synlait™
making more from milk

THE TRUE VALUE OF OUR MILK

Synlait Milk Limited Annual Report 2013

IT IS OUR PARTNERSHIPS, OUR PLACE, OUR PROCESS AND OUR PEOPLE THAT DRIVES OUR SUCCESS.

PARTNERSHIPS BUILT ON TRUST

We aim to be recognised for excellence, quality and innovation in everything we do.

It all starts with relationships. We understand the value of having long-term sustainable partnerships throughout our entire value-chain. They underpin our ability to deliver quality products our customers demand.

We regard our customers and our milk suppliers as our most important business partners. It's our mutual understanding and cohesive way of working that drives our ability to all make more from milk.

FROM OUR PLACE TO THE WORLD

Our home is in the heart of Canterbury, New Zealand, nestled between the majestic Southern Alps and the South Pacific Ocean.

The abundant water supply and the ability to irrigate year round coupled with the flat and mild nature of the landscape makes Canterbury ideal for dairy farming.

That's why we chose this location for our manufacturing facilities. It's the unique and powerful blend of our environment, leading farming systems, and the quality and consistency of milk supply that drives our competitive advantage that we take to the world.

DYNAMIC AND INNOVATIVE PROCESS

To create world leading products for our customers we must be innovative throughout our value-chain.

Lead With Pride™, our internationally accredited ISO 65 dairy farm assurance system, demonstrates industry leadership in food safety and sustainability. It recognises and financially rewards our milk suppliers who achieve dairy farming excellence.

By investing in superior specialist manufacturing facilities that allow for production flexibility we're able to tailor make products to meet the unique individual needs of our customers.

It's thinking like this that our customers value and that sets us apart.

PEOPLE THAT DELIVER VALUE

It's our people who are the driving force behind our organisation's success.

Our team has a wealth of experience in dairying, food safety, manufacturing, product development, sales and customer service. We share a passion for excellence and innovation and an overwhelming desire to deliver world-class outcomes.

Driven by our vision of becoming the trusted supplier of choice for the world's leading milk-based health and nutrition companies our people are empowered to be leaders in their field of expertise.

The value they create directly contributes to the performance of our company and the relationships we have with our customers.

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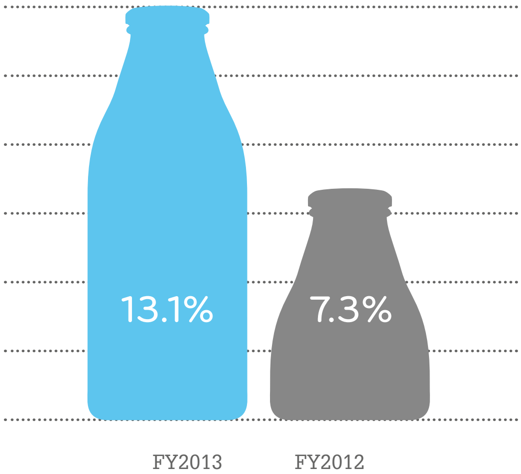
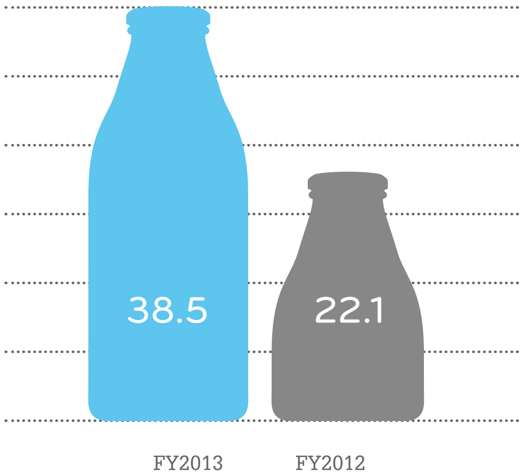
TREND STATEMENT

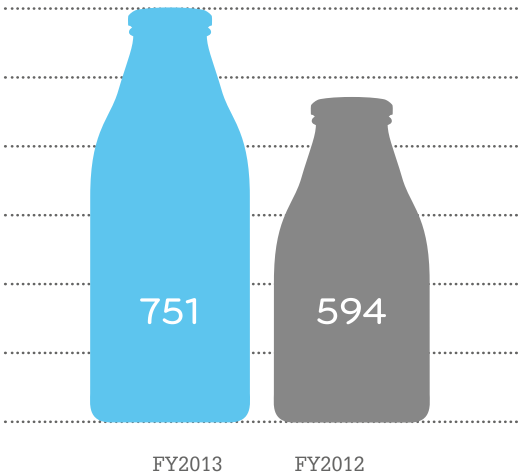
Net Return on Capital Employed (Pre-Tax)



EBITDA
(in millions NZD)



Gross Profit Per MT (NZD)



Trend Statement						
Currency as stated (in millions)	FY2013	FY2013	FY2012	FY2011	FY2010	FY2009
	Actual	PFI*	Actual	Actual	Actual	Actual
Financial Performance						
Revenue	420.0	426.4	376.8	298.9	233.4	111.3
Gross Profit	65.1	64.6	46.0	21.1	23.7	6.8
Earnings before net finance costs and income tax (EBIT)	28.3	27.5	13.4	-	5.3	(4.1)
NPAT	11.5	10.8	4.4	(3.1)	(11.7)	(14.2)
Revenue (USD per MT)	3,894	3,786	3,644	3,848	2,882	2,321
Gross profit per MT (NZD)	751	736	594	385	462	260
EBIT per MT sold (NZD)	326	306	174	(10)	124	(131)
Net cash from / (used in) operating activities	(13.8)	(8.3)	29.8	14.5	17.0	(7.2)
Balance Sheet						
Total Assets	346.1	349.5	277.3	245.3	151.0	152.1
Capital employed [1]	231.0	235.3	195.3	170.8	102.4	113.0
Net return on capital employed (pre-tax)	13.1%	12.8%	7.3%	0.0%	5.0%	(4.4%)
Foreign exchange rate (NZD:USD)	0.80	0.81	0.78	0.73	0.64	0.63
Synlait contracted milk price (kg MS)[2]	5.81	5.80	6.14	7.66	6.21	5.03

Key Operational Metrics	FY2013	FY2013F	FY2012	FY2011	FY2010	FY2009
Sales						
Ingredients	81,085	80,902	73,003	54,648	51,271	29,393
Infant formula and Nutritionals	5,661	6,888	4,412	238	-	-
Total Sales (MT)	86,746	87,790	77,415	54,886	51,271	29,393
Production						
Ingredients	81,148	80,856	76,661	53,807	49,729	33,197
Infant formula and Nutritionals	10,081	10,772	4,737	608	294	-
Total Production (MT)	91,229	91,628	81,398	54,415	50,023	33,19
Milk Purchases						
Milk purchased from Contracted supply	42,076	42,032	37,572	24,934	21,865	14,404
Milk purchased from Fonterra and other suppliers	4,692	4,617	6,453	4,524	4,525	4,101
Total Milk Purchases (kg MS in thousands)	46,768	46,649	44,025	29,458	26,390	18,505

*Prospective Financial Information.

**Note that the FY13 and FY12 periods have been completed based on the application of the monthly milk price accounting treatment. Prior years applied the annual milk price accounting treatment.

[1]For the purpose of calculating our return on capital employed the capital employed at the end of FY13 has been reduced for working capital adjustments of 36.4m as further described in the 'Financial Review' section of this Annual Report on page 44-45.

[2]Base milk price for Synlait Milk suppliers on standard milk supply contract, excludes premiums paid.

CHAIRMAN'S REPORT

Graeme Milne

CHAIRMAN

"THE BOARD AND MANAGEMENT ARE PROUD OF WHAT WE HAVE ACHIEVED SINCE INCEPTION. WE CONTINUE TO GATHER A SKILLED AND INSPIRATIONAL TEAM OF PEOPLE WHO HAVE BEEN INSTRUMENTAL IN ACHIEVING THE BUSINESS GROWTH THROUGHOUT THE 2013 FINANCIAL YEAR."

It is a pleasure to report to our shareholders on the fifth year of operations for Synlait Milk Limited.

OPERATING PERFORMANCE

I am pleased to announce an after tax profit for the FY13 year of $11.5 million, ahead of the prospective financial information (PFI) and a significant increase on last year's $4.4 million. Total sales for the FY13 year were $420 million, slightly behind our PFI of $426 million however, well ahead of last year's $377 million.

It was a turbulent year across our international markets. Prices for whole milk powder at the start of the year were relatively low at US$2,700 per tonne, but by April 2013 they had risen to exceed US$5,000 and remained relatively strong at this level until the financial year end. These returns combined with the variability of the NZD exchange rate would have translated, on a monthly basis, into a farm gate price for milk of $NZ4.50 per kg MS at the start of the year and to a $8.72 per kg MS milk price by the end of the financial year, resulting in an average Synlait Milk base milk price of $5.81 per kg MS for the FY13 year.

The near nationwide drought in New Zealand was a major factor in the sudden rise in global dairy prices in April 2013. In addition to the drought there is growing pressure on the balance between supply and demand for dairy products in our international markets.

Higher prices will inevitably lead to consumer resistance away from dairy, while at the same time in Europe and the United States of America higher prices are encouraging increased production. Global grain prices, which have eased, are expected to encourage increases in supply out of the United States of America. The removal of milk quotas in the European Union in 2015 will see production increases, however as Western market economies continue to stabilise and recover and emerging markets continue to grow we will also see increased demand.

Through this turbulence we have continued to 'Make More from Milk' by adding value to our dairy ingredient products while developing our nutritional strategy. The key attributes embedded in our products are quality and trust which is especially so for our infant formula business. This year was the first full year of production from our purpose built infant formula and nutritional facility. We added several new customers for nutritional products and increased sales at a rapid rate, albeit slightly below plan. Nevertheless, the growth was an impressive achievement as developing relationships in these markets do take time. Customer relationships will endure as long as we fulfil our trust and quality promise. To this end during the year we recruited key new staff in quality assurance, improved our quality systems and prepared for further investments in quality assurance technologies.

MILK SUPPLY

Quality suppliers of products and services are key to our success, particularly our 148 farmer milk suppliers as at the end of the FY13. This year we held our inaugural suppliers conference where all suppliers were invited to hear presentations from our team and also an impressive bench of our international customers. The connection of all participants in our value-chain is a key strategy in achieving extra commitment we are seeking for joint success. Also during the year the ISO accredited Lead With Pride™ program was introduced for milk suppliers. This provides them with a dairy farm assurance system which is comprehensively targeted around social, environmental, animal health and welfare as well as milk quality.

PEOPLE

Staff numbers grew to 171 in FY13. Careful recruitment, induction and training are key to executing our business strategy. Many of our team have joined Synlait Milk for a chance to participate in an enterprise where they can truly make a difference. Team culture and pride continues to grow and develop within the Company. All the team have contributed to this year's result, but a special mention and thanks must go to John Penno, Managing Director, and Nigel Greenwood, Chief Financial Officer. A special mention must also go to Nigel's finance team, who took on the brunt of the considerable time and effort it takes to successfully go through the Initial Public Offering process.

HEALTH AND SAFETY

We are also re-focusing our efforts in relation to Health and Safety. Our current primary safety measure is Lost Time Injuries (LTI's), with an annual target of zero. For the 12 months to 31 July 2013 we had 1 LTI. We are moving to the more internationally accepted best practice measure of Total Recordable Injury Frequency rate (TRIFR) and are also introducing a more fully integrated approach to health, safety and wellness. More details can be found in the 'our governance' section of this Annual Report.

INITIAL PUBLIC OFFERING

The highlight of the financial year was our listing on the New Zealand Stock Exchange on 23 July 2013. The listing raised $68.9 million, after capital raising costs, of new capital which together with an enhanced debt facilities package will be used to fund our growth initiatives that are outlined in further detail in the 'our future' section of this Annual Report.

The listing also enabled some of our existing shareholders to sell down part or all of their holdings by way of a further sale of $37 million worth of shares. It was gratifying to see many of the original shareholders in Synlait Limited rewarded for their belief, in what was at the start, a concept, a vision and little else. It is also pleasing to see many of these longer term shareholders remaining on the register.

We also welcome our new shareholders. We are particularly pleased that FrieslandCampina have become a shareholder with an initial holding of 7.5%. FrieslandCampina are a key customer for us and their investment is expected to strengthen our business to business and strategic relationship with them. The Board were very encouraged by the high level of participation by staff and directors buying shares at the initial offer. Over 30% of our staff acquired Synlait Milk shares, a vote of confidence that we are on the right track and evidence we have a very committed team of people working in the business.

SHAREHOLDER RETURNS

In terms of financial performance for our shareholders, we have made good progress as set out in more detail in the section 'our financial review' and in our Financial Statements. It is early days as a listed Company however, we have made a positive start with our share price closing at $2.61 on 31 July 2013, reflecting a total shareholder return (TSR) for the 9 day period of 18.6%.

In relation to our dividend policy, we confirm that with our present focus firmly on growing the Company, no dividend will be payable for the financial year ending 31 July 2013, nor for period ending 31 July 2014. This is consistent with statements made in the Investment Statement and Prospectus at the time of listing.

BOARD CHANGES

As a consequence of the Initial Public Offering, shareholdings changed and consequently there were movements in the directorship. Ben Dingle, company founder and original director stood down to make way for independent appointments. We thank Ben for his vision, foresight and strong contribution to Synlait Milk's progress to date. David Zheng, a Bright Dairy appointed director for the last two years, also stood down to allow for the Bright Dairy appointment of a New Zealand resident director. We thank David for his contribution. Special thanks also to Ruth Richardson who chaired Synlait Limited (the holder, until the Initial Public Offering, of the 49% non- Bright held shareholding in Synlait Milk) through the Initial Public Offering process. On the other hand a warm welcome to Bill Roest and Sam Knowles who joined the board in the pre-listing period and have already both made major contributions. John Penno, previously the CEO, now also joins the Board as Managing Director.

OUTLOOK

The immediate future for Synlait Milk will be focused on delivering quality added value ingredients and nutritional products to an expanding customer base and executing on the growth initiatives as detailed in the Investment Statement and Prospectus and updated in this Annual Report. We remain confident in our strategy.

Kind regards

Graeme Milne
CHAIRMAN


SWL 2000KG

MANAGING DIRECTOR'S REPORT

John Penno
MANAGING DIRECTOR

"WE ARE CLEARLY FOCUSED ON OUR VALUE ADDED MILK POWDER AND NUTRITIONAL POWDER BUSINESS AND BUILDING A REPUTATION FOR QUALITY AND TECHNICAL EXCELLENCE."

Over the last six years Synlait Milk has been focused on establishing a strong platform on which to execute our simple value-added dairy manufacturing strategy. This platform is based on supplying value-added dairy based products to a strong group of targeted customers, with a focus on quality throughout the supply chain, including working closely with our contract supplying dairy farmers.

We operate a business to business sales strategy. Our promise of not competing with our customers is important to developing our value-chain focused business partnerships.

In FY13 we sold 81,085 MT of ingredient milk powders and anhydrous milk fat (AMF), up 11% on the previous year. An increasing proportion of these ingredient products were sold to preferred customers, with 90% of our total ingredients business being sold to only 10 customers. Increasingly our milk powders are focused on skim and whole milk powder for infant formula production, and milk powders manufactured for leading brand owners who market milk powder for home consumption.

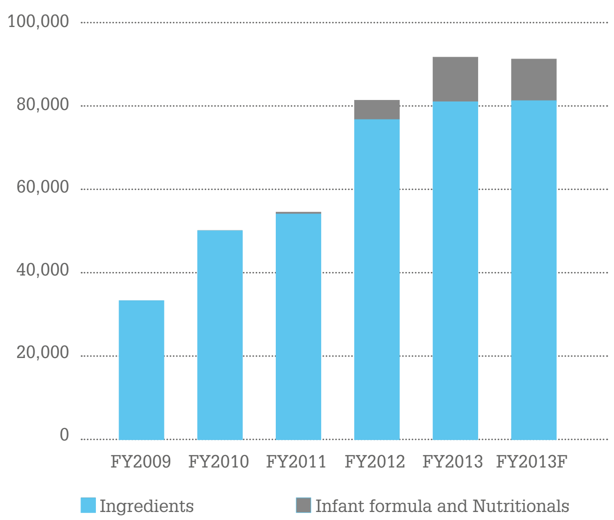
Over 50% of our ingredient milk powder sales are now non-standard products that generate value-added margins and the volume continues to grow every year.

After years of planning and business development FY13 was our first full year of infant formula manufacture with sales of 5,661 MT of infant formula and nutritional products. The year on year infant formula and nutritional volume increase of 28% significantly understates the development of this business. A high proportion of the FY12 production volume was low specification product sold at low margins to ensure sufficient volume to commission the plant late in FY12. Much of the sales volume occurred in the second half of FY13 as market development came to fruition. This is further illustrated by the fact that the volume manufactured in FY13 was over 10,000 MT as stocks were built to deliver on customer requirements in the early months of FY14.

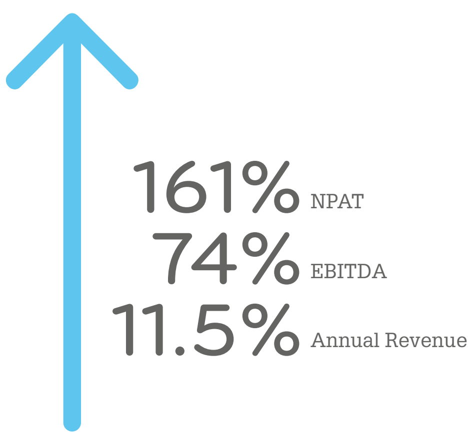
These products were manufactured from 46.8 million kg MS comprising 42.1million kg MS purchased from our 148 supplying farms (there are 156 farms contracted for the FY14 season) and 4.7million kg MS purchased from other processors. Synlait Milk contract suppliers received an average base milk price of $5.81 per kg MS. An additional $0.08 per kg MS was paid as seasonal and value-added premiums to provide an average total milk price of $5.89 per kg MS.

