powder. The recovered water will either be used to clean the membrane plants, or it will be chlorinated and added to our supply of process water.

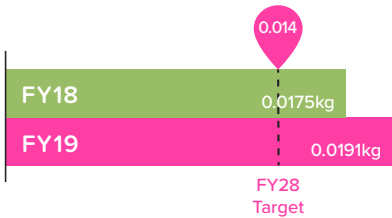
1. These targets are applicable to our Dunsandel site only

FY19 RESULTS

	FY18	FY19	% +/-
Total off-farm water consumption*	1,927,484m³	2,232,869m³	+16%
Off-farm water consumption per tonne of product*	13.82m³	15.26m³	+10%
Total off-farm wastewater discharge*	2,235,628m³	2,626,787m³	+17%
Nitrogen discharge per m³ of wastewater*	0.0175kg	0.0191kg	+9%
95th percentile SAR*	13.09	11.23	-14%

Our total production volume increased and our manufactured mix moved to more water-intensive products.

OFF-FARM NITROGEN DISCHARGE PER M³ OF WASTEWATER*





WELFARE

Our Welfare Sustainability Innovation Platform (SIP) is guiding our investigation of sustainable and regenerative farming methods. We see animal welfare, biodiversity and soil health as interlinked and essential to maintaining farm productivity and profitability in the long term. It is increasingly important for us to illustrate to our customers and end consumers the provenance and integrity of the products they purchase.

FY19 INITIATIVES

Ensuring animal wellbeing

The Animal Health and Welfare pillar of Lead With Pride™ sets targets for farmer suppliers around stock health, good farm infrastructure, and health protocols that meet or exceed the industry best practice standard. Our Supplier Handbook requires that all dairy animals are treated in a humane manner at all times and that all suppliers adhere to the standards outlined in the codes of welfare relevant to the dairy industry. We also require suppliers to ensure all milking animals are checked by a vet at least once per season.

Although New Zealand's animal welfare standards are well regarded internationally, there is increasing public concern that animals be humanely and ethically treated. Bobby calves and animal antibiotic resistance are among subjects that will need to be addressed into the future. We are currently working on strategies to further improve animal wellbeing standards and provide more transparency on our performance in this area.

Better soil health

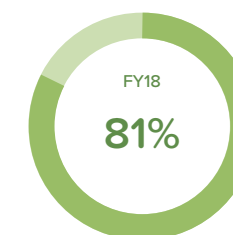
Healthy soils help cleanse water, cycle nutrients, store carbon and grow plants and animals. Soils have a natural ability to draw carbon down from the atmosphere, so adopting regenerative farming and grazing practices that rebuild soil organic matter and restore soil biodiversity can provide a defence against climate change. We are planning a research project to better understand and measure soil health in the New Zealand farming context. Work is underway to define the programme of research and the KPIs to measure success.

Improving biodiversity

Lead With Pride™ farms currently meet biodiversity requirements that include maintaining and enhancing native plants, farming in ways that protect vegetation and waterways, pest management, preservation of wetlands and native plant areas, and incremental enhancement of biodiversity up to five percent of total farm area. Part of this has involved education around mahinga kai and water quality. Mahinga kai literally means 'working the food', and it involves the protection of indigenous food sources, the practices involved in producing, procuring and protecting those resources, and the places where those resources are, or were traditionally gathered. In addition to this, we are undertaking an assessment of biodiversity on a sample of farms during FY20.

FY19 RESULTS

PERCENTAGE OF PASTURE IN COW FEED^{1*}



SOMATIC CELL COUNT AVERAGE^{2*}



1. Data was collected from 72 farmer suppliers only. We hope to expand the scope of data collection next year.

2. The reporting period for this indicator is 1st of June to 31st of May. We are conscious that this metric does not provide a comprehensive and accurate understanding of animal wellbeing. We're collaborating with research institutes to better understand performance.



CIRCULAR ECONOMY

While the characteristics of a linear economy are 'take, make, waste', circular economies are restorative and regenerative – they design out waste and keep materials 'in the loop', so product lifecycles no longer have a beginning, middle and end. Transitioning to the circular economy is essential for meeting our net positive for the planet ambition.

