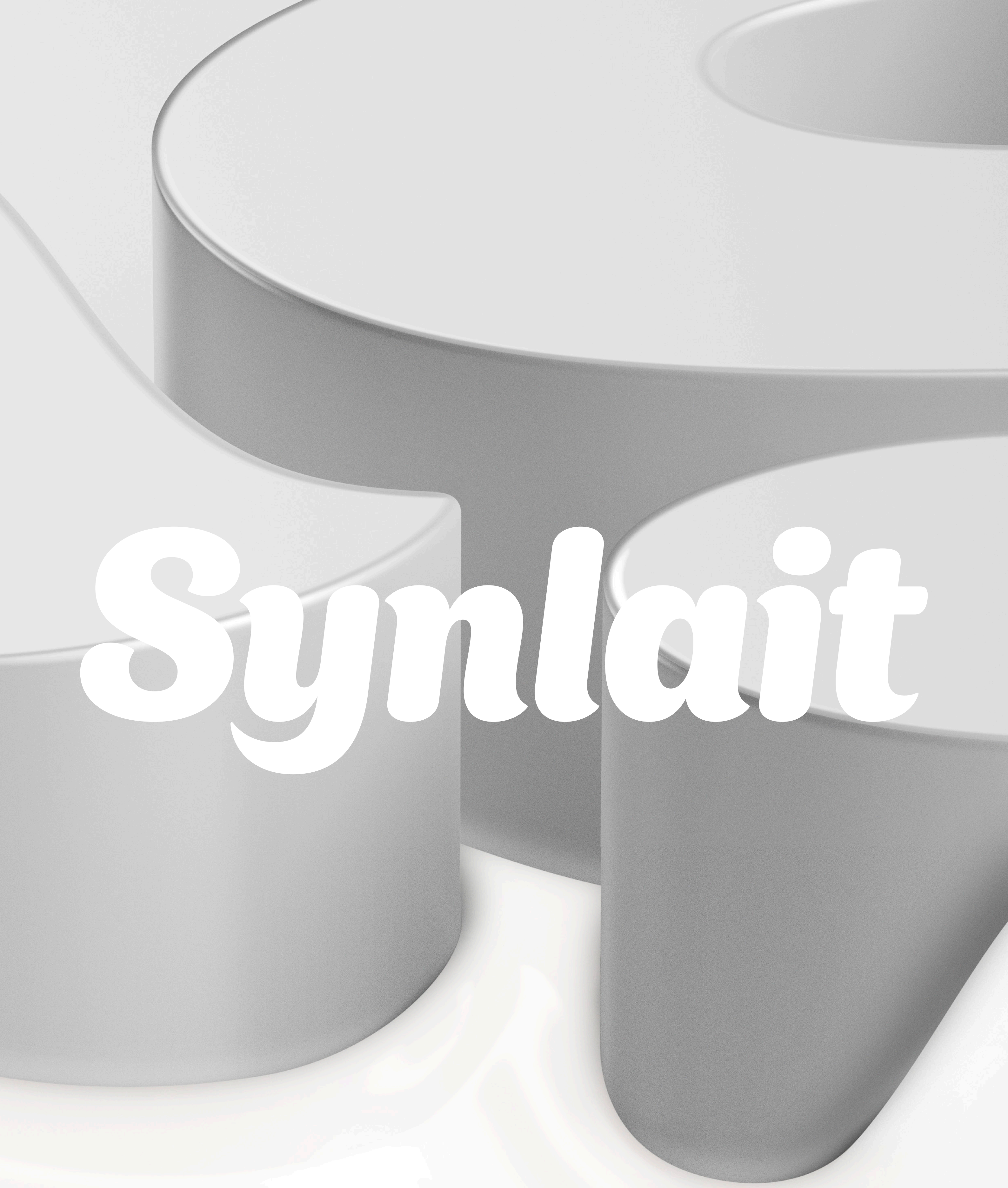

SYNLAIT MILK LIMITED
INTERIM FINANCIAL STATEMENTS

for the six months ended

31 January 2020

CONTENTS

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, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited and Synlait Foods (Talbot Forest) Limited (together "**the Group**") as set out on pages 3 to 19 for the six months ended 31 January 2020.