Annual revenue of $420 million was up 11.5% based on additional sales volumes however, more importantly, strong margin growth delivered a 74% increase in EBITDA and a 161% increase in NPAT to $38.5 million and $11.5m respectively.

Sales Volumes (MT)



Growth



If there is a single measure of the strength of our simple business model it is that in FY13 the Company achieved a pre-tax return on capital employed of 13.1%. It is worth considering that this is ahead of the expected volume growth in the high returning infant formula and nutritional products we are now focused on achieving.

Executing the Initial Public Offering late in the year was the final building block in our six year journey to establish the Company.

The equity raised, alongside expected earnings, will ensure that the business remains conservatively geared as we now invest to accelerate the development of our infant formula and nutritionals business.

STRATEGY GOING FORWARD

An analysis of our five year history provides strong evidence of consistent margin growth from a gross profit of $260 per MT in FY09 to $751 per MT in FY13.

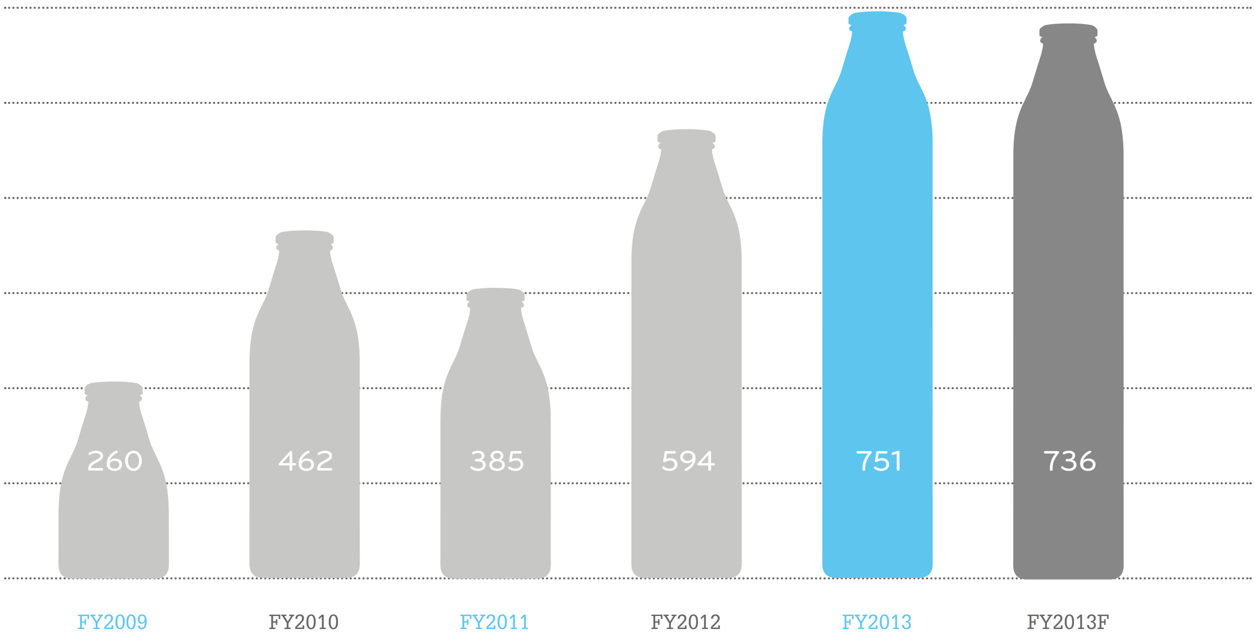
This is the result of a relentless focus on targeting the best markets, the best customers and the highest margin products for those customers.

Growing our margins from here will be delivered by achieving two objectives;

1. Continuing to migrate our ingredient milk powder and cream products to higher returning markets, customers and products.
2. Capitalising on our strong start, to build our infant formula and nutritional volumes.

All our recruitment, training and retention programs, market and customer development, capital investment, quality systems and process improvement activity is focused on achieving these two objectives.

Gross Profit Per MT (NZD)



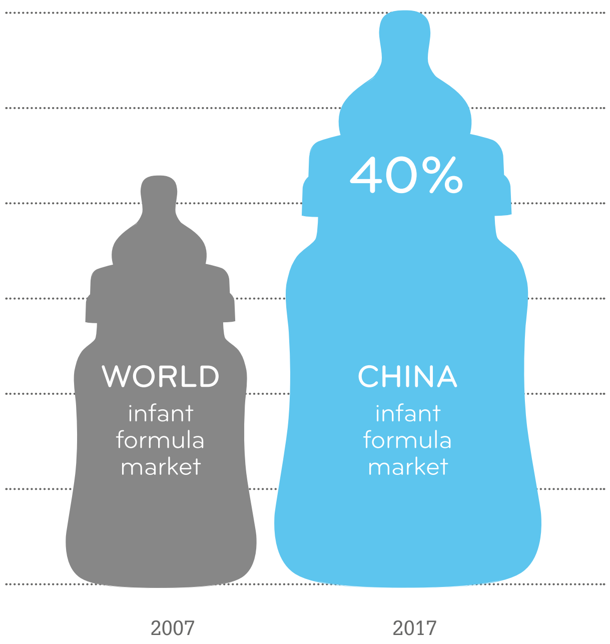
CAPITAL INVESTMENT TO INCREASE VALUE AND VOLUME

A comprehensive overview of our development plans for our Dunsandel manufacturing site was provided in the June 2013 Investment Statement and Prospectus, and a brief update on these developments is provided in the 'our future' section of this Annual Report.

Each of these projects is specifically designed to either enhance our value proposition and build volume with targeted infant formula and nutritional customers, or enable us to continue providing volume to valued ingredient business customers.

Our lactoferrin project continues to progress well. We have now manufactured spray dried product on a pilot scale which has proved both our unique manufacturing system and provided samples for customer evaluation. This has further increased our confidence of overcoming the technical challenges that are inherent in this project.

Infant Formula Market



Our proposed blending and canning line has been evaluated and approved by some important future customers and we are confident that what we are developing will not only meet their requirements, but will genuinely be built to world best standards.

We have made a decision to build all our new onsite warehouse facilities now, rather than undertake the warehouse expansion as a two stage process. This was based on the large capital cost savings that became apparent through the tender process. By the start of next season, this new facility will provide complete supply chain integrity on our site, with all inwards raw materials coming directly to site and finished goods being packed for shipment on site before leaving site for export.

MARKET DEVELOPMENT

Global infant formula consumption is driven by the vast demographic changes that are occurring in China, including higher standards of education, increased urbanisation and multigenerational households. Euromonitor International estimates that at a retail level the Chinese infant formula market in 2017 will be 40% larger than the entire international market was in 2007. On this basis, our infant strategy will inevitably have a strong China focus.

That said we are working with potential customers in a range of markets. Post the melamine contamination incident of 2008 consumer preference has changed the Chinese infant formula market from being 70% reliant on locally produced product to 70% imported product. Recently, the Chinese Government has openly stated that they are looking to reverse this trend and rebuild confidence in local infant formula brands. They are working to achieve this by imposing strict quality standards on locally produced and imported product and driving consolidation within the Chinese industry.

The Chinese Government has also instigated a range of investigations into the excessively high retail prices being demanded by some brands. These changes are already underway. Our expectations are that the plethora of small brands that are locally produced and imported will be progressively forced out of the market. In addition, product pricing, particularly of products manufactured outside China, will be reduced. Lower prices, and a reduced number of brands in the market, will drive volume growth for the surviving brands.

Our investment in people, plant and systems has positioned our business to supply partially and fully finished infant formula products manufactured to world leading standards. This has supported the development of Shanghai based Bright Dairy's 'Pure Canterbury™' infant formula brand to become one of the fastest growing in the Chinese market. This brand has enjoyed rapid growth over the last quarter as lesser brands have been removed from the market, and as consumers continue to be concerned about real and perceived quality issues. We believe our model of local brand and channel to market ownership, combined with high quality international supply fits with the Chinese Government's desire to see confidence rebuilt in the local industry.

Over the last year we have signed supply agreements with other Chinese companies, in different regions across China, and expect these sales relationships to develop along similar lines to the growth pattern as we have enjoyed with Bright Dairy.

As pricing pressure enters the market, we believe large international brands will increasingly look to manufacturers who can provide high quality product for the Chinese market, at competitive pricing. During our entry to the Chinese market we have established the ability to maintain margins while pricing competitively. This is based on several key factors built into the Synlait Milk manufacturing model;

1) We operate a batch processing plant with very high hygiene standards and accurate control systems which leads to high quality products with high yields and high product grading rates.

2) We use fresh milk as the base to manufacture our infant formula products where many manufacturers use reconstituted powders. In part, this is enabled by the consistent yield and composition of milk produced on irrigated farms in Canterbury.

3) We operate a very large scale infant formula and nutritional manufacturing plant. It is two or three times larger than most infant formula and nutritional spray dryers leading to larger runs and lower capital and labour costs per MT of product produced.

4) We achieve high levels of plant utilisation by using the spray dryer for both infant formula and nutritional products and high specification milk powders.

5) The New Zealand / China Free Trade Agreement provides New Zealand with a preferential tariff position. This is particularly important when exporting high value fully finished infant formula products in consumer packs.

Now that we are fully operational we have concentrated our attention on using these advantages to secure large international customers who are focused on quality and cost. While these leading companies are generally cautious and slow to accept new suppliers, they each have the potential to bring large volumes of new business.

PRODUCTS OF INTEGRITY

Underpinning our entire strategy is ensuring that our products are leaders in terms of food safety and product quality.

Quality standards are increasing all the time. In recognition of this, a review of our quality systems early in FY13 identified the opportunity to make further improvements by establishing our own product testing capability and restructuring the quality team under a new position of GM Quality reporting to the Managing Director.

We were very pleased to appoint Michael Stein to this role with over 20 years of infant formula quality management experience including roles with Nestle, Nutricia and most recently as Director of Quality for Mead Johnson, Asia Pacific.

This is of course essential when consumers are offering their children formulated milk products. Our own market research in the last year clearly showed that consumers want products of integrity, where the value of the product is defined not only by the measurable nutritional and quality attributes of the product, but also by the back story – who stands behind the product and where and how the product was produced.

This was the motivation behind developing our Lead With Pride™ dairy farm assurance system that is profiled on our website and later in this report. We are pleased with the strong support this has received from our supplier base and within 12 months we expect to have put together sufficient volume of certified milk to form the base for differentiated products for leading customers.

GROWING AND CONCENTRATING OUR MILK SUPPLY (ADDITIONAL VOLUME)

Our Lead With Pride™ farm assurance program is also expected to drive our milk procurement program going forward. We believe that our commitment to the program and the financial incentives that are offered will attract the growing number of farmers who are looking to differentiate themselves from their peers on the basis of the integrity of their production systems.

As the Company has become more established, we have found it increasingly straight forward to attract supply from the right farmers, with large operations within close proximity to our Dunsandel site.

LEAD™
WITH
PRIDE

CERTIFIED
BEST PRACTICE
DAIRY FARMING

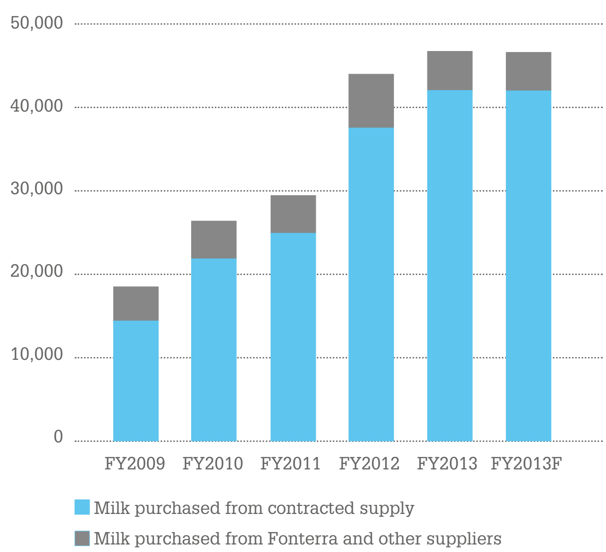
Our plan had been to recruit a small number of new farmers close to our site to replace the farmers who had been supplying Synlait Milk under the Oceania Contracts from South Canterbury. However, recent changes to our manufacturing plant which have increased peak manufacturing capacity means that we will be working to attract 15 more farmers than we had been planning for the FY15 season. This will allow increased production volumes in FY15 and help manage the transition to the increased capacity that will come with the planned commissioning of Dryer 3 in FY16.

THANKS

In closing, I would like to thank my Board and staff. Executing an Initial Public Offering, in addition to the constant growth and change that is business as usual at Synlait Milk, has required a heavy time commitment from all directors and senior staff. I would like to particularly mention Graeme Milne who continues to chair the Company with a steady hand, and provide me with invaluable advice and support.

I would like to acknowledge the work of my senior team as they continued to not only operate the business, but meet our business improvement targets as Nigel Greenwood, Chief Financial Officer and I focused on the Initial Public Offering over the last six months.

Milk Purchases



I would also like to thank our key advisors over the last year, with special mention to the teams from Deloitte, EY New Zealand, Minter Ellison Rudd Watt, First New Zealand Capital and Goldman Sachs.

Most especially I would like to thank you – our shareholders. Many of you have supported the Company over a long period of time and have walked beside management as we have weathered the ups and downs that are inevitable as a company develops from infancy. I also acknowledge the many new shareholders and thank you for your support and for your confidence in our future.

My commitment to all of you is to continue to focus on 'making more from milk', and to take what we have started and help it mature into a great New Zealand company.

Kind regards

John Penno

MANAGING DIRECTOR

A YEAR OF VALUE CREATION

OUR PARTNERSHIPS

BRIGHT DAIRY PARTNERSHIP

Bright Dairy is a major dairy industry participant in China, specialising in the development, production and sale of milk and dairy products, management of dairy farming operations, logistic distribution and the development, production and sale of health and nutrition products, including infant formula.

Bright Dairy have a number of well-known dairy brands in the Chinese market including a growing infant formula business, and are listed on the Shanghai stock exchange with a market capitalisation of NZ$5billion dollars.

Bright Dairy is part of the Bright Food Group. The Bright Food Group is a major agriculture, food processing, distribution and retail participant in China and has been investing internationally with interests including majority shareholdings in Weetabix Food Company in the United Kingdom and Manassen Foods in Australia.

Bright Dairy has been a customer of Synlait Milk for the last two years.

The Pure Canterbury™ infant formula brand owned and distributed by Bright Dairy was the first infant formula product to be made in our purpose built state-of-the-art infant formula and nutritional dryer in November 2011.

We have worked alongside Bright Dairy to provide expertise in product development, quality testing and logistics. Over the coming year our team will work alongside Bright Dairy to assist with their marketing and promotion requirements of the Pure Canterbury™ brand.

Pure Canterbury™ is positioned as premium infant formula product. To date the distribution of Pure Canterbury™ has been focused on 3,000 Shanghai retail outlets. Shanghai is a significant market for infant formula with a total population of 23 million and with approximately 200,000 babies born in 2012.

In 2012, China had a total population of approximately 1.34 billion and with approximately 25.8 million babies born in 2012. Bright Dairy has a long term plan to expand the distribution of Pure Canterbury™ to 40 major cities with 20,000 retail distribution channels.

The Pure Canterbury™ brand story is mainly focused on the source of its raw milk supply provided by Synlait. Pure Canterbury™ packaging features the green grass of the Canterbury plains and the majestic snow-capped Southern Alps.

With the success of Pure Canterbury™, we have recently developed with Bright Dairy product line extensions of the range, including a pregnant mother formula and two additional infant formula products. The additional infant formula products will be positioned in the premium end of the market however, they will sit below the original Pure Canterbury™ range price point to make the brand accessible to a new range of premium consumers.

In addition, to our business as usual operations we have worked with Bright Dairy on a number of industry good events. These include senior executives from Bright Dairy attending our Dryer 2 opening ceremony in Dunsandel and our senior executives attending the launch of Pure Canterbury™ in Shanghai in late 2011. In the last financial year Bright Dairy executives spoke and attended our inaugural milk supplier conference and currently we are working with Bright Dairy to develop a Synlait Milk tradeshow stand to compliment the Bright Dairy stand at a significant Shanghai food expo.

We look forward to further developing this relationship over the coming years.

FRIESLANDCAMPINA PARTNERSHIP

Every day Royal FrieslandCampina provides around 1 billion consumers all over the world with food that is rich in valuable nutrients.

With annual revenue of 10.3 billion euro FrieslandCampina is one of the world's five largest dairy companies. FrieslandCampina supplies consumer products such as dairy-based beverages, infant & toddler nutrition, cheese and desserts in many European countries, in Asia and in Africa.

Products are also supplied to professional customers, including cream and butter products to bakeries and catering companies. FrieslandCampina also supplies ingredients and half-finished products to manufacturers of infant & toddler nutrition, the food industry and the pharmaceutical sector around the world.

They have offices in 28 countries and employs a total of 19,946 people. FrieslandCampina's products find their way to more than 100 countries. The Company's central office is in Amersfoort, Netherlands.

FrieslandCampina's activities are divided into four market-oriented business groups:

1. Consumer products Europe.
2. Consumer products international.
3. Cheese, butter.
4. Milk powder and ingredients.

FrieslandCampina has a number of well-known brands including but not limited to: Campina, Chocomel, Fristi, Friesche Vlag, Mona, Optimel, Vifit, Milner, Frico, Botergoud, Valess, Appelsientje, DubbelFrisss, CoolBest, Landliebe, Fruttis, Joyvalle, Yazoo, Milli, Pöttyös, Napolact, NoyNoy, Dutch Lady, Frisian Flag, Foremost, Friso, Peak, Rainbow, Debic Valess, DMV, Kievit, Domo, Creamy Creation and Nutrifeed.

The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A, with 19,487 member dairy farmers in the Netherlands, Germany and Belgium is one of the world's largest dairy cooperatives.

FrieslandCampina has been a customer of Synlait Milk since 2008. We have worked together to develop new products and over the years have moved our product offering for them from ingredient products to value-added ingredient products.