CIRCULAR ECONOMY TARGETS

99%

Of total non-hazardous manufacturing waste will be diverted from landfill by 2028

100%

Of product packaging will be reusable, recyclable or compostable by 2025

100%

Of our plastic milk bottles will be composed of 100% recycled PET or renewable bio-based PET by 2028

FY19 INITIATIVES

Life Cycle Analysis

We have purchased a licence for EcodEx, an ISO 14040 certified Life Cycle Analysis (LCA) software tool for evaluating environmental impacts associated with products, processes and activities, from the extraction of raw materials to end of life. An LCA has five key metrics: greenhouse gas emissions, water consumption, non-renewable energy and minerals, land use and impacts on the ecosphere. We are in the process of finalising our first LCA which has been performed on a product that represents 5%* of our sales.

Café waste minimisation

In early 2019 we became aware that 100% of waste from our Dunsandel café was going directly to landfill because of cross contamination in the recycling system. After internal meetings with stakeholders, a cafeteria survey, and 24-hour waste audit, we established that the total waste produced was 1,480 litres per day which extrapolates out to 529,000 litres

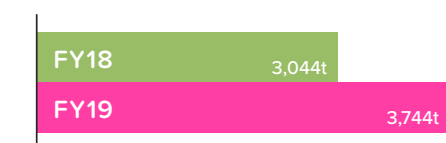
of annual waste. Single-use packaging accounted for 40% of this total, and many items going to landfill could have been recycled. In response, our café is currently moving from single-use plastics to permanent cutlery and crockery, on-site composting, and an optimised recycling system.

Innovation centre

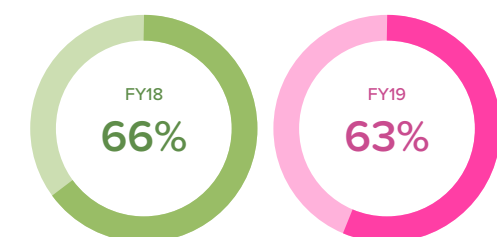
The main waste challenges at our R&D facility in Palmerston North are the disposal of biological materials, and plastics and cardboard recycling. A nearby pig farm has provided a very local solution to the disposal of biological solids resulting from testing and trials. While plastics are used in sample generation, as packaging is a key variable in sample-storage evaluation, near to 100% of this is recycled. To further reduce plastic waste, disposable plastic evaluation dishes have been replaced with reusable stainless-steel dishes.

FY19 RESULTS

TOTAL WASTE PRODUCED*



TOTAL WASTE RECYCLED*



Note: The decline in the rate of recycling is primarily the result of recycling facilities in New Zealand enforcing stricter rules and criteria for the acceptance of recyclable items – a consequence of China's National Sword policy. To a lesser extent, the commissioning of our fresh milk plant in Dunsandel has also had an effect on our recycling totals. An intended outcome of our circular economy roadmap is a return to higher recycling rates.

PEOPLE

A HEALTHIER SYNLAIT

We are creating opportunities for all to thrive. By building a fan base for our ambition, commitment and actions, together we can transform our industry, benefit our country and leave a legacy for future generations.

Our commitment to sustainability extends throughout our team members and the wider community. This section of the report focuses on the three Sustainability Innovation Platforms (SIPs) that fall under the People pillar of our Sustainability Framework. They are:



SAFE WORKPLACE

The ways we are achieving integrated health, safety and wellness, with an aspiration of zero injuries.



CULTURE & COMMUNITY

The ways we plan to make a tangible contribution in the areas where we work, uniting our employees, farmers and local communities around ecosystem restoration projects.



CAPABILITY

The ways we are ensuring the wellbeing of our people by the provision of equitable and attractive working conditions, and the development of leadership talent. By investing in our people and building meaning into staff roles, we can create a legacy of committed leaders who will help us transform our industry for the better.





As a rapidly growing organisation undertaking complex work, our team members can be exposed to a range of risks. 'Everyone Home Safe, Every Day' is our bottom line, and we have developed health, safety and wellbeing systems and behaviours to support the achievement of our zero injuries ambition.

SAFE WORKPLACE TARGET

9.0

Total Recordable Injury Frequency Rate by the end of FY20

FY19 INITIATIVES

Integrated Health, Safety and Wellness

Our five-year Health, Safety and Wellness strategy focuses on leadership, risk management, event response and safety culture. The launch of MySafety, a platform to allow team members to report events and gain visibility of corrective actions and outcomes, has resulted in a 75% increase in reported events and has helped us hone health and safety systems. From FY18 to FY19 our Total Recordable Injury Frequency Rate (TRIFR) dropped by 28%. Despite these positive results, we are conscious that we are still far from our zero injury ambition. We will continue our efforts to drastically improve our safety results.