The Directors are responsible for ensuring that the condensed interim financial statements present fairly the financial position of the Group as at 31 January 2020 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

18 March 2020

Willem Jan (Bill) Roest
Independent Director

18 March 2020

INCOME STATEMENT

For the six months ended 31 January 2020

	Notes	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Revenue	3	559,286	470,950	1,024,305
Cost of sales	5	(476,410)	(385,061)	(837,976)
Gross profit		82,876	85,889	186,329
Other income	3	604	337	898
Share of (loss)/profit from associates		-	(580)	(580)
Sales and distribution expenses	5	(13,871)	(12,410)	(26,836)
Administrative and operating expenses	5	(23,230)	(16,782)	(35,303)
Earnings before net finance costs and income tax		46,379	56,454	124,508
Finance expenses		(8,610)	(4,097)	(8,819)
Finance income		49	741	1,232
Loss on derecognition of financial assets		(938)	(755)	(1,842)
Net finance costs		(9,499)	(4,111)	(9,429)
Profit before income tax		36,880	52,343	115,079
Income tax expense		(10,684)	(15,025)	(32,840)
Net profit after tax for the period		26,196	37,318	82,239
Earnings per share				
Basic and diluted earnings per share (cents)		14.61	20.82	45.89

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 2020

	Notes	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Profit for the period		26,196	37,318	82,239
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		1,515	14,529	(21,323)
Exchange differences on translation of foreign operations		(49)	-	-
Income tax on other comprehensive income		(424)	(4,068)	5,971
Total items that may be reclassified subsequently to profit and loss		1,042	10,461	(15,352)
Other comprehensive income for the period, net of tax		1,042	10,461	(15,352)
Total comprehensive income for the period ended		27,238	47,779	66,887

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 2020

	Notes	Share capital Unaudited $'000	Employee benefits reserve Unaudited $'000	Cash flow hedge reserve Unaudited $'000	Foreign currency translation reserve Unaudited $'000	Retained earnings Unaudited $'000	Total equity Unaudited $'000
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
Equity as at 1 August 2019		268,074	1,658	(26,148)	-	248,775	492,359
Profit or loss for the period		-	-	-	-	26,196	26,196
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	1,515	-	-	1,515
Exchange differences on translation of foreign operations		-	-	-	(49)	-	(49)
Income tax on other comprehensive income		-	-	(424)	-	-	(424)
Total other comprehensive income		-	-	1,091	(49)	-	1,042
Total comprehensive income		-	-	1,091	(49)	26,196	27,238
Employee benefits reserve	13	470	(426)	-	-	-	44
Total contributions by and distributions to owners		470	(426)	-	-	-	44
Equity as at 31 January 2020		268,544	1,232	(25,057)	(49)	274,972	519,642

STATEMENT OF FINANCIAL POSITION

As at 31 January 2020

	Notes	31 January 2020 Unaudited $'000	31 January 2019 Unaudited $'000	31 July 2019 Audited $'000
ASSETS				
Cash and cash equivalents		6,974	13,493	16,007
Trade and other receivables	7	68,184	45,191	61,933
Intangible assets	11	4,959	4,170	3,686
Goods and services tax refundable		7,841	4,851	3,689
Income accruals and prepayments		6,811	2,416	9,554
Inventories	8	306,441	234,879	164,849
Derivative financial instruments		2,525	7,140	2,358
Other current assets		2,500	19,738	20,500
Total current assets		406,235	331,878	282,576
Non-current assets				
Property, plant and equipment	9	934,497	698,408	845,202
Intangible assets	11	17,845	10,435	16,428
Goodwill		19,143	3,643	3,643
Other investments		110	110	110
Derivative financial instruments		1,253	4,903	45
Right-of-use asset	10	11,861	-	-
Total non-current assets		984,709	717,499	865,428
Total assets		1,390,944	1,049,377	1,148,004
LIABILITIES				
Trade and other payables		305,788	193,458	216,020
Loans and borrowings	12	174,328	131,099	99,626
Current tax liabilities		32,431	40,806	29,220
Derivative financial instruments		29,798	7,234	27,960
Lease liabilities	10	4,629	-	-
Total current liabilities		546,974	372,597	372,826
Non-current liabilities				
Loans and borrowings	12	276,267	169,291	249,482
Derivative financial instruments		8,803	4,715	10,686
Deferred tax liabilities		31,297	29,958	22,651
Lease liabilities	10	7,961	-	-
Total non-current liabilities		324,328	203,964	282,819
Total liabilities		871,302	576,561	655,645
Net assets		519,642	472,816	492,359
Equity				
Share capital	13	268,544	268,074	268,074
Reserves		(23,874)	887	(24,490)
Retained earnings		274,972	203,855	248,775
Total equity attributable to equity holders of the Group		519,642	472,816	492,359
Total equity and liabilities		1,390,944	1,049,377	1,148,004