We regularly meet with FrieslandCampina in market and likewise, they make the long journey to New Zealand several times a year in order to develop our business relationship. Most recently, Hans Laarkakker, Director of Business Development at FrieslandCampina travelled from the Netherlands to speak at our supplier conference held in Ashburton. At the conference Mr. Laarkakker showed a video that showcases the leading nature of FrieslandCampina's business. You can view this view by visiting YouTube and searching 'the story of milk'.

Over the last five years FrieslandCampina have become our largest customer by volume and we look forward to further developing our business relationship with them during the current financial year.

PARTNERING WITH OUR COMMUNITY

Our single business site sits just south of Dunsandel, a small Mid-Canterbury township with a population of approximately 450 people. The Dunsandel community has close affiliations with dairy farming and rural industry, so naturally we have a close relationship with the Dunsandel township and support their local events and charities.

We are proud to be the principal naming rights sponsor of the Dunsandel / Irwell Rugby Football Club and sports ground.

Together, we have been able to grow the number of teams playing in the mens and ladies senior competition, and raise the clubs profile to become a focal point of the local community. In May of this year we celebrated with the club when they held their 125th jubilee.

Recently, we have supported the Dunsandel Volunteer Fire Brigade with the purchase of a rapid response vehicle. The community of Dunsandel is nestled beside State Highway One and the volunteer brigade are kept very active attending road accidents and community related call outs, in addition to their standard fire-fighting duties. The rapid response vehicle will enable the fire brigade to attend emergencies much faster than they have been able to in the past.

We look forward to our continued partnership with the rugby club, the fire brigade and other local charity and community groups in the future.

BUSINESS RELATIONSHIP RECOGNITION

The success of our global business partnerships were formally recognised during the last financial year by winning two prestigious New Zealand business awards.

In September 2012, we were delighted to win the Champion Global Operator (Medium to Large Enterprise) at the Canterbury Chamber of Commerce, Champion Canterbury Awards. We are pleased to announce that we have made the finals for this category again for the pending 2013 awards.

In May 2013, we were honoured to win the New Zealand China Trade Association (NZCTA) Supreme Award and the DLA Phillips Fox Award for Successful Investment with China, inward or outward at the HSBC NZCTA China Business Awards.

We are also pleased to announce that we have been nominated as a finalist in the pending New Zealand Trade and Enterprise International Business Awards in the category of ANZ Best Business Operating Internationally over $50 million.

The award wins and nominations recognise the significant achievements our team have made in both creating and developing our global business relationships.

OUR PLACE

SUSTAINABILITY UPDATE

We are fortunate to live and work in one of the most beautiful places in New Zealand. This is our home.

We are committed to our environment. We are in the process of developing a comprehensive environmental and sustainability plan, which will balance the needs of our business with the protection and care for the environment.

We will be reporting in more detail on our achievements against this plan in our next Annual Report. In the meantime, there are several key initiatives that we are proud of.

INTRODUCING LEAD WITH PRIDE™

In April 2013, we launched our internationally accredited ISO 65 dairy farm assurance system called Lead With Pride™. Lead With Pride™ recognises and financially rewards suppliers who achieve dairy farming best practice.

Suppliers must meet criteria that we have developed including, in some cases, exceeding our assessment of industry best practice across the four pillars of dairy farming: environment, animal health and welfare, milk quality and social responsibility. In return, they are paid a financial incentive above the standard milk price depending on the certification level they are awarded.

The program is audited by the New Zealand Government owned AsureQuality.

The positive financial impacts of the system have been modelled by the Agribusiness and Economics Research Unit at Lincoln University. Dr Andrew West, Vice-Chancellor at Lincoln University said 'The analysis has shown that certification is likely to lead to significant improvements in farm profitability for the majority of suppliers.'

In addition, to the supplier financial benefits, Lead With Pride™ enables us to demonstrate to our customers our industry leadership in incentivising food safety and sustainability initiatives intended to enhance the integrity, safety and quality of milk produced on certified farms.

Our first supplier farm to receive Lead With Pride™ accreditation was 'Trinity Holdings' owned and operated by Lance and Wendy Main. It is expected we will have 20 accredited Lead With Pride™ suppliers by the end of current financial year.

To find out more about Lead With Pride™ please visit www.synlait.com. You can also view the Lead With Pride™ supplier promotional video by visiting YouTube and searching 'Lead With Pride™.'

LOOKING AFTER OUR PLACE

At the start of the last financial year we implemented a company wide recycling initiative to reduce our impact on the environment.

The project has taken us from 96% waste (1,230 metric tonnes) and 4% recycling (46.5 metric tonnes) in the 2012 financial year, to 8% waste (65 metric tonnes) and 92% recycling (759 metric tonnes) in the 2013 financial year.

We have also engaged a dedicated full-time Mastagard employee to be based on-site to manage the program. Before the implementation of the initiative, recycling at our Dunsandel site was limited due to recycling services not being available to the rural area.

In addition, to the recycling program we have also developed a new approach to our clean waste water.

With milk only being 13% milk solids our manufacturing plant returns more water to the environment than it uses to operate.

We have worked with industry experts Waterforce, ICS, Babbage and Specialty Seeds to develop a automated irrigation system for the disposal of our clean waste-water.

The dedicated waste-water disposal area located on our business site is sewn in a deep root pasture system, pasture which grows well under wet conditions, the area is also not grazed or fertilised to limit nutrient leaching and minimises effects on the environment.

The irrigation of the water is controlled via a system which adjusts the rate of water applied with the soil infiltration capabilities.

The system reports on the volume and application rates to each sector of the disposal area which our environmental team monitors.

We look forward to developing and implementing further initiatives such as these in the coming year.

BRINGING THE MARKET TO OUR PLACE

On Friday 12 July 2013, approximately 400 Synlait Milk suppliers and rural professionals attended our inaugural milk supply conference held at the Ashburton Event Centre.

Themed 'SOAR' the event aimed to connect our suppliers with our global customers to develop mutual understanding in order to lift our industry to new heights.

A number of senior executives from our international customer base spoke at the event, including:

- Hoogwegt International, part of Hoogwegt Group B.V., the world's largest privately owned dairy trading company.
- FrieslandCampina, one of the world's largest dairy cooperatives.
- A2 Corporation, listed on the New Zealand stock exchange.
- Standard Foods Corporation, a major Taiwanese food company, and
- Bright Dairy, a significant Chinese based food manufacturing company.

In addition, the conference featured presentations from Netherlands based dairy consultant Mark Voorbergen, ANZ economist Con Williams and senior Synlait Milk executives including Chairman Graeme Milne and Managing Director John Penno.

Following the day, a gala dinner was held at the Ashburton Aviation Museum and was hosted by television comedian Paul Ego.

The inaugural conference was well received and is now due to be a regular fixture on our events calendar.

OUR PROCESS

NIGHT MILK PROJECT UPDATE

WellSleep, the University of Otago sleep investigation centre based in Wellington, has undertaken a unique clinical trial for our 'Night Milk' a natural milk product aimed at beating sleeplessness.

The product is made by collection of milk produced by cows during the hours of darkness and subjecting it to specialised processing at our state-of-the-art nutritional plant.

Synlait Milk Research Manager, Dr. Simon Causer, explains that cows produce a sleep-promoting hormone called melatonin during the hours of darkness and just as with human mothers, this hormone is expressed in the milk.

'Melatonin plays a key role in helping humans regulate day-night cycles and by selectively collecting milk produced by cows during the night we can create a natural sleep aid,' says Causer.

Participants in the clinical trial were required to drink a glass of 'night milk' 30 minutes before going to bed and sleep quality was compared to sleep following the consumption of conventional milk.

Most adults have experienced sleeplessness at some point in their lives with an estimated 30-50% of the population affected by insomnia and 10% having chronic insomnia. It takes a huge toll on people's energy, mood, health and ability to function during the day.

The clinical trial yielded very positive results and we will be looking to publish these in the medical and scientific literature in order to support the selling of this product to customers.

A2 MILK

In April 2012, we announced an agreement with A2 Corporation (A2C) for the supply and processing of A2 Milk into infant formula.

Standard milking herds produce milk containing both A1 and A2 beta-casein proteins. A2 milk is collected from cows that only produce the A2 beta-casein protein. A2C market their products on this point of difference and the proposed health benefits of A2 milk.

During the last financial year we have worked with our supply base to put in place 11 accredited A2 herds. In addition, we have identified and are working with a number of additional suppliers who have a view to converting their herd genetics to the A2 variety.

In addition, to securing milk supply we have implemented a number of processes and quality checks that ensure during collection, processing and packaging that the A2 milk is kept completely separate from our regular supply of milk.

A2C Managing Director Geoffrey Babidge said the agreement 'with a highly reputable supplier of nutritional powders,' was a key step in their plan to launch infant formula products into high growth Asian markets - particularly China.

In June 2013, A2C launched A2 Platinum infant formula at a ceremony in Auckland. Our nutritional and quality teams have worked alongside A2C to develop the Platinum range to their exact specifications.

LACTOFERRIN UPGRADE

In May this year we announced a $15 million upgrade to our Special Milks Dryer which will enable us to become one of only two manufacturers in the world to produce lactoferrin as a spray dried powder, and will also allow us to manufacture dairy ingredients to a pharmaceutical standard.

Lactoferrin is a bioactive protein extracted from milk that provides significant antibacterial protection and other health benefits for people of all ages. It is in demand globally for health foods including infant formula and adult nutritional powders.

We expect production to reach 23 metric tonnes within four years of commissioning the plant in early 2014.

Our lactoferrin process has been designed to achieve high levels of bio-actively and solubility. Our spray dried product is already receiving considerable interest from customers looking for improved properties when used in infant formula products. The market for lactoferrin has grown from 45,000 kilograms in 2001 to 185,000 kilograms in 2012 and is projected to grow to 262,000 kilograms in 2017. On the current market lactoferrin is priced at between US$500 to US$1,000 per kilogram.

You can read more about the lactoferrin upgrade project in the 'our future' section of this Annual Report.

CREATING A FOCUS ON QUALITY

To support our company vision to become the supplier of choice to the world's leading milk-based health and nutrition companies, a decision was made to invest in a state-of-the-art quality testing laboratory at our Dunsandel site. This investment is one of our strategic growth initiatives that will support our position as a supplier of high quality, premium dairy ingredients, infant formula and nutritional products.

We currently perform the majority of our quality testing at contracted external laboratories. It has become evident that if we are to meet our company vision, we will need to invest in a fully equipped on-site quality testing laboratory to undertake the activities that we are currently outsourcing.

The strategy for our quality testing laboratory will be to build in-house capabilities to support the testing requirements for the products we produce. This will include facilities to conduct chemical, microbiological and physical property testing using the latest technologies. In addition, to the quality testing function, there will also be integrated facilities for product development, support including conducting pilot scale trials and sensory analysis to ensure the needs of our customers are met.

There are several key benefits for us that justify the significant investment in an on-site quality testing laboratory, including:

- It ensures we can achieve our high quality standards in a consistent and efficient manner. Turnaround time for quality testing will be reduced to allow for more immediate availability of data for analysis. This will provide for better response time and communication between the quality and operations teams and will speed up release of products to our customers.
- It allows us to create a technical 'center of excellence' that can be staffed with the industry's leading scientists and food technologists. This will become essential as we expand our presence in the infant formula and nutritional products category.
- It strengthens our reputation with both our customers and the regulatory bodies governing the markets we serve by establishing an on-site quality testing laboratory that is accredited to international standards. China currently requires all in-country infant formula manufacturers to conduct quality testing on-site and additional benefits can be gained with our customers that may have the same expectations of the benefits that in-house quality testing provides.
- It provides for a cost effective model that not only allows for efficient management and greater control of the quality testing process, but also reduces additional costs associated with external testing including laboratory fees and courier costs.

We will engage expert external consultants specialising in laboratory operations during the design, validation and start-up of the quality testing laboratory. It is anticipated that the laboratory will be operational before the end of the 2014 calendar year.

You can read more about the laboratory upgrade project in the 'our future' section of this Annual Report.

OUR PEOPLE

DEVELOPING OUR LEADERS

It's our people who make us what we are and we are committed to developing our leaders.

Developing our leaders is based on a solid foundation of four key competencies: Managerial, Customers, Personal Leadership and Leading Others.

These competencies can be applied across the business at operational, tactical and strategic levels. This also allows us to grow and support our current leaders in addition to nurturing our future leaders.

In March 2013 we introduced a new leadership development program, Blanchard's Situational Leadership II (SLII), as part of our wider training program at Synlait Milk.

The Blanchard model complements our core leadership framework and equips our leaders with the tools to analyse, diagnose, think and apply a leadership style that is adaptable to a range of people and situations.

Currently 12 Synlait Milk managers have completed facilitator training and have become certified trainers of SLII, and over 25 people leaders from our wider team have now completed the training.

KEEPING OUR PEOPLE SAFE

Our approach to workplace safety is 'everybody safe home every day.' We have continued to build on our current robust systems and process to ensure high employee participation and a proactive approach to safety. Our continued work in this area was recognised in June 2013, when we became accredited as a secondary partner under ACC's Workplace Safety Management Practices program.

For more information on our commitment to health, safety and wellness, see the section in 'our governance'.

ENTREPRENEURIAL LEADERSHIP

Congratulations to our Managing Director, John Penno who recently won the products category at the EY Entrepreneur of the Year Awards. John is now competing for the overall title of New Zealand Entrepreneur of the Year which will be announced on the 17th of October 2013. The winner of the overall category will be invited to compete in the World Entrepreneur of the Year Awards in Monte Carlo in June 2014.

BEST PLACE TO WORK

Since 2011 we have participated in the Kenexa Best Workplaces Survey to assist us in understanding and measuring the engagement of our staff.

Our recently completed third survey has shown that, even with our significant growth, we have continued to increase our overall staff engagement (from 38.8% in 2012 to 42.4% in 2013) and importantly, we have continued to decrease our levels of staff disengagement – now down to 5%.

We are extremely pleased with this result and we continue to ensure that we have strong initiatives in this area to ensure that we continue to deliver against our vision of being a great place to work.

MEET OUR TEAM

Meet **Gareth Lepper,** Planning and Scheduling Analyst at Synlait Milk. Gareth joined us approximately one year ago as a fresh faced graduate from the University of Canterbury with a major in Management Science. From the get-go Gareth impressed the team with his enthusiastic attitude and aptitude for understanding the software elements of his role. Gareth is now working on our automatic planning and automatic scheduling project assisting in the design and implementation from a planning and scheduling viewpoint, in order to improve our planning system and optimise production.

Brad Harden has recently become our Dryer 2 Production Manager. Brad is one of our original employees, who joined the Company in early 2008 as a Process Leader. Brad's natural leadership ability and understanding of our stringent production systems has seen him elevated to a senior position in our manufacturing team. Brad is a trained chef, has lead forestry gangs, but has found his calling in the dairy industry over the last 12 years. We are also helping Brad tick an item off his bucket list by supporting him in the Coast to Coast multisport event.

Lisa Stewart has recently been promoted to Lead Dispensary Operator on our infant formula and nutritionals plant. Lisa joined our team in late 2011 as a Dispensary Operator. Her attention to detail and her leadership ability has seen her promoted to her current position. Lisa recently was awarded the 'Emerging Talent' award at our recent manufacturing team building day.

Bryce Happer joined our team back in 2008 as an AMF Process Operator. Bryce's easy going nature and ability to problem solve makes him a valuable member of our team. Bryce was awarded our 'Operator of the Year' award at our recent manufacturing team building day for his efforts in training the new AMF staff and his focus on AMF quality performance. Outside of work you can find Bryce playing rugby for our local Dunsandel Irwell Rugby Football Team at Synlait Park.

OUR FUTURE

In the initial public offering prospectus we outlined a series of growth initiatives that we have planned to undertake to expand our capacity and product offerings. We are pleased to update you on the status of these projects below.

On the map included in this document those areas in darker blue are commenced projects with those in lighter blue still in the planning.

1. Blending and Consumer Packaging

Update: The project commenced on schedule in August 2013 with construction expected to start in October 2013. The commission date has been moved forward to June 2014, from the originally planned August 2014. All contracts for this project have now been awarded.

Current Status:	Design review underway Major contracts awarded Customer reviews complete Preparation of building consent
Expected Capacity:	17,500 MT per annum
Expected Total Cost:	$27.5 million
Project Start Date:	August 2013
Expected Commissioning Date:	June 2014
Major Contracts:	Project Managers – Babbage Consultants Ltd Construction – Apollo Projects Ltd Canning equipment – PLF International Ltd Blending equipment – Powder Projects Ltd

2. 22,500m² Dry Store

Update: Due to build and economic efficiencies, the dryer three dry store will now be included in this project bringing the additional storage capacity onsite to 22,500m², up from the originally planned 12,500m². The increased size of the warehouse and approval process required for that change has resulted in an extended construction period for this project. The total project will cost $16.9 million up from the $13 million originally planned, however this generates a saving of $2.4 million on the dryer 3 warehouse build cost that was allowed for in the dryer 3 project.

Current Status:	Detailed design complete Building consent submitted Major contracts awarded Construction started
Expected Capacity:	22,500m²
Expected Total Cost:	$16.9 million
Construction Start Date:	August 2013
Expected Commissioning Date:	March 2014
Major Contracts:	Project Managers – Babbage Consultants Ltd Construction – Calder Stewart Industries Ltd

3. Lactoferrin Extraction and Purification Facility

Update: The project commenced on schedule in May 2013 with construction of the plant now underway. Production will commence in early 2014 as per our original plan.

Current Status:	Detailed design complete Building consent submitted Major contracts awarded Pilot scale production complete
Expected Capacity:	23MT per annum
Expected Total Cost:	$15.1 million
Project Start Date:	May 2013
Expected Commissioning Date:	Late January 2014
Major Contracts:	Civil – Bradfords Building Ltd Mechanical - NDA Group Automation and Electrical – Industrial Controls Ltd Process Equipment – GEA Process Engineering Ltd – Powder Projects Ltd

4. Quality Testing Laboratory and Admin Building

Update: With the steady increase in staff numbers, we will now incorporate the laboratory ($3.9 million) with a new administration building ($4.5 million). Architectural design is underway with an expected construction start date in March 2014. The commissioning date is expected to be August 2014, updated from the originally planned March 2014. This will result in some operational savings in FY14 related to start-up costs that are now deferred until FY15.