New Wellness Programme

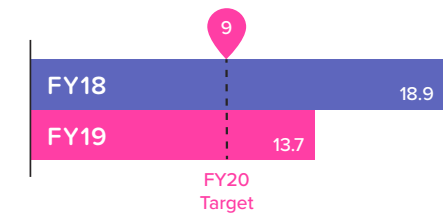
In FY19 we made a conscious decision to place a focus on employee wellbeing. These wellbeing initiatives are intended to enhance mental and emotional, social, spiritual and physical wellbeing. By encouraging appropriate rest, physical movement and information and guidance on the right way to nourish our body, we are championing better physical and mental health. This year's 'Eat well, live well' event in June saw team members come together to cook and enjoy kai while learning about healthy eating, nutrition and food labelling.

This year we also made available confidential wellness assessments to all staff members. Carried out by an occupational health nurse, the assessments focussed on blood pressure, blood sugar levels, cholesterol, Kessler 10 scores and cardiovascular

risk. For every 20 registrations received, we donated \$1,250 to the New Zealand Heart Foundation as part of the Big Heart Appeal.

FY19 RESULTS

RECORDABLE INJURY FREQUENCY RATE (TRIFR)*



EMPLOYEE FATALITY RATE*





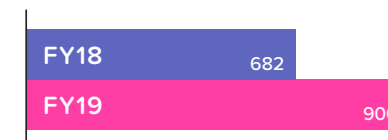
CAPABILITY

TALENT ATTRACTION & DEVELOPMENT

A dedicated and skillful team is critical to our performance. We continue to build workforce capability in several ways. In FY19, our workforce increased by 218 employees. With such fast growth it is important that we bring people on board effectively. We do this through Synlait 101 – a three-day orientation programme that all staff complete in their first week. Synlait 101 includes information on who we are and what we do, which is presented by leaders from across the business, and a visit to a Lead With Pride™ dairy farm, a first for many people.

Also, in July, more than 800 of our people attended our staff conference at Horncastle Arena in Christchurch, an excellent opportunity for our people to connect with our purpose, ambition and strategy – and with each other – en masse.

TOTAL SYNLAIT STAFF

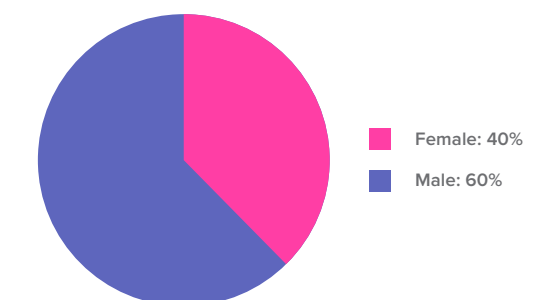


DIVERSITY & INCLUSION

There is a pure and simple business case for diversity: companies that are more diverse are more successful.

We are an action-based organisation that is growing fast. Our people make things happen, which is why it's important to support our team and build the right culture to support our growth. After adopting our first Diversity and Inclusion strategy last year, we have begun establishing policies and measurable objectives that help our people balance the demands of work and home, and help us to create a positive workplace culture that will appeal to a diverse range of potential employees.

GENDER BREAKDOWN AT SYNLAIT



TALENT ATTRACTION & DEVELOPMENT

FY19 INITIATIVES

Engagement survey

Our focus on employee engagement continues to show positive results, despite a slight decline compared to FY18. We use Gallup’s Q12 survey tool to measure engagement every quarter, benchmarking our performance against Australia, New Zealand and Oceania. Engaged teams have lower levels of absenteeism, lower turnover, higher productivity, and make the companies for which they work more profitable.

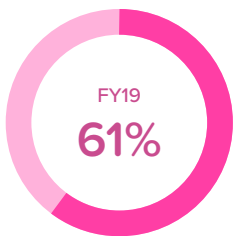
ENGAGEMENT RATIO (ENGAGED STAFF: ACTIVELY DISENGAGED STAFF) ACHIEVED IN FY19*



Perform and Grow

Perform and Grow is our performance management process. It is how we lead and encourage leadership and talent development within our teams. Perform and Grow’s scheduled conversations between team leaders and staff clarify expectations, drive engagement, develop personal capability and deliver performance. The programme begins with an initial meeting in August to establish coaching objectives, accountability and performance goals, with monthly check-ins throughout the year.