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 2020

	Notes	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Cash flows from operating activities				
Cash receipts from customers		563,840	484,155	1,025,311
Cash paid for milk purchased		(277,945)	(265,362)	(461,369)
Cash paid to other creditors and employees		(269,580)	(189,020)	(403,420)
Net movement in goods and services tax		(4,155)	1,684	2,846
Income tax (payments) / refunds		(1)	-	(26,670)
Net cash inflow / (outflow) from operating activities	6	12,159	31,457	136,698
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired	15	(18,988)	(17,238)	(18,000)
Interest received		49	741	1,232
Acquisition of property, plant and equipment		(87,321)	(174,635)	(309,314)
Proceeds from sale of property, plant and equipment		(81)	8	(147)
Acquisition of intangible assets		(3,902)	(4,790)	(11,127)
Net cash outflow from investing activities		(110,243)	(195,914)	(337,356)
Cash flows from financing activities				
Proceeds from issuance of subordinated bonds	12	176,706	-	-
(Repayment) / drawdown of borrowings	12	(120,000)	72,300	152,300
Net movement in working capital facility		44,652	81,778	50,305
Interest paid		(11,163)	(8,257)	(18,069)
Repayment of lease liabilities		(1,144)	-	-
Net cash inflow / (outflow) from financing activities		89,051	145,821	184,536
Net (decrease) / increase in cash and cash equivalents		(9,033)	(18,636)	(16,122)
Cash and cash equivalents at the beginning of the period		16,007	32,129	32,129
Cash and cash equivalents at end of the period		6,974	13,493	16,007

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

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, Eighty Nine Richard Pearse Drive Limited, Synlait Business Consulting (Shanghai) Limited and Synlait Foods (Talbot Forest) 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 one significant change in accounting policies during the current period, with the adoption of NZ IFRS 16 *Leases* (NZ IFRS 16) from 1 August 2019. Apart from the impact of this standard, 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 2019.

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 curves, annual foreign exchange conversion rate and other conversion costs.

(a) Changes in Accounting Policies NZ IFRS 16 'Leases' (effective 1 August 2019)

Effective 1 August 2019, the Group has adopted Leases (NZ IFRS 16), which supersedes NZ IAS 17 *Leases* (NZ IAS 17) and related interpretations. Under NZ IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. As the Group's leases were previously classified as operating, straight-line operating lease expense was recognised over the lease term in the comparative period.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

2. BASIS OF PREPARATION OF SIX MONTHLY FINANCIAL REPORT (CONTINUED)

NZ IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a right-of-use asset (“ROU asset”) representing the Group’s right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortisation expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognised under NZ IAS 17.

The Group has applied NZ IFRS 16 using the modified retrospective approach, under which the initial ROU asset is measured at an amount equal to the lease liability resulting in no impact to retained earnings at 1 August 2019. Short-term and low-value recognition exemptions were applied, as well as practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options and the exclusion of leases with a term of less than one year remaining at the transition date. The Group also utilised the practical expedient which allowed for all existing contracts which were previously identified as leases to be treated as leases under NZ IFRS 16. NZ IFRS 16 was not applied to contracts which were not previously treated as leases under NZ IAS 17 as at transition date.

The impact of transition is outlined under Note 10, with changes in accounting policies outlined below.

Policy applicable from 1 August 2019

Lease Definition

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines, or directs how and for what purpose the asset is used.

Measurement of Right- of- Use Assets and Lease Obligations

On initial application, the Group elected to record ROU assets equal to the corresponding present value of the remaining lease liability. Subsequent additions were measured at the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently depreciated on a straight-line basis over the shorter of the term of the lease, or the useful life of the asset determined on the same basis as the Group’s property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Group’s incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Group is reasonably certain to exercise.

The lease obligation is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

Recognition Exemptions

The Group has elected not to recognise ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognised as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated Income Statement. The Group has also elected to apply a single discount rate to portfolios of leases with reasonably similar characteristics.