Current Status:	Resource consent planning
	Architectural design underway
Expected Total Cost:	$8.4 million
Construction Start Date:	March 2014
Expected Commissioning Date:	August 2014

5. Dryer 3

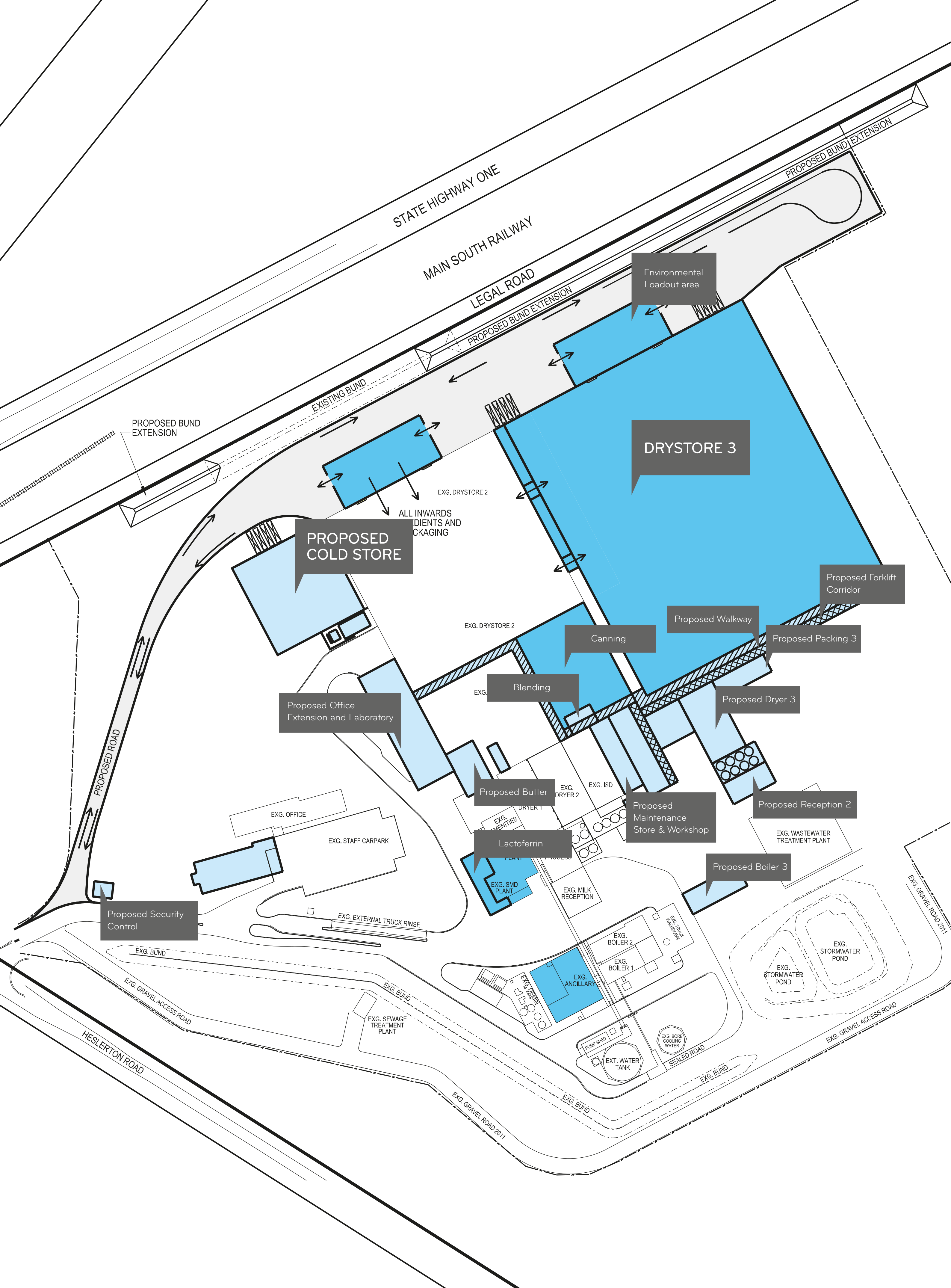
Update: Resource consent is being sought and the plant technical specification is in progress. Note, that the cost of the third dry store associated with the build of dryer 3 has been brought forward and accounted for in the 22,500m^2 dry store (project 2) outlined above.

Current Status:	Resource consent planning (lodgement November 2013) Conceptual design Customer consultation underway
Expected Capacity:	5-6MT per hour (Infant Formula)
	8-10MT per hour (Ingredients)
Expected Total Cost:	$103.5 million (now excluding dry store 3)
Construction Start Date:	April 2014
Expected Commissioning Date:	August 2015

6. Ammix Butter Plant

Update: Design for this plant will begin in February 2014.

Current Status:	Planning
Expected Capacity:	7MT per hour (25,000 MT pa or 40,000 MT pa with external cream source).
Expected Total Cost:	$15 million
Construction Start Date:	August 2014
Expected Commissioning Date:	May 2015



STATE HIGHWAY ONE
MAIN SOUTH RAILWAY
LEGAL ROAD
PROPOSED BUND EXTENSION
PROPOSED BUND EXTENSION
EXISTING BUND
PROPOSED BUND EXTENSION
Environmental Loadout area
DRYSTORE 3
PROPOSED COLD STORE
EXG. DRYSTORE 2
ALL INWARDS
DIENTS AND
CKAGING
EXG. DRYSTORE 2
Proposed Forklift Corridor
Proposed Walkway
Canning
Proposed Packing 3
Blending
Proposed Dryer 3
Proposed Office Extension and Laboratory
PROPOSED ROAD
Proposed Butter
EXG. DRYER 2
EXG. ISD
DRYER 1
Proposed Maintenance Store & Workshop
Proposed Reception 2
EXG. OFFICE
EXG. STAFF CARPARK
EXG. AMENITIES
Lactoferrin
EXG. WASTEWATER TREATMENT PLANT
EXG. SMD PLANT
EXG. MILK RECEPTION
Proposed Boiler 3
Proposed Security Control
EXG. EXTERNAL TRUCK RINSE
EXG. BUND
EXG. BOILER 2
EXG. BOILER 1
EXG. TRUCK WASHDOWN
EXG. ANCILLARY
EXG. DEMIN
EXG. STORMWATER POND
EXG. STORMWATER POND
EXG. GRAVEL ROAD 2011
EXG. GRAVEL ACCESS ROAD
EXG. BUND
EXG. SEWAGE TREATMENT PLANT
PUMP SHED
EXT. WATER TANK
EXG. BORE COOLING WATER
SEALED ROAD
EXG. BUND
EXG. GRAVEL ACCESS ROAD
HESLERTON ROAD
EXG. BUND
EXG. GRAVEL ROAD 2011

OUR REMUNERATION

We seek to ensure our remuneration framework and policies attract and retain the best people we can for our business.

We aim to be fair, consistent, hire excellence, and provide a great place to work, learn and develop. We reward team-work and value excellence. To ensure we remain competitive in the market, we use information from an independent remuneration adviser 'Strategic Pay' to establish applicable bands for a position. Remuneration is then set based on performance, experience and overall value to the Company and is reviewed annually.

The Remuneration and Governance Committee oversees the operation of our remuneration policy, and monitors the overall budgets for all employees. The Committee also recommends to the Board for approval the remuneration and bonus arrangements for our Senior Management Team.

Our Directors and our employees' remuneration details (including the Managing Director's) are set out in the 'Statutory Information' section. We also assess our Directors performance and fees bi-ennially.

We are intending to have the following share incentive plans in place for our staff (not including Directors other than the Managing Director):

– Senior Executive IPO Incentive Scheme: This scheme provides an incentive to retain senior executives post-IPO for a period of three years, vesting a set number of Synlait Milk shares in each of them depending on the number of performance hurdles which have been met in each year. The maximum value opportunity per senior executive participating in the scheme is 75% of their base remuneration as at 1 August 2013. They can receive up to a maximum value of 25% of their base salary, by way of rights to shares valued at the IPO price, which will only vest at the end of the three year period, post IPO, on the condition that they are still employed at Synlait Milk and that the share price at that point is above the IPO price.

The performance hurdles are split into two separate Company goals. The first is ensuring the Company over-performs on our budgeted net profit after tax by 10% or more, and the second is that certain annual compound growth targets in total shareholder returns (TSR) reaches the following set targets:

TSR	Annual entitlement as a % of base salary
20% or more	25%
15%	18.75%
12%	6.25%
Less than 12%	0%

If all the targets were met, then we have provisioned for the transfer of shares worth an issue price of approximately $3.3m.

– Staff Short Term Incentive Share Scheme: The scheme applies to all our non-senior management employees who are eligible to participate. Each employee will earn $2,000 worth of Synlait Milk shares (net of any PAYE tax that may be payable) should we over-perform on our budgeted net profit before tax by 20% or more for FY2014.

If all the eligible employees receive these incentive shares, then we have anticipated the value to be approximately $450,000.

SHORT TERM INCENTIVE SCHEME – (STI)

We have a short term performance bonus scheme operating at various levels across our organisation.

For employees below senior management level the STI opportunity ranges from 5% to 15% of the base remuneration and is based on a mixture of Company profit, team and individual objectives. At senior manager level the STI opportunity ranges from 20% of based remuneration for direct reports to the Managing Director and 40% of base remuneration for the Managing Director. The STI is awarded based on exceeding budgeted NPAT (40%), shared Company objectives (20%) and personal performance hurdles (40%).

SUPERANNUATION

We participate in KiwiSaver, and pay the employer contribution of 3% for all employees participating in KiwiSaver.

WE'RE BUILDING A WORLD CLASS BUSINESS

OUR GOVERNANCE

You will already know that Synlait Milk Limited is a limited liability company under the Companies Act 1993 and that we are listed on the Main Board of the NZX (see the code 'SML' on www.nzx.com).

But what you might not know, is the detail behind our very strong governance framework, which is designed to ensure we are a professionally run organisation you can trust in.

We are proud of what we have achieved to date and the way our Company is managed.

OUR BOARD

Our Board is responsible for the overall corporate governance of Synlait Milk including strategic direction, determination of policy, approval of significant contracts / projects, capital and operating budgets and overall stewardship of our organisation. Our Board is committed to ensuring we not only make 'More from Milk,' but also make more from ourselves, in efficiently and effectively managing Synlait Milk to deliver on the results we all expect.

We were listed on the NZX on 23 July 2013, and this meant quite a few changes to our then governance structure as we prepared for listing.

We are a non-standard Company in terms of NZX listing requirements – and have certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in our Statutory Information section.

Our Board has up to eight Directors, and while our major shareholder Bright Dairy holds at least 37% of our shares, Bright Dairy may appoint up to four of those Directors - one of whom must be a New Zealand resident who is an experienced director. We are fortunate to have one of our long-serving Board members The Honourable Ruth Richardson to fulfil this role.

We also must have a Managing Director who cannot be a Bright Dairy Director (John Penno), and three independent directors (Sam Knowles, Graeme Milne and Bill Roest). Our independent Directors not only satisfy these requirements, but also bring considerable expertise and experience to the Board table. Sam and Bill were appointed prior to our listing on the NZX to bolster our independent Director credentials.

All our Directors are profiled on pages 40-41 of this Annual Report. A third of our independent directors will retire each year and Bright Dairy may appoint their Directors as they wish (but one must always be a New Zealand resident, experienced Director). More details can be found in our Constitution, at the following link www.synlait.com/site/uploads/2013/07/Synlait-Milk-Limited-Constitution.pdf

OUR BOARD COMMITTEES

An important part of good governance is ensuring an organisation has specialised groups focused on the essential parts of the corporate landscape.

We have established the following permanent Board Committees:

- **Audit and Risk Committee** – chaired by independent Director Bill Roest (other members – Dong Zongbo, Graeme Milne). It is charged with monitoring our internal control and risk management systems, financial reporting obligations, independent audit process and ensuring we comply at all times with all applicable laws, regulations, Listing Rules and our own Company Policies and procedures.
- **Remuneration and Governance Committee** – chaired by Ruth Richardson (other members – Graeme Milne, Li Ke, Sam Knowles). It is charged with ensuring our commitment to health and safety, best practice employment and fair and proper remuneration is maintained at all times. The Committee is also responsible for ensuring all training and development and proper governance structures are in place and being properly used at all levels of the Company.

Both Committees have Charters governing their operation, membership and remit to ensure that Synlait is optimally managed and governed at all times. Both Committees meet at least four times a year, but are also available at any stage to consider any issue within their responsibility.

OUR GOVERNANCE CONT...

We also have a standing Committee appointed:

– **Disclosure Committee** – chaired by the Managing Director (other members being the Chair of the Board and the CFO, with an alternate member being the Chair of Audit and Risk Committee). It monitors compliance by the Company and staff in relation to our Share Trading Policy and Guidelines and ensures that all 'material information' which is required to be disclosed to the market under the NZX Listing Rules is immediately disclosed.

POLICES AND CHARTERS

Our Board believes in good governance and has ensured we have in place the following essential corporate governance documents (amongst others):

– **Board Charter:** This is the 'guide book' for our Board in terms of objectives and rules to make sure we always follow our Constitution, statutory duties and other corporate obligations.

– **Board Code of Ethics:** This sets the moral compass for our Directors in all Synlait Milk matters – ensuring professionalism, ethical conduct and best practice is maintained at the Board table and beyond by all our Directors. An important part of the Code is the use of Company information by Directors, which safeguards Company confidential information.

– **Audit & Risk Committee Charter and Remuneration & Governance Committee Charter:** For each Committee, its Charter sets out the objectives, authorities, roles and responsibilities and operational rules for the respective members to ensure they deliver on their governance requirements.

– **Treasury Management Policy:** Is our internal policy for managing our forex, debt, interest rates and related financial activities. This is actively managed and forms part of our essential internal controls.

– **Sales Policy:** This sets out our internal commercial position with respect to our sales of products to customers, in terms of pricing, volumes, reporting and forecasting.

– **Continuous Disclosure Policy:** This ensures we always immediately inform the market of any material information and have in place proper management processes to ensure this is a discipline throughout the whole organisation. The Disclosure Committee is responsible for monitoring compliance with this policy.

– **Securities Trading Policy and Guidelines:** This is to ensure all our staff and Directors appreciate the special role they hold and ensure they operate ethically and properly in relation to any personal activity. This includes express 'black-out' periods for special classes of our staff with in-depth financial and Company knowledge. It also has a detailed reporting regime to ensure compliance.

– **Directors' Conflict of Interest Policy:** This ensures all our Directors appreciate and know how to manage and mitigate any impact on our Synlait Milk operations relative to their own personal affairs.

– **Related Transaction Policy:** This ensures any major shareholders are treated purely on an arms-length basis and in the best interests of Synlait Milk at all times.

– **Delegated Authorities Policy:** This is the operational guide for our Board and all staff in the day-to-day operations of Synlait Milk, ensuring a proper degree of accountability and control is maintained at all times and allowing risk to be properly apportioned and managed.

– **Employee Handbook:** Apart from the operational aspects of working at Synlait Milk, this Handbook has the professional obligations and ethics expected of all staff and also a protected disclosures regime (whistle-blowers provisions) – ensuring any major problems can be immediately brought to senior management's or the Board's attention without fear of any negative reaction.

All the above Policies, Charters and Codes are to be reviewed at least annually by the Board or applicable Board Committee to ensure they continue to deliver the optimal structure for governing our Company going forward.

We have many other internal policies and procedures to ensure we are an efficiently and effectively run organisation.

For more information on our publicly available Policies and Charters, please visit our investor relations section on our website at www.synlait.com/investors/corporate-governance/

The Directors' disclosures of interests are set out in Statutory Information section.

OUR OPERATIONS

All of our Board members have access to all relevant Synlait Milk information, and are fully briefed before each Board meeting. They are provided with minutes of past meetings, and have available the Synlait Milk Company Secretary and Synlait Milk management to answer any questions or to respond to any issues at any time.

Our Board has determined we are in compliance with all NZX Listing Rules and applicable legal requirements.

OUR FOCUS FOR 2014

We are focusing on improving our corporate risk management practices and looking at extending our enterprise-wide risk strategies.

Our internal audit function still needs to be further developed (as we have just become a listed entity in July 2013) and this is something we are working towards as we grow as a listed Company.

We are also focusing on developing a sustainability policy and environmental policy that we will be able to report on in our next Annual Report.

HEALTH AND SAFETY

We appreciate that the success of our business depends on our excellent staff, and so their wellbeing is of vital importance to us. Accordingly, we are committed to health, safety and wellness at Synlait Milk.

Our vision is: Everybody safe home every day.

Our objectives are:

- Zero exposure to uncontrolled risks.
- Fatal (critical) risk focus.
- Zero injury accidents.
- Healthy and well; living life in balance.

We are developing a fully integrated approach to health & safety matters – maintaining our present focus of strong operational systems and procedures, and continuing our emphasis on rehabilitation in the event of injury or incident.

Over the next three years we have committed as an organisation to migrate our present Workplace Safety Management Practices approach into a wider Synlait Milk Safety Management System. This will be achieved through a comprehensive review of all health, safety and wellness risks using the 'Bow Tie' risks and control measures assessment approach, and by us implementing a new system to capture risks, hazards and incidents.

Included in our safety initiatives is a review of our safety on-boarding processes and information; rollout training in ICAM root cause investigation methodology (Incident, Cause, Analysis, Method); review of our employee participation systems and a move to a focus on measuring total recordable injury frequency rate (TRIFR). We will report on our TRIFR achievement in our next Annual Report.

BOARD OF DIRECTORS

Zongbo Dong

BRIGHT DAIRY APPOINTED DIRECTOR

Dong was appointed a director of Synlait Milk in August 2010. Dong entered the dairy business in 1985 and has worked in accounting and finance roles in the dairy industry since then.

Dong led the finance team in the establishment of the Shanghai No. 8 Dairy Plant in 1988, which later became the largest yoghurt plant in Asia. He was appointed vice general manager and CFO of Shanghai Danone Yogurt and Cheese Co., Ltd. in the 1990s. He also organised the merger of sixteen subsidiaries of Bright Group and their entering into the Bright Dairy & Co., Ltd. structure.