STAFF WHO RECEIVED PERFORM AND GROW REVIEWS*



We are working to raise the percentage of staff participating in Perform and Grow reviews. We have recently moved Perform & Grow to an online format

within our Human Capital System which is easier to access and use. We are also providing increased clarity for people leaders regarding what is expected of them during these reviews. Finally, the new Human Capital System will provide more accurate data on how Perform and Grow is being used.

Future Leaders

As a fast-growing and ambitious company, we are committed to attracting and retaining executives who show a synergy with our mission and way of working. Through our three-year Future Leaders training programme we are also committed to training our own executives. Future Leaders is suited to ambitious graduates who aspire to be at the forefront of a leading New Zealand company. Participants rotate through key roles to gain a foundational understanding of Synlait’s processes and workflows and, upon completion, are assigned a first leadership role with ongoing mentorship provided by senior managers. The first Future Leaders cohort is now on assignment in various business areas.

In-house recruitment

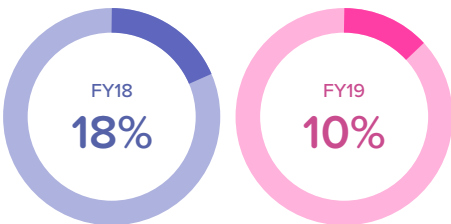
Part of our talent development strategy is enabling staff to advance to new roles within the company. In FY19, 182 roles were filled internally out of a total number of 514 roles.

ROLES FILLED BY INTERNAL STAFF*



FY19 RESULTS

EMPLOYEE TURNOVER RATE*



DIVERSITY & INCLUSION TARGETS

5%

gender pay gap achieved by 2025

40-50%

mix of women who hold leadership positions (team leads, supervisors, specialists and above)

0

regretted losses of high-potential women

FY19 INITIATIVES

Diversity and Inclusion Strategy

After finalising our Diversity and Inclusion Strategy last year – a tool to achieving sustainable commercial success and creating a high performing, values-driven culture – we have set ourselves three main goals.

- 1. **Workforce Diversity:** Put in place strategies to support the employment of more women and Māori.
- 2. **Diversity through Leadership:** Empower and equip leaders to recruit, develop and retain a diverse and competent workforce.

- 3. **Workforce inclusion:** Foster a culture that encourages flexibility and fairness to enable all employees to realise their potential and increase retention.

Workplace flexibility policies

In September 2019 we introduced Mātua, our parental leave policy, and Tāwariwari, our flexible working policy. These two cornerstone policies are helping us foster a culture of workplace fairness and flexibility.

Mātua enables parents to take the time off work required to raise children – and encourages them to return to work in conditions that mutually benefit their families and the business. Benefits of Mātua include Synlait topping up government-paid leave to full salary for 22 weeks (extended to 26 weeks

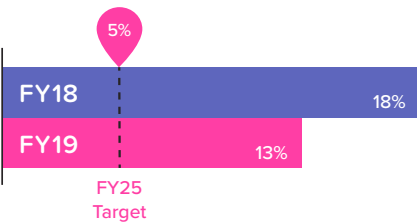
in July 2020) for the primary caregiver, partners being offered two weeks paid leave, and payment of a Child Care subsidy up until the point that the government subsidy applies – a ground-breaking benefit in New Zealand.

Tāwariwari defines the ways that we can support and enable formal workplace flexibility – for example career breaks, part time work, job sharing – where there is net neutral or net positive benefit to both employee and business, and where we can ensure there is no reduction to performance and productivity.

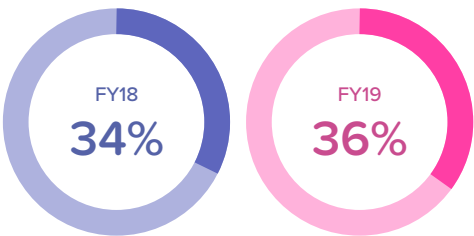
Finally, Synlait Way of Working is our modern way of working. It allows employees to choose times, locations and spaces to work in that best suit their activities.