3. REVENUE RECOGNITION

Sale of goods

The Group manufactures and sells a range of milk powder, milk powder related products, liquid milk and cheese 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 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Dairy products	559,286	470,950	1,024,305
Other sundry income	604	337	898
	559,890	471,287	1,025,203

4. SEGMENT INFORMATION

The Group currently operates in one industry, being the manufacture and sale of milk powder, milk powder related products, liquid milk and cheese. 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.

The Group operates in one principal geographical area being New Zealand. Although the Group sells to many different countries, it is understood that a significant portion of both infant nutritional and ingredients sales are ultimately consumed in China.

Revenues of approximately 63% are derived from the top three external customers (31 January 2019: 64%, 31 July 2019: 66%).

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

	Period ended 31 January 2020	Period ended 31 January 2019	Year ended 31 July 2019
China	8 %	11 %	9 %
Rest of Asia	23 %	28 %	25 %
Middle East and Africa	6 %	8 %	7 %
New Zealand	35 %	29 %	31 %
Australia	24 %	22 %	25 %
Rest of World	4 %	2 %	3 %
Total	100%	100%	100%

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

5. EXPENSES

	Notes	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
The following items of expenditure are included in cost of sales				
Depreciation and amortisation		17,172	12,059	24,289
Employee benefit expense		33,821	21,442	48,711
Kiwisaver contributions		749	549	1,166
Increase / (decrease) in inventory provision	8	1,471	(4,162)	(1,805)
(Decrease) / increase in onerous contracts provision	8	(397)	1,793	(809)
The following items of expenditure are included in sales and distribution				
Depreciation and amortisation		2,869	765	1,625
Employee benefit expense		5,648	4,833	10,195
Kiwisaver contributions		153	122	252
The following items of expenditure are included in administrative and operating				
Depreciation and amortisation		1,134	863	1,725
Employee benefit expense		10,790	8,450	17,986
Kiwisaver contributions		276	237	480
Directors fees		369	344	752
Share based payments expense		321	331	644
Write off of intangibles		1,561	-	123

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

	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Profit for the period	26,196	37,318	82,239
Non-cash and non-operating items:			
Depreciation and amortisation of non-current assets	19,302	13,687	27,639
Depreciation of right-of-use assets	1,874	-	-
Loss / (gain) on sale of fixed assets	81	(8)	147
Write off intangible assets	1,561	-	123
Share of loss from associate	-	580	580
Non-cash share based payments expense	321	331	644
Interest costs classified as financing cash flow	8,610	4,154	8,819
Interest received classified as investing cash flow	(49)	(741)	(1,232)
Loss on derecognition of financial assets	938	698	1,842
Deferred tax	7,469	1,487	4,341
Gain / (loss) on derivative financial instruments	96	(463)	22
Movements in working capital:			
(Increase) / decrease in trade and other receivables	(6,251)	1,953	(14,788)
Decrease / (increase) in income accruals and prepayments	2,743	1,924	(5,214)
(Increase) in inventories	(141,591)	(89,475)	(19,444)
(increase) / decrease in goods and services tax refundable	(4,152)	1,684	2,846
Increase in trade and other payables	90,165	44,913	46,306
Increase in current tax liabilities	3,211	13,415	1,828
Working capital items acquired	1,635	-	-
Net cash inflow from operating activities	12,159	31,457	136,698

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.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

8. INVENTORIES

	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Raw materials at cost	46,376	46,739	40,058
Work in progress at cost	10,712	-	-
Finished goods at cost	246,941	157,413	118,090
Finished goods at net realisable value	2,412	30,727	6,701
Total inventories	306,441	234,879	164,849

The value of raw material inventories at $46.4m (9,455 MT) (31 January 2019: $46.7m, 11,836 MT; 31 July 2019: $40.1m, 11,307 MT), have remained steady. The tonnage has decreased comparative to January 2019 due to increased holdings of low value-to-weight packaging, and reductions in high value-to-weight nutritional ingredients.

Synlait Milk Limited's liquid and powdered dairy products are a constant manufacturing stream, with small timeframe to manufacture, so there is not a material amount of work in progress. Synlait Foods (Talbot Forest) Limited operations involve substantial maturation times so give rise to a material work in progress balance of $10.7m (1,578 MT).