After a number of years in leading finance roles in different subsidiaries, Dong became CFO for Bright Dairy & Food Co., Ltd in 2007. Dong is currently a director (and in the last five years has been a director) and supervisor of a number of Bright Dairy subsidiaries, including two major production facilities and several distribution companies. Dong is also currently a director of SML New Zealand Limited and Synlait Milk Finance Limited.

Dong is a member of the Institute of Public Accountants (Australia) and has certification granted by China Association of Chief Financial Officers.

Ke Li

BRIGHT DAIRY APPOINTED DIRECTOR

Li was appointed a director of Synlait Milk in August 2010. Li has worked for Bright Dairy for over 12 years. During this time, she has mainly been responsible for sales and marketing.

During her years at Bright Dairy, Li has made significant contributions to the growth of many different brands of the company, including the Bright brand. Li is also leading a team tasked with promoting Pure Canterbury™ infant formula products in China. This brand has achieved remarkable growth in China in the last few years.

Li is currently the vice president of Bright Dairy & Food Co., Ltd and the head of marketing. She also heads the public relations department at Bright Dairy. Li is currently a director (and in the last five years has been a director) of a number of Bright Dairy subsidiaries. Before working for Bright Dairy, she was the sales manager for Shanghai Jia Qi Children clothes Co., Ltd and Shanghai NiceKid Clothes Co., Ltd. Li is also currently a director of SML New Zealand Limited and Synlait Milk Finance Limited.

Li holds a Master of Business Administration from La Trobe University.

Graeme Roderick Milne

CHAIRMAN (INDEPENDENT)

Graeme joined the Synlait Group as a director in 2006. Graeme brings extensive international dairy industry experience to the Board. He has spent most of his career in the dairy industry working in New Zealand, Australia and Europe.

Graeme's first role as a CEO was for Bay Milk Products in 1992.

Later he was CEO of the New Zealand Dairy Group prior to the formation of Fonterra and thereafter held various interim roles as CEO of Richmond Limited and Bonlac Limited in Australia.

Graeme is now a farmer and company director in a range of sectors. Graeme's other Chairmanships are currently Waikato District Health Board, Terracare Fertilisers Limited, New Zealand Pharmaceuticals Limited, Johnes Disease Research Limited and the Rural Broadband Initiative National Advisory Committee. Graeme is also currently a director for a number of organisations including but not limited to Genesis Power Limited, FMG and Alliance Group Limited.

Graeme is a member of the Massey University School of Advanced Engineering and Technology Advisory Board.

Willem (Bill) Jan Roest

NON-EXECUTIVE DIRECTOR (INDEPENDENT), CHAIR OF THE AUDIT AND RISK COMMITTEE

Bill was appointed to the Synlait Milk Board in May 2013. Prior to joining Synlait Milk, Bill had a long and varied career with the Fletcher Group including the last 12 years as Chief Financial Officer of Fletcher Building Limited, from which he retired in April 2013.

Bill had several leadership roles in the New Zealand corporate sector before joining Fletcher Challenge Limited upon the acquisition of Group Rentals in 1986. Bill was Managing Director of Fletcher Residential and Fletcher Aluminium before taking up a role with Fletcher Building on the separation of Fletcher Challenge in 2001.

Bill's other board appointments include director of SML New Zealand Limited, Synlait Milk Finance Limited, Fisher and Paykel Appliances Holdings Limited where he chairs the Audit Committee and director of Housing Foundation Limited, the not-for-profit New Zealand Housing Foundation which assists low income families into first home ownership. In the past five years Bill has been an executive officer of Fletcher Building Limited and in that capacity was a director of Fletcher Building Limited subsidiaries and associate companies.

FROM LEFT TO RIGHT;
ZONGBO DONG
KE LI
GRAEME RODERICK MILNE
WILLEM (BILL) JAN ROEST
JOHN WILLIAM PENNO
RUTH MARGARET RICHARDSON
SAM KNOWLES
SIHANG YANG

Bill is a member of the Institute of Directors, a Fellow of the Association of Chartered Certified Accountants (UK) and a member of the Association of Chartered Accountants (NZ).

John William Penno

MANAGING DIRECTOR (NON-INDEPENDENT)

John co-founded the Synlait Group in 2000 and has been a full-time executive for the Synlait Group for the last 11 years. With the appointment of Graeme Milne as an independent chairman of Synlait Limited in 2006, John stood down from his initial role as executive chair to focus on the Managing Director role.

After completing an Agricultural Science degree, John commenced his career in the dairy industry as a consulting officer for the New Zealand Dairy Board before joining Dexcel as a research scientist where he completed a PhD in animal science. As a scientist and research program leader he worked to enable New Zealand dairy farmers to increase productivity and profit. In 2000, John was appointed General Manager of the NZ National Dairy Industry Extension Program which serviced farm owners, workers and rural professionals.

John was appointed as Managing Director of Synlait Milk on 21 June 2013. John is also currently a director of SML New Zealand Limited, Synlait Milk Finance Limited, Synlait Farms Limited (which is a supplier of raw milk to Synlait Milk), Synlait Farms Finance Limited, Robindale Dairies Limited, Thorndale Dairies Limited and Riverlands Four Limited. In the past five years John has also been a director of Dairy Insight, Axe Brasil Limited, Synlait Limited and a number of companies associated with the Synlait Group and / or dairy farms. John was the inaugural Chairman of the Dairying and Environment Leadership Group. John is a member of the New Zealand China Council Advisory Board. In 2009, John received an emerging leaders award from the Sir Peter Blake Trust and was also awarded the Federated Farmers inaugural agribusiness person of the year.

Ruth Margaret Richardson

NON-EXECUTIVE DIRECTOR, CHAIR OF REMUNERATION AND GOVERNANCE COMMITTEE

Ruth is a professional company director specialising in agribusiness, the commercialisation of innovation, information technology and finance. Ruth joined the Synlait Group as their first independent director in 2004. Ruth was elected as the Member of Parliament for Selwyn (Synlait Milk's base) in 1981 and served as New Zealand's Minister of Finance from 1990 to 1993.

Subsequent to her political career, Ruth established an international practice as a public policy consultant and assumed an extensive range of corporate governance responsibilities both in New Zealand and internationally. Ruth is currently Chairman of Jade Software Corporation Limited, Synlait Limited, Syft Technologies Limited, Kiwi Innovation Network Limited (Kiwinet - commercialisation of publicly funded innovation) and the Kula Fund (a Pacific Private Equity fund) and is a director of SML New Zealand Limited, Synlait Milk Finance Limited, The New Zealand Merino Company Limited, Robindale Dairies Limited and Ruth Richardson (NZ) Limited. Ruth's previous directorships include Dairy Brands, the Reserve Bank of New Zealand and Wrightson Limited amongst others.

Ruth holds a Bachelor of Laws (with honours) from the University of Canterbury.

Sam Knowles

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Sam has held senior executive positions in major banks in both Australia and New Zealand and has extensive experience in strategy, marketing, organisational capability building and private and public sector governance including over 10 years on boards of NZX listed companies.

Sam is perhaps best known for his role in establishing Kiwibank and subsequently leading the company over 10 years through its transition from start-up to a large successful business.

Since leaving Kiwibank in 2010 Sam has taken governance roles in growth businesses. His NZX listed companies are Chairman of Xero and a Director of TrustPower and SLI Systems. Sam's other governance roles include Chairman of Partners Life, OnBrand Partners and Fingertapps and a Director of Magritek and Rangatira.

Sihang Yang

BRIGHT DAIRY APPOINTED DIRECTOR

Yang was appointed a director of Synlait Milk in August 2010. Before working for Bright Dairy, Yang worked for Heilongjiang Dairy Group as the director of technology and subsequently as the director of quality assurance.

Following those roles, Yang was appointed the secretary-general of Heilongjiang Dairy Industry Association and a director of China Dairy Industry Association.

Yang is currently the director of strategy and research at Bright Dairy & Food Co., Ltd. He is currently a director (and in the past five years has been a director) of a number of Bright Dairy subsidiaries. He is also a director of SML New Zealand Limited, Synlait Milk Finance Limited and Zhejiang Hai Hua Dairy Co., Ltd.

Yang holds a master's degree in food science and engineering and has worked for more than 15 years in the dairy industry.

SENIOR MANAGEMENT TEAM

Michael Stein

GENERAL MANAGER QUALITY

Michael Stein joined Synlait Milk in June 2013 and is responsible for providing strategic leadership for quality across the Synlait Milk business. Michael leads a team of quality assurance and other professionals with the objective of ensuring that Synlait Milk continuously improves its quality systems to deliver safe, high quality dairy ingredients and nutritional products that meet our customer's expectations and regulatory requirements in the markets we serve.

Michael brings to Synlait Milk over 20 years of global quality management experience in the infant formula, nutritional products and medical foods business. His most recent role was Director of Quality for Mead Johnson Nutrition, Asia-Pacific where he led quality and technical teams at business units and manufacturing sites across China, South East Asia, Oceania and the Middle East.

During his career, Michael also held quality, food safety and laboratory leadership roles with Nestle Nutrition, Nestle USA and Nutricia, Inc. Michael earned his Bachelor of Science degree in Microbiology from the Ohio State University.

Mike Lee

GENERAL MANAGER / INGREDIENT SALES

Mike joined Synlait Milk in September 2011 and leads the Ingredients business for sales, business development and overall category profitability. Mike worked for Fonterra and the NZ Dairy Board for 14 years in sales, marketing and business development roles in the international ingredient business, including working for 10 years in Europe, Asia and Australia. Mike has worked extensively with both commodity and added value ingredients.

Mike worked for seven years in two research and innovation organisations involved in environmental research and biomaterials, leading the business and technology commercialisation functions including various start-up and growth businesses. Mike has a degree in Food Technology and a Diploma in Business and is really enjoying his return to the international dairy industry.

Matthew Foster

GENERAL MANAGER SUPPLY CHAIN

Matthew joined Synlait Milk in February 2012 and is responsible for managing and developing Synlait Milk's supply chain activities from farmer to customer. He brings a wealth of supply chain management and dairy industry experience to Synlait Milk after a 20 year career with the New Zealand Dairy Board and Fonterra where he held senior management positions in the United Kingdom, Australia, Japan, the Americas and New Zealand.

Before joining Synlait Milk, Matthew was CEO at NZL Group and prior to that General Manager Commercial for Tasman Orient Line. Matthew is a member of the New Zealand Institute of Chartered Accountants and holds a Bachelor of Management Studies from the University of Waikato.

Tony McKenna

GENERAL MANAGER NUTRITIONALS

Tony joined Synlait Milk in August 2009 with the objective of developing Synlait Milk's nutritional powder and special milks business portfolio with a particular focus on infant formula. Tony has significant experience in R&D management, product development, new business development, dairy ingredient sales and general management.

Prior to joining Synlait Milk, Tony held positions including CEO of LactoPharma, Technical Manager of Fonterra's Bioactives and Health global portfolio, Senior Researcher and R&D Portfolio Manager for the New Zealand Dairy Research Institute and GM Technical and Nutritionals at Tatura Milk (Australia). While at Tatura, Tony developed and implemented its infant formula growth strategy into Australasia and Asia. Tony was formerly a director of Dairy Innovation Australia, Dairy Technical Services and the Australian Co-Operative Research Centre for Innovative Dairy Products. Tony holds a PhD in Food Technology and a Diploma in Management.

FROM LEFT TO RIGHT;
MICHAEL STEIN
MIKE LEE
MATTHEW FOSTER
TONY MCKENNA
JOHN PENNO
NIGEL GREENWOOD
NATALIE LOMBE
MICHAEL WAN
NEIL BETTERIDGE

John Penno

CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

John co-founded the Synlait Group in 2000 and has been a full-time executive for the Synlait Group for the last 11 years. With the appointment of Graeme Milne as an independent chairman of Synlait Limited in 2006, John stood down from his initial role as executive chair to focus on the Managing Director role.

After completing an Agricultural Science degree, John commenced his career in the dairy industry as a consulting officer for the New Zealand Dairy Board before joining Dexcel as a research scientist where he completed a PhD in animal science. As a scientist and research program leader he worked to enable New Zealand dairy farmers to increase productivity and profit. In 2000, John was appointed General Manager of the NZ National Dairy Industry Extension Program which serviced farm owners, workers and rural professionals. John was appointed as Managing Director of Synlait Milk on 21 June 2013.

John is also currently a director of SML New Zealand Limited, Synlait Milk Finance Limited, Synlait Farms Limited (which is a supplier of raw milk to Synlait Milk), Synlait Farms Finance Limited, Robindale Dairies Limited, Thorndale Dairies Limited and Riverlands Four Limited.

In the past five years John has also been a director of Dairy Insight, Axe Brasil Limited, Synlait Limited and a number of companies associated with the Synlait Group and / or dairy farms.

John was the inaugural Chairman of the Dairying and Environment Leadership Group. John is a member of the New Zealand China Council Advisory Board. In 2009, John received an emerging leaders award from the Sir Peter Blake Trust and was also awarded the Federated Farmers inaugural agribusiness person of the year.

Nigel Greenwood

CHIEF FINANCIAL OFFICER

Nigel has had extensive experience in finance, having held senior executive finance roles with various New Zealand companies. As CFO, Nigel is responsible for finance, funding, legal, information technology and strategy.

Prior to joining Synlait Milk in April 2010, Nigel held CFO roles with Crane Distribution NZ Limited, Gough Group Limited and Lyttelton Port Company Limited.

Nigel is a member of the New Zealand Institute of Chartered Accountants and the Institute of Directors. Nigel has a Bachelor of Commerce (majoring in accounting) and has completed the General Manager Programme at the University of Michigan.

Natalie Lombe

GENERAL MANAGER HUMAN RESOURCES

Natalie joined Synlait Milk in January 2011 and is responsible for leading initiatives to develop fully enabled and engaged staff as well as facilitation of strategic planning process. Natalie also oversees the human resource, payroll and health and safety functions.

Prior to joining Synlait Milk, Natalie held senior human resource positions with Christchurch International Airport, Goodman Fielder, Mainland Products and Allied Telesys, together with extensive human resource and change management experience working in a number of fast moving consumer goods industries in Australia.

Natalie holds a Post Graduate Diploma in Dispute Resolution and a Bachelor of Business majoring in human resources and industrial relations and is a member of the Human Resources Institute of New Zealand.

Michael Wan

MARKETING & COMMUNICATIONS MANAGER

Michael joined Synlait Milk in August 2011 and brings significant strategic and operational experience having spent the previous 10 years in marketing and management roles across a broad range of industries operating in both the public and private sectors. Michael is responsible for providing strategic leadership for all areas of Synlait Milk's marketing and communications, including brand development and management, advertising, media and PR, marketing collateral, events, sponsorship and corporate citizenship.

Michael holds a First Class Honours degree in Management, a Bachelor of Commerce and Administration majoring in marketing and management and a Bachelor of Arts majoring in Economics. He is also a member of the Marketing Association of New Zealand and a Professional Member of the Chartered Institute of Marketing UK.

Neil Betteridge

GENERAL MANAGER MANUFACTURING

Neil joined Synlait Milk in 2007 after 10 years with Fonterra. Neil currently leads a manufacturing team of more than 80 people and is responsible for the execution of sound manufacturing processes across the entire Synlait Milk plant. He also leads the development of our Infant Formula and Nutritional product manufacturing capabilities. Neil has been involved with the design and construction of the various phases of the Synlait Milk site.

Since completing a Bachelor of Chemical & Process Engineering with honours from the University of Canterbury and a Post Graduate Diploma in Dairy Science & Technology, Neil's career has included working with manufacturing processes for a variety of dairy products.

Neil is a member of the New Zealand Institute of Food Science and Technology and a Chartered Professional Engineer.

OUR FINANCIAL REVIEW

Our revenue for FY13 at $420 million was up 11.5% on last year's $377 million which was primarily due to the higher volume of products shipped. Total volume shipped for FY13 being 86,746 MT against last year's 77,415 MT. However, revenue was slightly down on our prospectus forecast of $426 million due to slightly lower infant and nutritional product sales than anticipated.

The reduction in infant and nutritional sales at 5,661 MT against 6,888 MT forecast was primarily due to the impact of impending changes in Chinese Government regulations associated with infant products. This caused many of our Chinese based customers to put orders on hold while they came to terms with the impact of the impending changes in the regulatory environment in China. This is anticipated to only have a short term impact on of our sales of infant nutritional products into this market.

It is noted that almost all our products are exported and are transacted in US dollars. As a result our financial performance can be significantly affected by the difference between our annual average NZ dollar exchange rate against the US dollar, when compared with the annual average NZ dollar exchange rate applied in the calculation of the farm gate milk price. For the year ended 31 July 2013 our annual average NZ dollar: US dollar exchange rate was 0.8043 and this was applied against $290 million of net US dollar receipts.

Overall our gross profit at $65.1 million was up 42% on last years $46 million due to the higher product margins we achieved on both our ingredient and infant and nutritional product categories. This was in line with our prospectus forecast margin at $64.6 million.

In the determination of our gross profit the largest impact is the cost of milk purchased, which represents 78% of our total cost of sales against all products manufactured. Our final average base milk price for the season was $5.81 per kg MS, which compares with last season's average base milk price of $6.14 per kg MS. In addition, we paid $0.08 per kg MS in seasonal and value-added premiums to increase the average total milk price to $5.89 per kg MS compared with last years $6.22 per kg MS.

EBITDA at $38.5 million was up 74% on last years $22.1 million and in line with our prospectus forecast of $37.5 million. The significant uplift on last year's EBITDA being driven by the gross increase in profit and well controlled overhead costs.

Net finance costs at $12.3 million were up on last years $9.2 million and in line with our prospectus forecast of $12.4 million. The increase over last year being mainly caused by the result of bearing the interest expense impact associated with the build of our second dryer for a full year. In addition, we experienced $714k of ineffective interest rate swaps, which resulted from debt repaid on receipt of the net Initial Public Offering proceeds.