FY19 RESULTS

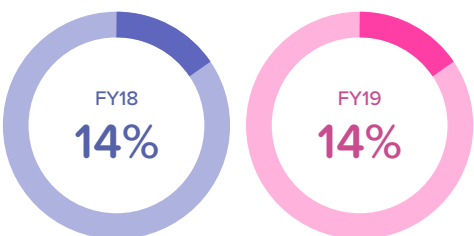
GENDER PAY GAP*



WOMEN AS MANAGERS OR SENIOR SPECIALISTS*



WOMEN IN SENIOR LEADERSHIP TEAM*





CULTURE AND COMMUNITY

Each year, we provide sponsorship to local sports groups and events as a means of connecting with the communities in which we operate. In FY19, as we further defined our environmental and social sustainability strategies, we also developed an initiative called Whakapuāwai.

FY19 INITIATIVES

Whakapuāwai means “to cause to blossom, develop, flourish, prosper, thrive”. It is our commitment to restoring and regenerating native ecosystems, waterways and wetlands, flora and fauna. It is about drawing people and groups together to improve water quality and restore biodiversity, and re-establish mahinga kai – the places and natural resources that are culturally important to Māori.

Synlait staff receive one paid day per year to volunteer on a Whakapuāwai initiative. It is a way for them to engage with their communities and make a contribution to environmental restoration in the places where they live and work. For Synlait, it is a way of making tangible our purpose of ‘Doing milk differently for a healthier world’. At this year’s staff conference, each team member was given a native tree to plant in the new landscape being prepared at Dunsandel as a physical symbol of the connection we all have with the land.

There are three aspects to Whakapuāwai:

1. **Extensively landscape** and plant thousands of native trees and shrubs on the 15 hectares of grazing land behind our Dunsandel operation. While the early planting programme requires plants sourced from local nurseries, within a couple of years the plants will come from our own nursery. In time, it will contain a wetland, along with walking tracks, exercise zones and meeting areas.
2. **Work with farmers** to identify areas on farms that would benefit from restoration of natural ecosystems. Plants from our own nursery will be used to regenerate these areas. Our farmer suppliers were also given a tree during our annual supplier conference.
3. **Form partnerships** to identify and restore community areas of shared value. As an example, Te Waihora (Lake Ellesmere) is a catchment area

that has been significantly degraded as a result of changes in surrounding land use. That part of Canterbury was once a large wetland, home to thousands of species of animals and plants, and a critical source of food for Ngāi Tahu. We are now on a pathway to forming a partnership with our local hapū, Ngāi Te Ruahikihiki, to work on restoration projects, starting with extensive planting and wetland restoration around Muriwai (Cooper’s Lagoon). We hope the improvements to this small piece of land will become an exemplar for restoration that land owners all around Te Waihora will follow.

FY19 RESULTS

INVESTMENT IN COMMUNITY PROJECTS*

FY18	\$12,500
FY19	\$371,258

The significant increase from FY18 to FY19 is due to the launch of the Whakapuāwai project in 2019.



ENTERPRISE

WORLD CLASS VALUE CHAIN

We serve milk nutrition for modern life, worldwide. Our pioneering mindset drives us to do bigger things, to stand for more, to play a bigger role. As demand for our products continues to increase, we are investing in accreditations and certifications that provide us with competitive advantage and reputational credibility and provide our customers with assurances that we are committed to the highest standards of food production and delivery. The Sustainable Innovation Platforms (SIPs) under this section are:



SAFE FOOD

The ways we are approaching nutrient production that enable customers to confidently differentiate their products based on quality and provenance. Our Safe Food initiatives and accreditations ensure our processing systems meet the highest food quality and safety standards.



SUSTAINABLE SUPPLY

Our Sustainable Supply aim is to ensure that throughout our supply chain our products will speak of our sustainable objectives and have a positive impact on people and the planet.



TRANSPARENCY

The ways we are seeking success beyond profit and undertaking several processes to have our sustainability performance measured against global standards.



HEALTHY FARMING

The ways we are pursuing excellence across our supply chain. This begins on farm with Lead With Pride™, a transformational programme that guarantees the integrity of our milk and the way it is produced.





SAFE FOOD

As a producer of infant formula and other differentiated products that provide genuine benefits for human health and wellbeing, maintaining the highest standards of quality and safety is integral to our continued success. At Synlait, everyone owns quality. What we achieve every day is complete supply chain integrity – from fresh milk on farm through to consumer-packaged products. Throughout this unbroken chain, we take a no compromise approach to product quality and consumer safety with dedicated in-house laboratory testing and international regulatory expertise.