Finished goods on hand have increased to $249.4m (48,144 MT) (31 January 2019: $188.1m, 44,344 MT; 31 July 2019: $124.8m, 23,318MT). Finished goods have increased in value due to an increased holding of infant nutritional base powder. Finished goods held at net realisable value has decreased due to a significant decrease in the onerous contracts provision.

The cost of inventories recognised as an expense during the year was $460.9m (31 January 2019: $378.9m; 31 July 2019: $838.0m). The cost of inventories recognised as an expense includes $2.5m (31 January 2019: $2.9m; 31 July 2019: $7.4m) in respect of write-downs of inventory to net realisable value.

The total inventory condition provision as at reporting date was $1.8m (Jan 2019: $0.3m, Jul 2019: $0.3m) which all related to finished goods.

The total onerous contracts inventory provision was $0.1m (Jan 2019: $2.0m, Jul 2019: $0.5m). This decrease is predominately due to favourable exchange rates.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 January 2020, $88.7m has been added to capital work in progress relating primarily to three projects (Synlait Pokeno, Drystore 4, and Separator Capacity Upgrade). During this period, $282.8m of historical work in progress as well as additions during the six months relating primarily to two projects (Synlait Pokeno and Separator Capacity Upgrade) have been transferred to fixed assets.

Refer to Note 15, Business Combinations, for further details regarding assets acquired as part of the acquisition of Synlait Foods (Talbot Forest) Limited and Note 10, Leases, for further details regarding assets added as part of the transition to NZ IFRS 16.

10. LEASES

The Group's leased assets include buildings and plant and equipment. Effective 1 August 2019, the Group adopted NZ IFRS 16 as outlined in Note 2, recognising ROU assets and lease obligations of $7.2m. The following table reconciles the Group's lease commitments disclosed in the consolidated financial statements as at 1 August 2019, to the lease obligations recognised on initial application of NZ IFRS 16:

Lease commitments, 31 July 2019	8,902
Recognition exemptions for short-term and low-value leases	(2,444)
Discounted using the incremental borrowing rate at 1 August 2019	(683)
Lease remeasurements	1,427
Lease obligations recognised at 1 August 2019	7,202

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Group's incremental borrowing rate. The Group's weighted average rate applied at 1 August 2019 was 3.49%.

Right-of-use assets

	31 January 2020 Unaudited $'000
Cost	
Properties	13,240
Plant and Equipment	495
Total cost	13,735
Accumulated depreciation	
Properties	(1,777)
Plant and Equipment	(97)
Total accumulated depreciation	(1,874)
Net book value	
Properties	11,463
Plant and Equipment	398
Total net book value	11,861
Lease Obligations	
Contractual, undiscounted cash flows associated with the Group's lease obligations are as follows:	
Within one year	5,038
Between one and five years	8,567
Beyond five years	-
Total undiscounted lease obligations	13,605
Discounted lease obligations recognised on the Company's consolidated balance sheet are as follows:	
Current	4,629
Non-current	7,961
Total discounted lease obligations	12,590

Interest expense on lease obligations for the 6 months ended 31 January 2020 was $0.2m and is included in finance expense. Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for the 6 months ended 31 January 2020 was $1.0m.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

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 2020, the Group held $4.9m of current NZUs and $2.8m of non-current NZUs (31 January 2019: $4.2m current, $1.1m non-current; 31 July 2019: $3.7m current, $3.3m 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 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Current liabilities			
Working capital facility (syndicated) NZD	99,800	93,400	47,240
Working capital facility (syndicated) USD	44,528	37,699	52,386
Revolving credit facility	30,000	-	-
	174,328	131,099	99,626
Non-current liabilities			
Revolving credit facility	100,000	170,000	250,000
Revolving credit facility fees	(440)	(709)	(518)
Retail Bonds	180,000	-	-
Bond facility fees	(3,293)	-	-
	276,267	169,291	249,482

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 1 August 2021, amortising $30m on 1 August 2020.
- A secured revolving credit facility (Facility B and Facility C) of $100m that matures on 1 August 2023.
- A secured working capital facility of NZD $250m that matures on 21 August 2020.

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 2020, 31 January 2019 and the year ended 31 July 2019.