Our NPAT at $11.5m was 161% above FY12 at $4.4 million and slightly ahead of our prospectus forecast at $10.8 million. The improvement over our forecast NPAT was due to a combination of the after tax net benefit of the insurance proceeds we received related to earthquake damage on our plant of $700k, plus slightly higher margins on our product sales.

This result delivered a basic and diluted earnings per share (EPS) of 19.74 cents, on a weighted average basis, against 8.59 cents in FY12. It also generated a pre-tax return on average capital employed (ROCE) of 13.1% compared with 7.3% in FY12. It is noted that the FY13 ROCE was calculated after adjusting down our year end net debt by $34.6m related to one off items that are discussed further below.

CAPITAL RAISE AND DEBT REFINANCING

In support of the Company's growth strategy we embarked on a capital raising process in combination with a refinancing of our bank facilities in the last quarter of FY13. This resulted in the Company raising $68.9m of new capital after share issue costs. In addition, we also negotiated new Bank facilities with our existing Bank syndicate to assist with the funding of our growth initiative programme over the next three years.

The impact of our capital raise enabled us to pay down existing debt facilities and finish the year with a gearing ratio of 39.2% compared with FY12's ratio of 55.4%. This provides a strong balance sheet position to embark on our growth initiative programme where we have forecast to invest $186 million in 6 core projects over the next three years. The largest of these projects is the build of our third dryer at an estimated cost of $103.5 million with the build due to start in the last quarter of FY14 and be commissioned at the start of the FY16.

The new finance facilities package includes a $75 million revolver term loan to be used for all the growth initiative projects except the build of the dryer 3, which will be financed by a $110 million term loan. In addition, we have a seasonal working capital facility of $85 million. The revolver term loan expires at the end of FY16; the dryer 3 term loan expires at the end of FY17, while the working capital facility is renewed on an annual basis. We have negotiated very competitive fees and margins and have commercial banking covenants in place. We were in compliance with all of our banking covenants at the end of July 2013.

CASH FLOW

We had a net cash outflow for operating activities for the year of $13.8 million (FY12 net cash inflow of $29.8 million). The primary causes of the net cash outflow were due to a number of one off items, the primary cause being the increase in our advance rates paid to our farm milk suppliers above the level that we would normally have paid. The increase was made due to competitive pressure associated with the severe drought conditions experienced throughout New Zealand over the summer months and increased our cash outflows by $20.5 million in the period to 31 July 2013. There were also impacts on our trade finance facility related to higher commodity prices and product shipments in the last quarter of FY13 of approximately $14.1 million. The total of these one off items at $38.8 million are all expected to unwind during FY14.

Our net debt position as at the end of FY13 at $105.6 million was slightly lower than our prospectus forecast net debt of $107.1 million, which was dominated by final payment for Dryer 2. These amounts being prior to the adjustment for $34.6 million of one off items, noted above, which caused our year end net debt to be higher than would normally be expected.

CAPITAL EXPENDITURE

We had a reasonably light year for investment in capital items with a total spend of only $6.6 million, compared to $36.0 million in FY12. There has been some initial expenditure ($1.4 million) associated with the build of our lactoferrin plant which is on schedule to be completed by January 2014. The majority of the balance of capital expenditure was related to the purchase of on farm vats as well as enhancements to our plant.

OUR VALUE IN DOLLARS AND CENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2013

DIRECTORS' DECLARATION

AS AT 31 JULY 2013

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiaries set out on pages 49 to 88 for the year ended 31 July 2013.

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of Synlait Milk Limited and its subsidiary (together 'the Group') as at 31 July 2013 and the financial performance and cash flows for the year ended on that date.

The Directors consider that the 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 Reporting Act 1993.

For and on behalf of the Board.

Graeme Milne
CHAIRMAN
23 September 2013

John Penno
MANAGING DIRECTOR
23 September 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2013

		Group		Parent	
		Year ended		Year ended	
		2013	2012	2013	2012
	Notes	$'000	$'000	$'000	$'000
Revenue	7	420,010	376,771	420,010	376,771
Cost of sales	8	(354,862)	(330,817)	(354,862)	(330,817)
Gross profit		65,148	45,954	65,148	45,954
Other income	7	1,587	501	1,587	501
Sales and distribution expenses	8	(23,478)	(21,337)	(23,478)	(21,337)
Administrative and operating expenses	8	(14,978)	(11,717)	(14,978)	(11,717)
Earnings before net finance expense and income tax		28,279	13,401	28,279	13,401
Finance expenses	9	(13,525)	(10.626)	(13,525)	(10,626)
Finance income	9	1,272	1,461	1,272	1,461
Net finance costs	9	(12,253)	(9,165)	(12,253)	(9,165)
Profit before income tax		16,026	4,236	16,026	4,236
Income tax (expense) / benefit	10	(4,498)	148	(4,498)	148
Net Profit after tax for the period		11,528	4,384	11,528	4,384
Other comprehensive income					
Items that will not be reclassified subsequently to profit and loss					
Revaluation of property, plant and equipment	14	-	11,056	-	11,056
Income tax on income and expenses recognised directly in equity		-	(3,048)	-	(3,048)
Total items that will not be reclassified subsequently to profit and loss		-	8,008	-	8,008
Items that may be reclassified subsequently to profit and loss					
Effective portion of changes in fair value of cash flow hedges		(3,387)	(1,408)	(1,633)	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss		(337)	169	(1,386)	169
Income tax on other comprehensive income	10	1,043	347	845	347
Total items that may be reclassified subsequently to profit and loss		(2,681)	(892)	(2,174)	(892)
Other comprehensive income for the year, net of tax		(2,681)	7,116	(2,174)	7,116
Total comprehensive income for the year		8,847	11,500	9,354	11,500
Earnings per Share					
Basic and diluted earnings per share (cents)	20	19.74	8.59	19.74	8.59

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2013

Group	Notes	Share Capital $'000	Hedging reserves $'000	Revaluation reserve $'000	Retained earnings $'000	Total equity $'000
Equity as at 1 August 2011		103,648	1,740	-	(30,570)	74,818
Change in accounting policy	4	-	-	-	(27)	(27)
Restated Equity at the start of the period		103,648	1,740	-	(30,597)	74,791
Profit or loss for the year		-	-	-	4,384	4,384
Other comprehensive income						
Revaluation of property, plant and equipment		-	-	11,056	-	11,056
Income tax on income and expenses recognised directly in equity		-	-	(3,048)	-	(3,048)
Effective portion of changes in fair value of cash flow hedges		-	(1,408)	-	-	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss		-	169	-	-	169
Income tax on other comprehensive income		-	347	-	-	347
Total other comprehensive income		-	(892)	8,008	-	7,116
Issue of new shares	20	-	-	-	-	-
Share issue costs	20	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-
Equity as at 31 July 2012		103,648	848	8,008	(26,213)	86,291

Group	Notes	Share Capital $'000	Hedging reserves $'000	Revaluation reserve $'000	Retained earnings $'000	Total equity $'000
Equity as at 1 August 2012		103,648	848	8,008	(26,213)	86,291
Profit or loss for the year		-	-	-	11,528	11,528
Other comprehensive income						
Revaluation of property, plant and equipmen		-	-	-	-	-
Income tax on income and expenses recog-nised directly in equity		-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges		-	(3,387)	-	-	(3,387)
Net change in fair value of cash flow hedges transferred to profit and loss		-	(337)	-	-	(337)
Income tax on other comprehensive income		-	1,043	-	-	1,043
Total other comprehensive income		-	(2,681)	-	-	(2,681)
Issue of new shares	20	75,000	-	-	-	75,000
Share issue costs	20	(6,100)	-	-	-	(6,100)
Total contributions by and distributions to owners		68,900	-	-	-	68,900
Equity as at 31 July 2013		172,548	(1,833)	8,008	(14,685)	164,038

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2013

Parent		Share Capital	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2011		103,648	1,740	-	(30,570)	74,818
Change in accounting policy	4	-	-	-	(27)	(27)
Restated Equity at the start of the period		103,648	1,740	-	(30,597)	74,791
Profit or loss for the year		-	-	-	4,384	4,384
Other comprehensive income						
Revaluation of property, plant and equipment		-	-	11,056	-	11,056
Income tax on income and expenses recognised directly in equity		-	-	(3,048)	-	(3,048)
Effective portion of changes in fair value of cash flow hedges		-	(1,408)	-	-	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss		-	169	-	-	169
Income tax on other comprehensive income		-	347	-	-	347
Total other comprehensive income		-	(892)	8,008	-	7,116
Issue of new shares	20	-	-	-	-	-
Share issue costs	20	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-
Equity as at 31 July 2012		103,648	848	8,008	(26,213)	86,291

Parent		Share Capital	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2012		103,648	848	8,008	(26,213)	86,291
Profit or loss for the year		-	-	-	11,528	11,528
Other comprehensive income						
Revaluation of property, plant and equipmen		-	-	-	-	-
Income tax on income and expenses recognised directly in equity		-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges		-	(1,633)	-	-	(1,633)
Net change in fair value of cash flow hedges transferred to profit and loss		-	(1,386)	-	-	(1,386)
Income tax on other comprehensive income		-	845	-	-	845
Total other comprehensive income		-	(2,174)	-	-	(2,174)
Issue of new shares	20	75,000	-	-	-	75,000
Share issue costs	20	(6,100)	-	-	-	(6,100)
Total contributions by and distributions to owners		68,900	-	-	-	68,900
Equity as at 31 July 2013		172,548	(1,326)	8,008	(14,685)	164,545

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2013

		Group		Parent	
		2013	2012	2013	2012
	Notes	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	11	2,365	666	31,487	666
Trade and other receivables	12	59,134	20,884	59,134	20,884
Goods and services tax refundable		2,917	3,492	2,917	3,492
Income accruals and prepayments		570	159	570	159
Inventories	13	65,025	30,747	65,025	30,747
Current tax receivables		-	231	-	231
Derivative financial instruments	24	1,138	4,109	1,138	4,109
Total current assets		131,149	60,288	160,271	60,288
Non-current assets					
Property, plant and equipment	14	210,780	214,099	210,780	214,099
Intangible assets	15	4,052	2,871	4,052	2,871
Investments in subsidiary	28	-	-	1	-
Derivative financial instruments	24	86	-	-	-
Total non-current assets		214,918	216,970	214,833	216,970
Total assets		346,067	277,258	375,104	277,258
Current liabilities					
Working capital facility	18	33,079	2,344	-	2,344
Trade and other payables	16	57,535	70,620	57,421	70,620
Trade finance facility	18	46,924	13,617	46,924	13,617
Advances from subsidiary	17	-	-	63,926	-
Loans and borrowings	18	-	21,000	-	21,000
Derivative financial instruments	24	4,379	2,582	2,980	2,582
Total current liabilities		141,917	110,163	171,251	110,163
Non-current liabilities					
Loans and borrowings	18	27,917	70,768	-	70,768
Deferred tax liabilities	19	11,755	8,302	11,953	8,302
Derivative financial instruments	24	440	1,734	-	1,734
Advances from subsidiary	17	-	-	27,355	-
Total non-current liabilities		40,112	80,804	39,308	80,804
Total liabilities		182,029	190,967	210,559	190,967
Equity					
Share capital	20	172,548	103,648	172,548	103,648
Reserves	21	6,175	8,856	6,682	8,856
Retained earnings/(deficit)		(14,685)	(26,213)	(14,685)	(26,213)
Total equity attributable to equity holders of the Company		164,038	86,291	164,545	86,291
Total equity and liabilities		346,067	277,258	375,104	277,258

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2013

		Group		Parent	
		Year ended		Year ended	
		2013	2012	2013	2012
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Cash receipts from customers		415,907	399,048	414,859	399,048
Cash paid for milk purchased		(289,268)	(262,264)	(289,268)	(262,264)
Cash paid to other creditors and employees		(141,231)	(107,977)	(141,345)	(107,977)
Goods and services tax refunds		575	1,003	575	1,003
Income tax refunds		229	10	229	10
Net cash inflow / (outflow) from operating activities	22	(13,788)	29,820	(14,950)	29,820
Cash flows from investing activities					
Interest received		1,272	53	1,272	53
Acquisition of property, plant and equipment		(6,437)	(29,499)	(7,989)	(29,499)
Acquisition of intangible assets		(1,607)	(3,260)	(55)	(3,260)
Net cash inflow / (outflow) from investing activities		(6,772)	(32,706)	(6,772)	(32,706)
Cash flows from financing activities					
Proceeds from issue of shares (net)		68,900	-	68,900	-
Repayments of borrowings		(33,786)	(8,656)	(94,782)	(8,656)
Receipt of borrowings		670	27,947	670	27,947
Interest paid		(13,525)	(8,063)	(13,525)	(8,063)
Movement in advances from subsidiary		-	-	91,280	-
Net cash inflow / (outflow) from financing activities		22,259	11,228	52,543	11,228
Net increase (decrease) in cash and cash equivalents		1,699	8,342	30,821	8,342
Cash and cash equivalents at beginning of the financial year		666	(7,676)	666	(7,676)
Cash and cash equivalents at end of year	11	2,365	666	31,487	666

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

1 REPORTING ENTITY

Synlait Milk Limited (the 'Company') and its subsidiary (together 'the Group') is domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Company is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Synlait Milk Limited is primarily involved in the manufacture and sale of milk powder and milk powder related products.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards.

The Company and Group have previously applied NZ IFRS with differential reporting exemptions but in the 2013 financial year, since becoming an issuer, the Company and Group now apply full NZ IFRS. The only differential reporting exemptions applied in the past related to disclosure requirements.

These consolidated financial statements have been approved for issue by the Board of Directors on 23 September 2013.

Basis of Measurement

These financial statements have been prepared on the historical cost basis except for the following:

- Revaluation of available-for-sale financial assets
- Financial assets and liabilities (including derivative instruments) at fair value
- Land, buildings, plant and equipment

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

In June 2013 a subsidiary, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funding is loaned to Synlait Milk Limited and appropriate interest is charged.

(b) Segment reporting

The Company and Group operate in one industry, being the manufacture and sale of milk powder and milk powder related products. The Board makes resource allocation decisions based on expected cash flows and results of the Company's operations as a whole and the Group therefore has one segment.

Although the Group exports to many different countries, for management reporting purposes the Company and Group operate in one principal geographical area being New Zealand.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company and 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 Company's functional currency and are rounded to the nearest thousand ($000).

(ii) Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

(b) Revenue recognition

(i) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, discounts and allowances. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the associated costs and possible return of goods can be estimated reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Interest income

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Company and Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(c) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company or Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

(d) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense when it is incurred.

(e) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the revaluation of land to the extent that any revaluation is unlikely to affect the tax base of the asset. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation group

Synlait Milk Limited and its wholly-owned New Zealand controlled entities form a tax consolidation group.

(f) Goods and Services Tax (GST)

The profit and loss component of the statements of comprehensive income have been prepared so that all components are stated exclusive of GST. All items in the financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(g) Leases

Leases on terms where the Company or Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments with a corresponding liability to the lessor included in the statement of financial position as a finance lease obligation. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction in the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised on the Company or Group's statement of financial position. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern over which economic benefits from leased assets are consumed.

(h) Impairment of non-financial assets

The carrying amounts of the Company and Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

- Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits that are repayable on demand and form an integral part of the Company and Group's cash management.

- Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

The recoverable amount of the Company and Group's receivables which are carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experienced in portfolios with a similar amount of days overdue.

(k) Inventories

(i) Raw materials and stores, work in progress and finished goods

Inventories are measured at the lower of cost and net realisable value on a first in, first out basis. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

- Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent financial statements are stated at cost less impairment.

(m) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (notes 3(i) and (j)).

(iii) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

A financial instrument is recognised if the Company or Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the contractual rights to the cash flows from the financial assets expire or if the Company or Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company or

Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company or Group's obligations specified in the contract expire or are discharged or cancelled.

Impairment of financial assets

(i) Assets carried at amortised cost
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(ii) Assets classified as available for sale
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the statements of comprehensive income on equity instruments are not reversed through the statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statements of comprehensive income.

(n) Derivatives
The Company and Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward exchange contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date, The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Company or Group.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Hedge accounting
The Company and Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company or Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company or Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in Finance costs.

Amounts recognised in the hedging reserve are classified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Company or Group revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies as hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is immediately recorded in profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Company and Group use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

(p) Property, plant and equipment

Recognition and measurement

Property, plant and equipment are initially measured at cost less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When a self-constructed asset meets the definition of a qualifying asset under NZ IAS 23 'Borrowing Costs', borrowing costs directly attributable to the construction of the asset are capitalised until such a time as the asset is substantially ready for its intended use or sale.

When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Revaluations

Land is stated at market valuation as determined on a cyclical basis, not exceeding three years, by an independent registered valuer. Buildings and plant and equipment are stated at valuation as determined on a cyclical basis, not exceeding three years, by an independent registered valuer the basis of which valuation is the depreciated replacement cost method. Any increase in the value of land, buildings, plant and equipment is recognised in other comprehensive income and presented in the revaluation reserve in equity unless it offsets a previous decrease in value recognised in the profit or loss, in which case it is recognised in the profit or loss. A decrease in value is recognised in the profit or loss where it exceeds the increase previously recognised in equity.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company or the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation of property, plant and equipment purchased on new acquisitions is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings	10 - 50 years
- Plant and equipment	3 - 33 years
- Fixtures and fittings	2 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(q) Intangible assets

(i) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have an indefinite useful life and are carried at cost and are not amortised subject to annual impairment test.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of three to ten years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company and Group are recognised as intangible assets.

(iii) Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. Customer contracts have a finite life and are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from one to three years.

(r) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

(s) Interest bearing liabilities

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

(t) Employee benefits

(i) Defined contribution plan

Obligations for contributions to defined contribution pension plans, including KiwiSaver, are recognised as an expense in the profit or loss when they are due.

(ii) Profit-sharing and bonus plans

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(u) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the number of shares outstanding to include the effects of all potential dilutive shares.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Standards, amendments, and interpretations effective in 2012

- IAS 1 (Amendment), ' Financial statement preparation – presentation of other comprehensive income' (effective 1 January 2012). The amendment requires profit or loss and other comprehensive income (OCI) to be presented, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not affect the measurement of net profit or earnings per share; however, they change the way items of OCI are presented.