FY19 INITIATIVES

Quality in our operations

We have invested heavily in a food-safety strategy that mandates rigorous testing to prove the absence of microbial and chemical contaminants. Every can of finished infant formula is x-rayed to confirm the absence of foreign matter. We have several in-house labs, a dedicated chemistry laboratory, a microbiology laboratory, and in-process laboratories inside each dryer and in the fresh milk factory, which are ISO 17025 certified and IANZ accredited. These laboratories allow us to complete 70% of our product testing requirements on-site. We perform over 500,000 tests a year, on raw materials, final products, during processing and on the manufacturing environment. We outsource 30% of tests to external laboratories to mitigate risks and maximise expertise.

End-product testing is incredibly important for compliance and customer trust, but we are equally committed to 'Quality by Design'; that is, you cannot inspect quality into a product, you have to build it into the process. 'Right First Time' manufacturing is the best guarantee for satisfied customers and shareholders. To support this, our people receive all the relevant food safety and quality training required for them to perform their roles with care and confidence. Our Risk Management Programme (RMP) spans on-farm practices, milk collection, material sourcing and manufacturing processes through to laboratory testing, warehousing and logistics. All are externally audited every three months. Third-party certificates such as China Dairy HACCP also motivate us to maintain excellence.

We have a strong track record at navigating complex regulatory environments and continue to meet the strict criteria of several product quality and safety accreditations. In July, Dunsandel received FSSC 22000 certification, our first global food safety certificate. This important achievement is valued by our key customers. For the full list of Synlait accreditations, please visit our website at www.synlait.com.

Quality throughout our supply chain

Our quality teams act as both gate-keeper and gate-opener for our suppliers. They ensure that all products supplied to us are safe and compliant. In 2019, we moved to a new system of assessing raw materials, packaging and service suppliers, allocating risk ratings of low, medium, high and critical to each one. The criteria to determine the level of risk includes the type and volumes of product supplied, and the number of non-compliances previously identified.

FY19 RESULTS

In FY19, 29 audits were completed out of a total of 80 active raw materials and packaging suppliers. From FY20, our quality audits will prioritise high and critical risk suppliers.

RAW MATERIALS AND PACKAGING SUPPLIERS AUDITED IN FY19*

36.2%



HEALTHY FARMING

Our commitment to healthy farming is driven by Lead With Pride™ and the work we do with New Zealand's best dairy farmers. We know our farmer suppliers by name, not as a number, and take pride in strengthening our relationships with them through farm visits and assessments, an annual supplier conference, and regular events that celebrate the successes of our wider network.

ALL FARMS

In the last milk season, our Dunsandel processing plant was supplied by 201 farms, with 80% located within an 80 kilometres radius. All farms supplying Synlait have had Farm Environment Plans since 2016/17. Furthermore, all our farmer suppliers are subject to the terms and conditions of our Supplier Handbook, which provides information about compulsory milk quality specifications, and requires visits by independent Farm Dairy Assessors who audit hygiene, regulatory and sustainability compliance, animal health and treatment, biodiversity, water usage and other key factors that contribute to healthy farming systems.

This attention to overall farm health helps keep the ratio of non-compliance issues low. Last year, there were five significant on-farm environmental non-compliances and four minor non-compliance equivalents. The significant non-compliances included irrigating effluent outside of a consented discharge area; illegal discharge of effluent to drain; and effluent ponding to land. Synlait's Milk Supply team undertook full farm environmental assessments and drafted management plans jointly with the concerned farmers to identify and set timeframes for remediation actions. The team then carried out regular site visits to ensure that progress was being achieved and that compliance with all regulatory requirements was being maintained.

FY19 RESULTS

Our average length of partnership with current farmer suppliers is 6.8 years.*

PERCENTAGE OF FARMS WITH SIGNIFICANT ENVIRONMENTAL NON-COMPLIANCES IN FY19*

2%

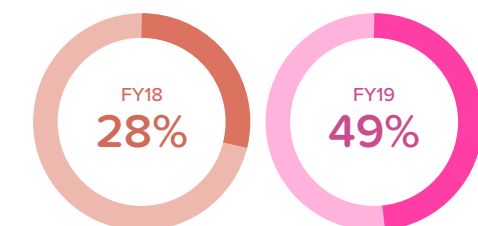
LEAD WITH PRIDE™

Doing the right thing is rewarding – that's one takeaway from Lead With Pride™, our on-farm certification programme that continues to go from strength to strength in recognising and financially rewarding suppliers who achieve dairy farming best practice.