Retail bonds

Borrowings under the retail bond programme are supported by a Master Trust Deed and supplemented by the Series Supplement entered into between the Group and the New Zealand Guardian Trust Company Limited. The Retail Bonds are unsecured and unsubordinated and mature on 17 December 2024. At 31 January 2020, the retail bond had a fair value of $181.1m, based on NZX Debt Market valuation.

13. SHARE CAPITAL

The Group had 179,306,908 ordinary shares on issue as at 31 January 2020 (31 January 2019: 179,223,028, 31 July 2019: 179,223,028).

During the reporting period, 83,880 new ordinary shares were granted to participants of the Group's Long Term Incentive scheme as a result of share options that were granted under the scheme vesting and being converted to ordinary shares (31 January 2019: nil, 31 July 2019: nil). These shares were issued to the participants at no cost.

14. RELATED PARTY TRANSACTIONS

Parent entity

Bright Dairy Holding Limited hold 39.02% of the shares issued by the Synlait Milk Limited (31 January 2019: 39.04%; 31 July 2019: 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. New Hope Innovation (Hong Kong) Trading Company Limited is engaged in the import and export of dairy foods. Main products include whole milk powder, skim milk powder and whey powder. The company is the Hong Kong operations of the Chinese New Hope Dairy group, New Hope Dairy.

In May 2017 Synlait Milk Limited acquired 100% of the share capital of The New Zealand Dairy Company Limited and Eighty Nine Richard Pearse Drive Limited. The New Zealand Dairy Company Limited was constructing a blending and canning plant in Auckland, which was subsequently sold to Synlait Milk Limited. The New Zealand Dairy Company Limited is now a non-trading entity. Eighty Nine Richard Pearse Drive Limited owns the land and buildings at which the Auckland blending and canning plant was constructed. Eighty Nine Richard Pearse Drive Limited leased its land and buildings to The New Zealand Dairy Company Limited, and now leases them to Synlait Milk Limited.

In May 2019, Synlait Business Consulting (Shanghai) Limited was incorporated. The wholly owned foreign entity started operations from 1 August 2019 and the principal activity of the entity is to provide services to assist Synlait to market products in China.

On 1 August 2019, the Group acquired selected assets and liabilities of Talbot Forest Cheese Limited. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. The acquisition included a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products.

(a) Transactions with other related parties

	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'000
Purchase of goods and services			
Bright Dairy and Food Co Ltd - Directors fees	102	96	196
Sale of goods and services			
Bright Dairy and Food Co Ltd - Sale of milk powder products	-	6,464	6464
Bright Dairy and Food Co Ltd - Reimbursement of costs	-	(91)	(91)
New Hope Innovation (Hong Kong) - Sale of milk powder products	1,773	-	-

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

14. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances

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

	Period ended 31 January 2020 Unaudited $'000	Period ended 31 January 2019 Unaudited $'000	Year ended 31 July 2019 Audited $'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	(335)	(133)	(233)
Sichuan New Hope Nutritionals Ltd - Sale of milk powder products	(72)	(68)	224
Sichuan New Hope Nutritionals Ltd - Reimbursement of costs	300	280	-
New Hope Innovation (Hong Kong) - Sale of milk powder products	1,122	-	-

15. BUSINESS COMBINATIONS

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

On 1 August 2019, the Group completed the acquisition of selected assets and liabilities of Talbot Forest Cheese Ltd. ("TFC") for total consideration of $37.9m, including inventory. The acquirer was a newly incorporated company, Synlait Foods (Talbot Forest) Limited. On the acquisition date, the Group paid $19.0m. Of the remaining consideration payable, $18.1m was applied against an intercompany loan owed by the vendor to the Group and $0.9m has been retained and will be payable upon completion of pre-completion works and plant acceptance tests. The acquisition has been accounted for on a provisional basis in accordance with NZ IFRS 3, *Business Combinations*.

The acquisition of TFC includes a cheese manufacturing plant located in Temuka, New Zealand, capable of manufacturing a variety of cheese products with an annual production capacity of 12,000MT, along with a consumer cheese brand. The acquisition excludes the Talbot Forest Cheese artisan factory in Geraldine, New Zealand.