(y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 August 2013 or later periods but which the Group has not early adopted:

- NZ IFRS 9 'Financial Instruments: Classification and measurement' (effective 1 January 2015). NZ IFRS 9 amends the requirements related to the classification and measurement of financial assets and financial liabilities. This standard becomes effective in the Group's 2016 financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.
- IFRS 10 'Consolidated Financial Statements', NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities, revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013).
- NZ IFRS 10 develops a single consolidation model applicable to all investees. The standard provides that an investor consolidates an investee when it has power, exposure to variability in returns, and a linkage between the two. This standard becomes effective in the Group's 2014 financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.
- IFRS 11 Joint Arrangements. This standard separates the arrangement into either a joint operation or joint venture. If the arrangement is a joint operation then the joint operation is consolidated in relation to its interest in the joint operation. If the arrangement is a joint venture then the joint venturer recognises an investment and accounts for that investment using the equity method. This standard becomes effective in the Group's 2014 financial statements. The Group does not plan to adopt this standard early and there will be no impact on the financial statements from the change in standard.
- IFRS 12 Disclosure of Interests in Other Entities. This standard replaces existing requirements for disclosure of subsidiaries and joint ventures (now joint arrangements), and makes limited amendments in relation to associates. The standard becomes effective in the Group's 2014 financial statements. The Group does not plan to adopt this standard early and there will be no impact on the recognition or measurement of the financial statements from the change in standard.
- NZ IFRS 13 Fair Value Measurement (effective 1 January 2013). NZ IFRS 13 provides a framework for determining fair value and clarifies the factors to be considered in estimating fair value in accordance with IFRS. It provides guidance on certain valuation approaches and techniques. The standard becomes effective in the Group's 2014 financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.
- There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(z) Comparative balances

Comparative balances have been reclassified and restated to conform with changes in presentation and classification adopted in the current period. (Note 4)

4 CHANGE IN ACCOUNTING POLICIES

Adoption of Monthly Milk Price

During the year ended 31 July 2013, the Company changed it's accounting policy for calculating the value of inventory from the Annual Milk Price to the Monthly Milk Price. The cost of dairy product manufactured from milk is established by using the Monthly Milk Price calculated for the month when the dairy product was manufactured. The Monthly Milk Price is determined using a milk pricing model and is benchmarked against the Farmgate Milk Price announcements during the year and against the farmgate milk price statement when this is released annually.

The change in milk price methodology is a change in measurement basis from an average cost inventory approach to a First In First Out basis. This has been done to align with industry best practice and because it enhances comparability. The Directors have determined that this change in measurement basis constitutes a change in accounting policy and therefore the comparative periods have been restated.

The comparative figures for the period ended 31 July 2012 have been restated using the Monthly Milk Price methodology. The restatement has reduced reported NPAT by $1.9 million, resulting in an adjusted NPAT of $4.4 million both for the Group and the Company.

The impact of the restatement of the monthly milk price adjustment on the opening Financial Position at 1 August 2011 was a lower retained earnings of $27k, $38k reduction in inventory and $11k of deferred tax.

Statement of Comprehensive Income For the year ending 31 July 2013	2012 Original	2012 Restated	Variance
	$'000	$'000	$'000
Revenue	376,771	376,771	-
Cost of sales	(328,143)	(330,817)	2,674
Gross Profit	48,628	45,954	2,674
Other income	501	501	-
Other expenses	(42,219)	(42,219)	-
Profit before tax	6,910	4,236	2,674
Income tax	(600)	148	(748)
Profit after tax	6,310	4,384	1,926
Statement of Financial Position For the year ending 31 July 2013			
Inventories	33,841	30,747	3,094
Other current assets	29,541	29,541	-
Non-current assets	216,970	216,970	-
Total assets	280,352	277,258	3,094
Trade and other payables	(71,002)	(70,620)	(382)
Other current liabilities	(39,543)	(39,543)	-
Deferred tax	(9,061)	(8,302)	(759)
Other non-current liabilities	(72,502)	(72,502)	-
Total liabilities	(192,108)	(190,967)	(1,141)
Current profit	(6,310)	(4,384)	(1,926)
Retained earnings	30,570	30,597	(27)
Other Equity	(112,504)	(112,504)	-
Total equity	(88,244)	(86,291)	(1,953)

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The preparation of the consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty relate to assessment of impairment of inventory, standard costs used for measuring inventory and the industry milk price.

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to net realisable value which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Reviewing the net realisable values is carried out by management on a periodic basis and any reduction to cost is provided by way of stock provision.

The use of a standard cost methodology for inventory requires management estimation in determining the Monthly Milk Price to be applied which forms a key component of the product standard cost.

The estimate of the industry milk price is a key assumption applied by management in the financial statements. This industry price is used for milk purchased or received from other processors during the year.

6. SEGMENT INFORMATION

(a) Description of segments

The Company and Group operate in one industry, being the manufacture and sale of milk powder and milk powder related products. The Board makes resource allocation decisions based on expected cash flows and results of the Company's operations as a whole and the Group therefore has one segment.

Although the Group exports to many different countries, for management reporting purposes the Company and Group operate in one principal geographical area being New Zealand.

Revenues of approximately 56% are derived from the top three external customers.

7 REVENUE

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Milk powder and milk powder related products	420,010	376,771	420,010	376,771
Total Revenue	420,010	376,771	420,010	376,771
Insurance proceeds	1,304	-	1,304	-
Other sundry income	245	388	245	388
Management fees	38	113	38	113
Total other income	1,587	501	1,587	501

The insurance proceeds relate to minor damage caused by the earthquake in September 2010. Repair costs to date associated with this damage total $596,211 and are included in Repairs and Maintenance within Cost of Sales. Remaining repairs are to be completed during the 2014 financial year.

8 EXPENSES

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
The following items of expenditure are included in cost of sales				
Depreciation and Amortisation	8,966	7,697	8,966	7,697
Employee benefit expense	6,589	4,745	6,589	4,745
Repairs and maintenance	3,109	2,151	3,109	2,151
The following items of expenditure are included in sales and distribution expenses				
Depreciation	1,216	970	1,216	970
Donations	54	10	54	10
Research and development	312	1,076	312	1,076
Rent expense	1,355	1,098	1,355	1,098
Repairs and maintenance	364	85	364	85

The following items of expenditure are included in administrative and operating expenses				
Employee benefit expense	7,010	5,913	7,010	5,913
Defined benefit contributions - KiwiSaver	138	76	138	76
Directors fees	346	327	346	375
Deloitte services included in administrative operating expenses and share capital				
Audit	105	125	105	125
IPO	473	-	473	-
Taxation advice	121	29	121	29
Financial modelling assurance	215	535	215	535
Other	40	213	40	213
Total	954	902	954	902

Research and development expenses have decreased substantially from last year. In 2012 these costs contained a portion of the overhead costs that related to product testing of the special milks dryer. In 2013 the overhead costs were fully allocated to products.

9 FINANCE INCOME AND EXPENSES

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Interest income on bank deposits	103	53	103	53
Settlement of ineffective portion of cash flow hedges	1,169	1,408	1,169	1,408
Total finance income	1,272	1,461	1,272	1,461
Interest and facility fees (net of capitalised interest)	(12,811)	(10,626)	(12,811)	(10,626)
Ineffective portion of cash flow hedges	(714)	-	(714)	-
Total finance costs	(13,525)	(10,626)	(13,525)	(10,626)
Net finance costs	(12,253)	(9,165)	(12,253)	(9,165)

10 INCOME TAX

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
(a) Income tax expense				
Current tax on profits for the year	-	-	-	-
Adjustments in respect of prior years	-	14	-	14
Total current tax	-	14	-	14
Temporary differences	(4,498)	(1,423)	(4,498)	(1,423)
Additional prior year tax losses brought forward	-	1,704	-	1,704
Other prior year adjustments	-	(147)	-	(147)
Total deferred tax (note 18)	(4,498)	134	(4,498)	134
Income tax (expense) / benefit	(4,498)	148	(4,498)	148

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
(b) Reconciliation of effective tax rate				
Profit before income tax	16,026	4,236	16,026	4,236
Income tax using the Company's domestic tax rate - 28%	(4,487)	(1,187)	(4,487)	(1,187)
Reduction in tax rate of buildings	-	(41)	-	(41)
Tax exempt income	-	(3)	-	(3)
Other non deductible costs	(11)	(203)	(11)	(203)
Total permanent differences	(4,498)	(1,434)	(4,498)	(1,434)
Additional prior year tax losses brought forward	-	1,704	-	1,704
Other prior year adjustments	-	(122)	-	(122)
Total prior period adjustments	-	1,582	-	1,582
Total income tax (expense) / benefit	(4,498)	148	(4,498)	148

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
(c) Imputation credits				
Imputation credits at the end of the period	-	231	-	231

(d) Income tax recognised in other comprehensive income

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Before tax	Tax (expense)/ benefit	After tax
	$'000	$'000	$'000
Group			
31 July 2013			
Revaluation of property, plant and equipment	-	-	-
Cash flow hedges	(3,724)	1,043	(2,681)
Other comprehensive income	(3,724)	1,043	(2,681)
31 July 2012			
Revaluation of property, plant and equipment	11,056	(3,048)	8,008
Cash flow hedges	(1,239)	347	(892)
Other comprehensive income	9,817	(2,701)	7,116
Parent			
31 July 2013			
Revaluation of property, plant and equipment	-	-	-
Cash flow hedges	(3,019)	845	(2,174)
Other comprehensive income	(3,019)	845	(2,174)

31 July 2012			
Revaluation of property, plant and equipment	11,056	(3,048)	8,008
Cash flow hedges	(1,239)	347	(892)
Other comprehensive income	9,817	(2,701)	7,116

11 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Cash and cash equivalents	2,365	666	31,487	666

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 23(a). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(b) Fair value

The carrying amount for cash and cash equivalents equals their fair value.

12 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Trade receivables	59,090	20,580	59,090	20,580
Other receivables	44	304	44	304
Total receivables	59,134	20,884	59,134	20,884

The increase in trade receivables from 2012 is primarily due to a larger number of sales transactions taking place in July 2013 combined with increased commodity prices compared to 2012.

(a) Impaired receivables

As of 31 July 2013, trade receivables of $3.5m were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The majority has since been collected but $0.8m remains unpaid which is expected to be collected in the 2014 financial year.

The ageing analysis of these overdue trade receivables is as follows:

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
0 to 30 days	391	828	391	828
30 to 60 days	3,093	-	3,093	-
Total trade receivables	3,484	828	3,484	828

The other classes within trade and other receivables do not contain impaired assets.

(b) Bad and doubtful trade receivables

The Company and Group have recognised no loss (2012: $nil) in respect of bad and doubtful trade receivables during the year ended 31 July 2013.

(c) Trade and other receivables

Accounts receivable are amounts incurred in the normal course of business.

Receivables denominated in other currencies other than the functional currency comprise NZ$47.3 m (2012: $19.3 m) of USD and Euro denominated trade receivables and accruals.

13 CURRENT ASSETS - INVENTORIES

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Raw materials and consumables at cost	16,047	8,587	16,047	8,587
Finished goods at cost	48,978	22,160	48,978	22,160
Total inventories	65,025	30,747	65,025	30,747

Both raw materials inventory and finished goods inventory increased from last year as higher infant formula product and raw materials were on hand at the end of the financial year to meet demand at the beginning of the 2014 financial year.

14 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Group	Land	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
Cost	3,042	21,723	85,265	1,830	80,043	191,903
Revaluation	-	-	-	-	-	-
Balance at 1 August 2011	3,042	21,723	85,265	1,830	80,043	191,903
Additions	-	4,536	2,439	566	28,450	35,991
Disposals	-	(29)	(13)	-	-	(42)
Reclassification / transfer	-	5,229	95,795	-	(104,176)	(3,152)
Revaluation	170	1,761	10,272	-	-	12,203
Balance at 31 July 2012	3,212	33,220	193,758	2,396	4,317	236,903
Additions	5	-	3,290	165	3,132	6,592
Disposals	-	-	(195)	-	-	(195)
Reclassification / transfer	-	-	75	(152)	77	-
Revaluation	-	-	-	-	-	-
Balance at 31 July 2013	3,217	33,220	196,928	2,409	7,526	243,300
Accumulated depreciation						
Cost	-	2,283	10,556	886	-	13,725
Balance at 1 August 2011	-	2,283	10,556	886	-	13,725
Depreciation	-	959	6,720	281	-	7,960
Disposals	-	(18)	(10)	-	-	(28)
Revaluation	-	180	967	-	-	1,147
Balance at 31 July 2012	-	3,404	18,233	1,167	-	22,804
Depreciation	-	1,110	8,360	286	-	9,756
Disposals	-	-	(40)	-	-	(40)
Revaluation	-	-	-	-	-	-
Balance at 31 July 2013 -		4,514	26,553	1,453	-	32,520
Carrying amounts						
At 31 July 2012	3,212	29,816	175,525	1,229	4,317	214,099
At 31 July 2013	3,217	28,706	170,375	956	7,526	210,780

Parent	Land	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
Cost	3,042	21,553	85,265	1,830	80,043	191,733
Revaluation	-	-	-	-	-	-
Balance at 1 August 2011	3,042	21,553	85,265	1,830	80,043	191,733
Additions	-	4,536	2,439	566	28,450	35,991
Disposals	-	(29)	(13)	-	-	(42)
Reclassification / transfer	-	5,229	95,795	-	(104,176)	(3,152)
Revaluation	170	1,931	10,272	-	-	12,373
Balance at 31 July 2012	3,212	33,220	193,758	2,396	4,317	236,903
Additions	5	-	3,290	165	3,132	6,592
Disposals	-	-	(195)	-	-	(195)
Reclassification / transfer	-	-	75	(152)	77	-
Revaluation	-	-	-	-	-	-
Balance at 31 July 2013	3,217	33,220	196,928	2,409	7,526	243,300
Accumulated depreciation						
Cost	-	2,283	10,556	886	-	13,725
Balance at 1 August 2011	-	2,283	10,556	886	-	13,725
Depreciation	-	959	6,720	281	-	7,960
Disposals	-	(18)	(10)	-	-	(28)
Revaluation	-	180	967	-	-	1,147
Balance at 31 July 2012	-	3,404	18,233	1,167	-	22,804
Depreciation	-	1,110	8,360	286	-	9,756
Disposals	-	-	(40)	-	-	(40)
Revaluation	-	-	-	-	-	-
Balance at 31 July 2013	-	4,514	26,553	1,453	-	32,520
Carrying amounts						
At 31 July 2012	3,212	29,816	175,525	1,229	4,317	214,099
At 31 July 2013	3,217	28,706	170,375	956	7,526	210,780

(a) Valuations of land and buildings

Land, buildings, and plant and equipment were independently valued as at 31 July 2012 by Jones Lang LaSalle using either the depreciated replacement cost method (for buildings and plant and equipment) or market based valuation (for land). The method applied by the valuer is described in note 3(p). Land, buildings, and plant and equipment was valued at $208.6m as at 31 July 2012. If the cost model had been used, the carrying value of land, buildings and plant and equipment would have been $197.5m at 31 July 2012, resulting in a revaluation of $11.1m ($12.2m at cost less accumulated depreciation of $1.1m). There has been no independent valuation undertaken in 2013.

(b) Impairment

During the period, property, plant and equipment have been examined for impairment. No indicators of impairment have been identified and no material items of property, plant and equipment are considered to be impaired.

(c) Construction in progress

Assets under construction includes capital expenditure projects, until they are commissioned and transferred to fixed assets.

(d) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $nil (2012: $2.56m) on qualifying assets.

15 NON-CURRENT ASSETS - INTANGIBLE ASSETS

Group	Patents, trademarks and other rights	Computer software	Brand	Supplier contracts	Intangibles in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 31 July 2012						
Opening net book amount	59	-	-	259	-	318
Transfer from construction in progress	-	3,152	-	-	-	3,152
Additions	6	-	102	-	-	108
Amortisation charge	-	(619)	-	(88)	-	(707)
Closing net book amount	65	2,533	102	171	-	2,871
Year ended 31 July 2013						
Opening net book amount	65	2,533	102	171	-	2,871
Reclassification / transfer	-	273	-	-	(273)	-
Additions	8	-	55	-	1,544	1,607
Amortisation charge	-	(336)	-	(90)	-	(426)
Closing net book amount	73	2,470	157	81	1,271	4,052

Parent	Patents, trademarks and other rights	Computer software	Brand	Supplier contracts	Intangibles in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 31 July 2012						
Opening net book amount	59	-	-	259	-	318
Transfer from construction in progress	-	3,152	-	-	-	3,152
Additions	6	-	102	-	-	108
Amortisation charge	-	(619)	-	(88)	-	(707)
Closing net book amount	65	2,533	102	171	-	2,871
Year ended 31 July 2013						
Opening net book amount	65	2,533	102	171	-	2,871
Reclassification / transfer	-	273	-	-	(273)	-
Additions	8	-	55	-	1,544	1,607
Amortisation charge	-	(336)	-	(90)	-	(426)
Closing net book amount	73	2,470	157	81	1,271	4,052

16 TRADE AND OTHER PAYABLES

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Trade payables	31,671	35,880	31,671	35,880
Accrued expenses	24,199	33,614	24,085	33,614
Employee entitlements	1,665	1,126	1,665	1,126
Total trade and other payables	57,535	70,620	57,421	70,620

Payables denominated in other currencies other than the functional currency comprise NZ$2.8 m (2012: $4.6 m) of USD and AUD denominated trade payables and accruals.

17 ADVANCES FROM SUBSIDIARY

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Current liabilities				
Advances from Synlait Milk Finance Limited	-	-	63,926	-
	-	-	63,926	-
Non current liabilities				
Advances from Synlait Milk Finance Limited	-	-	27,355	-

The term of the advances from subsidiary have been loaned on the same terms as the banking facilities. The interest rates used are the market rates and therefore the carrying value of the advances represent fair value.