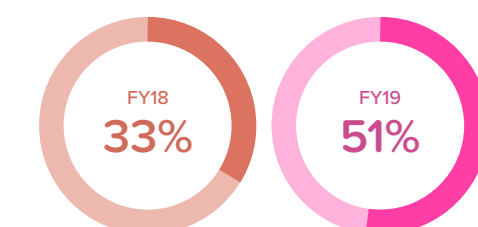
Several years ago, Synlait recognised the need to ensure that farmer suppliers, who were facing environmental and other challenges, had access to a leadership programme which provided a pathway to excellence. Lead With Pride™ was the result – an industry exemplar launched in April 2013 that was the first programme of its kind in Australasia. Internationally recognised with an ISO/IEC 17065 standard, Lead With Pride™ encourages and rewards suppliers who prove excellence in dairy farming.

Lead With Pride™ is challenging, but the response to the commitment from farmer suppliers, customers and investors has been extremely supportive. Today, nearly 50% of our South Island farms are Lead With Pride™ certified.

LEAD WITH PRIDE™ CERTIFIED FARMER SUPPLIERS^{1*}



LEAD WITH PRIDE™ CERTIFIED MILK^{2*}



1. Reporting period from June 1 to May 31

2. This includes milk from farmer suppliers that became Lead With Pride certified during the financial year.

Lead With Pride™ is transformational. Farmers do more than ensure quality of milk production, they take a holistic approach to all aspects of farming. The integrity of production and superior quality of milk enables our international health and nutrition customers to differentiate themselves with confidence.

Following the launch of our Sustainability Framework in 2018, we have worked with farmers on strategies to further reduce their environmental impact using Lead With Pride™ as a tool. We have collected information to establish and communicate to our farmer suppliers their unique GHG emissions profile and added a financial incentive for farmers who understand, measure and mitigate on-farm emissions. We have also introduced an incentive payment for maintaining a palm kernel expeller (PKE) free farm. At the end of last year’s season, 63 PKE-free Lead With Pride™ farms had received the payment.

Synlait farms belong to one of three Lead With Pride™ categories: Gold, Gold Plus or Gold Elite. Gold represents good practice but is non-certified. Gold Plus and Gold Elite certified suppliers meet additional standards – they are ISO/IEC 17065 certified and receive incentive payments for their milk to encourage suppliers to deliver the best standards of milk quality, animal welfare, environmental sustainability and staff and community well-being.

As Synlait Pōkeno was commissioned early in FY20, we have brought together a new group of milk suppliers in the greater Waikato region. With so much momentum building around our Lead With Pride™ programme, we actively target farmers who meet the required standard, or who are capable of achieving certification in the near future.

OUR FOUR PILLARS

Certified Lead With Pride™ farmers are evaluated against pillars of Social Responsibility, Environment, Animal Health and Welfare, and Milk Quality.



Environment – Lead with Foresight

New Zealand’s unique environment is reflected in the quality of the milk produced here, so protecting it is both good farming and good business. For dairy farming to be sustainable, our industry’s environmental practices must be sustainable too. To become Certified Members, our suppliers must achieve excellence in the management of water, effluent, biodiversity, soil quality, energy and greenhouse gas emissions.



Animal health and welfare – Lead with Care

The health and welfare of a herd impacts directly on milk quality. The best dairy farmers know this and work hard to ensure a happy, healthy herd. It is the proactive steps they take today that help improve milk production tomorrow. Certified Members exceed New Zealand’s Animal Health & Welfare standards. This includes accurately monitoring and recording animal health events and outcomes so better decisions can be made in the future and performance improved.



Milk quality – Lead with Greatness

It takes modern, innovative farming methods to produce the highest quality milk that our customers want in their products. Our best suppliers are dedicated to food safety. They do this by monitoring milk quality daily and focus on practices that ensure the absolute integrity of the milk they produce. Our Certified Members are recognised for excellence in areas that our customers consider essential, including dairy presentation and infrastructure, hygiene practices, milk cooling, residue management and staff training.