The following summarises the consideration paid for TFC and amounts of assets acquired and liabilities assumed recognised at the acquisition date:

	August 1 2019 $'000
Current Assets	
Inventory	2,520
Non-current Assets	
Property, plant and equipment	12,745
Land and buildings	5,960
Brand	1,700
Non-current Liabilities	
Deferred tax	(476)
Total identifiable net assets at fair value	22,449
Goodwill arising on acquisition	15,500
Total consideration	37,949
Less: Debt and accrued interest payable owed to the Group extinguished upon acquisition	(18,076)
Less: Retentions and other payables	(885)
Net cash outflow from acquisition	18,988

The land, buildings, plant and equipment, inventory, and brand have been recognised at acquisition date fair values based on third party valuations.

Goodwill arose in the acquisition of the business operations of TFC because the cost of acquisition reflected the benefit of future cash flows above the current fair market value of the assets acquired, and the synergies and future market benefits expected to be obtained from the cheese manufacturing plant and related brand.

Acquisition costs of $0.1m and $0.3m have been recognised in the FY20 half year and FY19 full year income statements, respectively.

From the date of acquisition, TFC has contributed $8.0m to revenue and a loss of ($2.0m) to net profit after tax. Had the combination not taken place, revenue of the Group from continuing operations would have been $551.3m, and the net profit from continuing operations for the Group would have been $28.2m.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2020

16. CONTINGENCIES

The Group is currently involved in a dispute regarding restrictive covenants attached to land it purchased in Pokeno. In February 2018, the Group announced the conditional purchase of 28 hectares of land in Pokeno to establish its second nutritional powder manufacturing site. The land was subject to restrictive covenants limiting the development of the land that the vendor was required to remove. The vendor applied to the High Court to have the restrictive covenants removed.

In November 2018, the High Court removed the restrictive covenants. The High Court also declined to award compensation to the covenant holder on the basis that they would not suffer any loss due to the extinguishment of the covenants on the basis that they were of little practical value. The Group took legal title to the land following the High Court's decision. The covenant holder appealed to the Court of Appeal which in May 2019 overturned the High Court's decision.

In June 2019, the Group filed an application for leave to appeal to the Supreme Court to have the Court of Appeal's decision overturned. The Supreme Court held an oral hearing on 21 October 2019 where leave to appeal was granted. The appeal is set to be heard by the Supreme Court on 29 April 2020.

There are a range of possible outcomes for the Group including a negotiated settlement between the parties. Given the range of possible outcomes the Group is not able to reliably estimate any potential liability.

No other significant contingent liabilities are outstanding at balance date (31 January 2019: $nil; 31 July 2019: $nil).

17. COMMITMENTS

The Group has committed expenditure for the construction of a new dry store warehouse of $20.1m as at January 31 2020 (31 January 2019: $nil; 31 July 2019: $2.5m). The total value of this construction project is $42.9m. The group is also in the process of completing construction of its Pokeno Processing Plant which has committed expenditure of $18.5m (31 January 2019: $140.0m; 31 July 2019: $49.5m) and Liquid Milk Processing Plant which has committed expenditure of $1.7m (31 January 2019: $26.3; 31 July 2019: $16.9). As at 31 January 2020, there is no further capital commitment (31 January 2019: $nil; 31 July 2019: $5.8m).

18. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 24 February 2020, Synlait Milk Limited received approval from the Overseas Investment Office (OIO) to enter into an agreement to acquire two farms which neighbour Synlait's Dunsandel site and collectively form a large 582-hectare unit. The purchase price of the farms is $25.7m and settlement is expected to take place in 2020. The land enables Synlait to pursue several strategic supply chain and sustainability initiatives that support Dunsandel's long-term operation and expansion. For further details please refer to the market announcement on 11 March 2020.

On 12 March 2020, Synlait Milk Limited received approval from the OIO to purchase the shares of Dairyworks Limited (Dairyworks). Dairyworks specialises in the processing, packaging and marketing of dairy products. A New Zealand leader in the Everyday Dairy category, with a growing Australian presence, Dairyworks supplies New Zealand consumers with almost half of its cheese, a quarter of its butter, as well as milk powder and ice cream. The agreed purchase price is $112m and settlement of the transaction is expected to occur on 1 April 2020. For further details please refer to the market announcement on 12 March 2020.

There were no other events occurring subsequent to 31 January 2020 which require adjustment to or disclosure in the financial statements.

Deloitte.

INDEPENDENT REVIEW REPORT 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 2020, 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 3 to 19.

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 other assurance and 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 2020 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

18 March, 2020
Chartered Accountants
Auckland, New Zealand