Social responsibility – Lead with Integrity

The greatest potential on any farm lies in its people. By building cohesive teams that have real drive and passion, our suppliers are able to improve overall farm performance. Taking a comprehensive human resources approach, farmers create more opportunities for success, they also attract the best employees. Certified Members take a systems approach to recruitment, management, training and health and safety. They create a sense of teamwork on farms and stand out as an employer our industry respects.



SUSTAINABLE SUPPLY

Our Sustainable Supply goals are to reduce our supply chain's environmental footprint and reduce our exposure to social or environmental risks, and also identify and collaborate with like-minded suppliers who are willing to innovate and supply us with more sustainable products. We are currently refining the details of our Sustainable Supply SIP and will provide more details in next year's report.

FY19 INITIATIVES

Supplier assessments

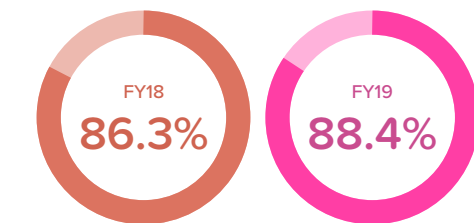
We do not yet have a formal framework to assess the sustainability performance of our key suppliers. Nevertheless, we have begun to integrate sustainability criteria into some tenders. In one recent tender, for example, environmental and health and safety criteria accounted for 8% of the total score attributed to the respondents.

Local supply

Current actions that are reducing the environmental impact of our supply chain include favouring suppliers that are based in New Zealand. All our packaging suppliers except for a small portion are located within New Zealand. For example, the vast majority of our paper bags are made in South Auckland. Our continued success has also encouraged some key suppliers to invest in production facilities closer to our Dunsandel operation, which has the dual advantages of benefitting the local economy and reducing the environmental footprint involved in transporting products.

FY19 RESULTS

PERCENTAGE OF NON-MILK SUPPLIER EXPENDITURE
SPENT WITH NEW ZEALAND REGISTERED COMPANIES*





TRANSPARENCY

Transparency is about integrity – a commitment to clear and accurate reporting of our sustainable performance and progress to our many stakeholders. We are currently in the early stages of aligning with and seeking accreditation from leading third-party organisations committed to effecting long-term change. These initiatives will assure investors, customers and consumers of the sustainable credentials of our business and frame our performance against rigorous global standards. There are also economic advantages to transparency of reporting, for instance the ability to access ESG risk-rated loans, which are granted on conditions of information disclosed to market.

FY19 INITIATIVES

B Corp

We are actively pursuing B Corp certification. B Corp businesses balance purpose and profit. Becoming B Corp-certified requires a B Impact Assessment score of 80 – this is a high bar, and we are improving our processes and practices in order to enter the full verification process as soon as possible. The assessment comprehensively covers the impact of a business on all stakeholders, including workers, suppliers and community and, of course, the environment.

ESG Rating

We engaged Sustainalytics, an Environment, Social and Governance (ESG) research provider, to undertake an assessment of our sustainability performance, and consequently received our first ESG risk rating score of 34.9* in February 2019. The Sustainalytics report measures our ESG risk rating across 11 different material issues. The results of the report have allowed us to agree terms and conditions for an ESG-Linked Loan with ANZ. Globally, leading banks use ESG ratings and data to identify lower-risk borrowers and meet sustainable financing goals by offering loan-pricing reductions. We are the first mover with ANZ in the New Zealand market for such a loan.

CDP

CDP is a worldwide organisation that aims to make environmental reporting and risk management a business norm, and drive disclosure, insight and action towards a sustainable economy. In July 2019, for the first time, we completed CDP's climate change questionnaire. Our response has been published on CDP's website and our CDP score should be released by the end of the calendar year.

Science Based Targets

We also began the engagement process with Science Based Targets Initiative (SBTi), a partnership of climate organisations that helps companies determine emissions reduction targets in line with the level of decarbonisation required to keep global temperature increase below 1.5°C. We expect our climate change targets to be reviewed by the end of FY20.



WANT TO PROVIDE YOUR FEEDBACK ON OUR SUSTAINABILITY STRATEGY AND REPORTING?
OR HAVE A QUESTION TO ASK OUR TEAM? CONTACT US AT: SUSTAINABILITY@SYNLAIT.COM