18 LOANS AND BORROWINGS

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Current liabilities				
Working Capital Facility	33,079	2,344	-	2,344
Trade Finance Facility	46,924	13,617	46,924	13,617
Secured bank loans	-	21,000	-	21,000
Total	80,003	36,961	46,924	36,961
Non-current liabilities				
Bank loans	28,596	71,230	-	71,230
Loan facility fees	(679)	(462)	-	(462)
Total	27,917	70,768	-	70,768

(a) Terms of loans and borrowings

The secured 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 National Bank and Bank of New Zealand.

The working capital facility has a right of offset with the deposit accounts.

The Company facilities include:

- A secured Revolving Credit Facility of $75m that matures on 31 July 2016
- A secured Term Facility of $110m that matures on 31 July 2017 to fund the construction of Dryer 3
- A secured Working Capital Facility of $85m that matures on 31 July 2014 (but expected to be extended annually)
- An unlimited and unsecured Trade Finance Facility from Mitsui & Co. Limited that matures on 31 July 2015

The carrying value of loans and borrowings approximates fair value.

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 twelve months ended 31 July 2013 and 31 July 2012.

	Nominal Interest rate %	Year of maturity	Carrying amount 2013	Carrying amount 2012
Secured Revolving Credit Facility - ANZ / BNZ	4.20	2016	27,917	91,768
Secured Working Capital Facility - ANZ / BNZ	3.85	2014	33,079	2,344
Trade Finance Facility - Mitsui & Co. Limited	1.45	2015	46,924	13,617

The nominal interest rate is calculated by adding the BKBM rate and the marginal rate, it excludes line fees and swap costs.

19 DEFERRED TAX ASSETS AND LIABILITIES

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Assets				
Derivatives	713	-	515	-
Other items	278	163	278	163
Tax losses carried forward	4,382	5,641	4,382	5,641
Total deferred tax assets	5,373	5,804	5,175	5,804
Liabilities				
Property, plant and equipment	(17,108)	(13,760)	(17,108)	(13,760)
Derivatives	-	(330)	-	(330)
Other items	(20)	(16)	(20)	(16)
Total deferred tax liabilities	(17,128)	(14,106)	(17,128)	(14,106)
Total deferred tax	(11,755)	(8,302)	(11,953)	(8,302)

Movements - Group	Balance 1 Aug 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2012
	$'000	$'000	$'000	$'000
Property, plant and equipment	(7,643)	(3,069)	(3,048)	(13,760)
Derivatives	(677)	-	347	(330)
Other items	400	(253)	-	147
Tax losses carried forward	2,174	3,467	-	5,641
Total	(5,746)	145	(2,701)	(8,302)

	Balance 1 Aug 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2013
	$'000	$'000	$'000	$'000
Property, plant and equipment	(13,760)	(3,348)	-	(17,108)
Derivatives	(330)	-	1,043	713
Other items	147	111	-	258
Tax losses carried forward	5,641	(1,259)	-	4,382
Total	(8,302)	(4,496)	1,043	(11,755)

Movements - Parent	Balance 1 Aug 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2012
	$'000	$'000	$'000	$'000
Property, plant and equipment	(7,643)	(3,069)	(3,048)	(13,760)
Derivatives	(677)	-	347	(330)
Other items	400	(253)	-	147
Tax losses carried forward	2,174	3,467	-	5,641
Total	(5,746)	145	(2,701)	(8,302)

	Balance 1 Aug 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2013
	$'000	$'000	$'000	$'000
Property, plant and equipment	(13,760)	(3,348)	-	(17,108)
Derivatives	(330)	-	845	515
Other items	147	111	-	258
Tax losses carried forward	5,641	(1,259)	-	4,382
Total	(8,302)	(4,496)	845	(11,953)

20 SHARE CAPITAL

	2013	2013
	Shares	$'000
(a) Share capital		
Number of ordinary shares		
On issue at beginning of period	51,022,858	103,648
Share split	61,227,429	-
Issue of shares	34,090,910	68,900
Total	146,341,197	172,548

The share split was to ensure there was the desired number of shares in Synlait Milk Limited prior to the IPO.

The issue of new shares were as part of the IPO of the Company on 23 July 2013 and the value reflects gross proceeds less issue related costs.

The weighted average number of shares during the year is used to calculate the Earnings per Share.

(b) Ordinary shares

All issued shares are fully paid and have no par value.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time.

Ordinary shares are entitled to one vote per share at meetings of the Company.

All Ordinary Shares rank equally with regard to the Company's residual assets.

(c) Capital risk management

The Company and Group's capital includes share capital, retained earnings and reserves.

The Company and Group's policy is to maintain a sound capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company and Group are subject to various security ratios within the bank facilities agreement.

The Company and Group's policies in respect of capital management and allocation are reviewed by the Board of Directors.

21 RESERVES AND RETAINED EARNINGS

(a) Nature and purpose of reserves

(i) Property, plant and equipment revaluation reserve

The revaluation reserve arises on the revaluation of land, buildings, plant and equipment. Where a revalued asset is sold, that portion of the reserve which relates to that asset, and is effectively realised, is recognised in retained earnings.

(ii) Hedging reserve - cash flow hedges

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments relating to hedged transactions that have not yet occurred.

(iii) Dividends

No dividends were declared by the Company or the Group during the year.

22 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Profit for the year	11,528	4,384	11,528	4,384
Non-cash and non operating items:				
Depreciation and amortisation of non-current assets	10,182	8,639	10,182	8,639
Interest costs classified as financing cash flow	13,525	10,626	13,525	10,626
Interest received classified as investing cash flow	(1,272)	(1,461)	(1,272)	(1,461)
Deferred tax	4,496	(145)	4,496	(145)
Movements in working capital:				
(Increase) / decrease in trade and other receivables	(38,586)	21,316	(39,634)	21,316
(Increase) / decrease in trade finance facility	33,307	111	33,307	111
(Increase) / decrease in prepayments	(411)	349	(411)	349
(Increase) / decrease in inventories	(34,279)	(18,305)	(34,279)	(18,305)
(Increase) / decrease in other current assets	806	1,012	806	1,012
(Decrease) / increase in trade and other payables	(13,084)	3,293	(13,198)	3,293
Net cash inflow from operating activities	(13,788)	29,820	(14,950)	29,820

The difference between the Group and the Parent movements in trade and other payables relates primarily to the intercompany balance between Synlait Milk Limited and Synlait Milk Finance Limited.

Mitsui & Co NZ is Synlait Milk Limited's export sales agent. Under this arrangement Mitsui pays Synlait Milk the amounts invoiced to export customers within an agreed period after shipment of products. The amounts received from Mitsui are included within receipts from customers.

23 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency risk. The Board coordinates risk policies on a regular basis.

The Group is exposed to foreign currency risk on it's sales, which are predominantly denominated in US dollars. The Group is also exposed to foreign currency risk on the purchase of capital equipment from overseas. The Group has a Board approved treasury policy that sets the parameters under which foreign exchange cover is to be taken.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	31 July 2013		31 July 2012	
	USD	Euro	USD	Euro
	$'000	$'000	$'000	$'000
Trade receivables, being Statement of Financial Position exposure before hedging activities	37,803	3	15,606	-

The Group holds derivative contracts with notional balances of $159m (31 July 2012: $126m) in respect of future sale transactions. The Group's exposure to foreign currency in the period ended 31 July 2013 is limited to it's sales of milk powder, purchases of raw materials for production and capital equipment purchases.

(ii) Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its bank overdrafts and borrowings.

The Group manages it's interest rate risk by using interest rate swaps to hedge it's floating rate debt.

The Group has a Board approved treasury policy that sets the parameters to the extent of the cover taken.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	31 July 2013		31 July 2012	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Less than 1 year	4.32%	105,129	4.81%	93,000
1 to 2 years	5.23%	57,527	4.32%	105,129
2 to 3 years	4.89%	39,000	5.23%	57,527
3 to 4 years	4.04%	20,000	4.89%	39,000
4 to 5 years	-	-	4.04%	20,000

The above balances include forward start swap contracts for various periods and do not reflect the current active contracts held at any one point in time.

(iii)Sensitivity analysis

In managing interest rate risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, changes in interest rates will have an impact on profit.

The following table summarises the sensitivity of the Group's profit and equity to interest rate risk and foreign exchange risk.

Consolidated	Group				Parent			
	2013		2012		2013		2012	
31 July 2013	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
1% increase in interest rate	-	(473)	-	(1,070)	-	-	-	-
1% decrease in interest rate	-	473	-	1,070	-	-	-	-
5% increase in exchange rate	19	(4,627)	1,239	(3,305)	19	(4,627)	1,239	(3,305)
5% decrease in exchange rate	(18)	4,187	(1,121)	2,990	(18)	4,187	(1,121)	2,990

(b)Credit risk

The Group's exposure to credit risk is mainly influenced by its customer base and banking counterparties. Management has a credit policy in place under which each new customer is rigorously analysed for credit worthiness. Investments and derivatives are only made with reputable financial banks.

The carrying amount of financial assets represents the Group's maximum credit exposure. Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.

(c)Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. The Group has negotiated banking facilities sufficient to meet it's medium term facility requirements.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

Group	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
At 31 July 2013					
Working Capital Facility	33,605	357	-	-	33,962
Trade and other payables	57,536	-	-	-	57,536
Trade finance facility	47,697	-	-	-	47,697
Loans and borrowings	2,054	2,836	29,686	-	34,576
Derivative financial instruments	4,379	440	-	-	4,819
Total	145,271	3,633	29,686	-	178,590
At 31 July 2012					
Working Capital Facility	5,141	-	-	-	5,141
Trade and other payables	70,619	-	-	-	70,619
Trade finance facility	13,997	-	-	-	13,997
Loans and borrowings	25,258	70,768	-	-	96,026
Derivative financial instruments	2,582	1,037	697	-	4,316
Total	117,597	71,805	697	-	190,099

Parent	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
At 31 July 2013					
Trade and other payables	57,421	-	-	-	57,421
Trade finance facility	47,697	-	-	-	47,697
Advances from subsidiary	66,506	3,193	29,124	-	98,823
Derivative financial instruments	2,980	-	-	-	2,980
Total	174,604	3,193	29,124	-	206,921
At 31 July 2012					
Working Capital Facility	5,141	-	-	-	5,141
Trade and other payables	70,619	-	-	-	70,619
Trade finance facility	13,997	-	-	-	13,997
Loans and borrowings	26,473	73,825	-	-	100,298
Derivative financial instruments	2,582	1,037	697	-	4,316
Total	118,812	74,862	697	-	194,371

(d)Financial instruments by category

Group	Derivatives used for hedging	Assets at fair value through profit or loss	Loans and receivables	Held to maturity investments	Available for sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets as per financial position						
At 31 July 2013						
Cash and cash equivalents	-	-	2,365	-	-	2,365
Derivative financial instruments	1,224	-	-	-	-	1,224
Trade and other receivables	-	-	59,134	-	-	59,134
Total	1,224	-	61,499	-	-	62,723
At 31 July 2012						
Cash and cash equivalents	-	-	666	-	-	666
Derivative financial instruments	4,109	-	-	-	-	4,109
Trade and other receivables	-	-	20,884	-	-	20,884
Total	4,109	-	21,550	-	-	25,659

Parent	Derivatives used for hedging	Assets at fair value through profit or loss	Loans and receivables	Held to maturity investments	Available for sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets as per financial position						
At 31 July 2013						
Cash and cash equivalents	-	-	31,486	-	-	31,486
Derivative financial instruments	1,138	-	-	-	-	1,138
Trade and other receivables	-	-	59,134	-	-	59,134
Total	1,138	-	90,620	-	-	91,758
At 31 July 2012						
Cash and cash equivalents	-	-	666	-	-	666
Derivative financial instruments	4,109	-	-	-	-	4,109
Trade and other receivables	-	-	20,884	-	-	20,884
Total	4,109	-	21,550	-	-	25,659

Group	Derivatives used for hedging	Liabilities at fair value through profit or loss	At amortised cost	Total
	$'000	$'000	$'000	$'000
Financial liabilities as per financial position				
At 31 July 2013				
Derivative financial instruments	4,819	-	-	4,819
Working Capital Facility	-	33,079	-	33,079
Trade Finance Facility	-	46,924	-	46,924
Trade and other payables	-	-	57,535	57,535
Loans and borrowings	-	27,917	-	27,917
Total	4,819	107,920	57,535	170,274
At 31 July 2012				
Derivative financial instruments	4,316	-	-	4,316
Working Capital Facility	-	2,344	-	2,344
Trade Finance Facility	-	13,617	-	13,617
Trade and other payables	-	-	70,620	70,620
Loans and borrowings	-	91,768	-	91,768
Total	4,316	107,729	70,620	182,665

Parent	Derivatives used for hedging $'000	Liabilities at fair value through profit or loss $'000	At amortised cost $'000	Total $'000
At 31 July 2013				
Derivative financial instruments	2,980	-	-	2,980
Trade Finance Facility	-	46,924	-	46,924
Trade and other payables	-	-	57,421	57,421
Advances from subsidiary	-	-	91,281	91,281
Total	2,980	46,924	148,702	198,606
At 31 July 2012				
Derivative financial instruments	4,316	-	-	4,316
Working Capital Facility	-	2,344	-	2,344
Trade Finance Facility	-	13,617	-	13,617
Trade and other payables	-	-	70,620	70,620
Loans and borrowings	-	91,768	-	91,768
Total	4,316	107,729	70,620	182,665

(e) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 July 2013.

	Level 1	Level 2	Level 3	Total balance
Group				
At 31 July 2013	$'000	$'000	$'000	$'000
Assets				
Derivative financial instruments	-	1,224	-	1,224
Total assets	-	1,224	-	1,224
Liabilities				
Derivative financial instruments	-	4,819	-	4,819
Total liabilities	-	4,819	-	4,819
At 31 July 2012				
Assets				
Derivative financial instruments	-	4,109	-	4,109
Total assets	-	4,109	-	4,109
Liabilities				
Derivative financial instruments	-	4,316	-	4,316
Total liabilities	-	4,316	-	4,316

	Level 1	Level 2	Level 3	Total balance
Parent				
At 31 July 2013	$'000	$'000	$'000	$'000
Assets				
Derivative financial instruments	-	1,138	-	1,138
Total assets	-	1,138	-	1,138
Liabilities				
Derivative financial instruments	-	2,980	-	2,980
Total liabilities	-	2,980	-	2,980
At 31 July 2012				
Assets				
Derivative financial instruments	-	4,109	-	4,109
Total assets	-	4,109	-	4,109
Liabilities				
Derivative financial instruments	-	4,316	-	4,316
Total liabilities	-	4,316	-	4,316

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

Quoted market prices or dealer quotes for similar instruments;

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance date, with the resulting value discounted back to present value;

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2.

24 DERIVATIVES

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Derivative balances comprise of:				
Foreign currency forward contracts	(1,841)	3,756	(1,842)	3,756
Interest rate swaps	(1,754)	(3,963)	-	(3,963)
Balance at end of period	(3,595)	(207)	(1,842)	(207)
Classified as:				
Non current asset	86	-	-	-
Current asset	1,138	4,109	1,138	4,109
Non current liabilities	(440)	(1,734)	-	(1,734)
Current liabilities	(4,379)	(2,582)	(2,980)	(2,582)
Balance at end of period	(3,595)	(207)	(1,842)	(207)

25 CONTINGENCIES

As at 31 July 2013 the Parent entity and Group had no contingent liabilities or assets (2012:$Nil).

26 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Lactoferrin project	9,790	-	9,790	-
Blending plant	4,947	-	4,947	-
Canning line	10,428	-	10,428	-
Drystore 3	13,557	-	13,557	-
Total	38,722	-	38,722	-

The above balances have been committed for completion in the 2014 financial year in relation to future expenditure on capital projects. Amounts already spent have been included as work in progress

(i)Operating lease commitments – group/company as lessee

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	578	840	578	840
Between one and five years	144	-	144	-
Greater than five years	-	-	-	-
Total	722	840	722	840

The operating leases relate to the leasing of warehouse space, vehicles and printers. All terms are reviewed on a regular basis. All leases are subject to potential renewal.

27 RELATED PARTY TRANSACTIONS

(a) Parent entity
The parent entity is Bright Dairy Holding Limited and the ultimate parent is Bright Dairy and Food Limited which is domiciled in the Peoples Republic of China. Bright Dairy Holding Limited hold 39.12% of the shares issued by the Company (2012: 51%)

(b) Other related entities
Synlait Farms Limited was a wholly owned subsidiary of Synlait Limited who supplied milk on an arms length basis to Synlait Milk Limited. As of 28 February 2013 Synlait Farms Limited is no longer a subsidiary of Synlait Limited.

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. Funding is loaned to Synlait Milk Limited and appropriate interest is charged.

(c) Key management and personnel compensation
Other than their salaries and bonus incentives, there are no other cash benefits paid or due to directors and executive officers as at 31 July 2013. The total short-term benefits paid to the key management and personnel is set out below.

	2013	2012
	$'000	$'000
Short-term benefits	2,848	960

d) Other transactions with key management personnel or entities related to them
Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

(i) Loans to directors

There were no loans to directors issued during the period ended 31 July 2013 (2012: $nil).

(ii) Other transactions and balances

Key management personnel subscribed in cash for new ordinary shares issued by the Company and Group during the year. The shares were acquired on the same terms and conditions that applied to other shareholders.

Directors of the Company control 3.8% of the voting shares of the Company at balance date (2012: 13.3% indirectly through their shareholdings in Synlait Limited)

(e) Subsidiaries
Interests in subsidiaries are set out in note 27.

(f) Directors and key management personnel
Disclosures relating to directors and specified executives are set out in the Statutory Information section.

(g) Transactions with related parties

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Purchase of goods and services				
Bright Dairy and Food Co Ltd - Directors fees	183	165	183	165
Synlait Farms Limited - Purchase of raw milk	42,420	32,804	42,420	32,804
Sale of goods and services				
Bright Dairy and Food Co Ltd - Sale of milk powder products	8,470	4,604	8,470	4,604
Bright Dairy and Food Co Ltd - Reimbursement of costs	87	181	87	181
Synlait Farms Limited - Management fees received	33	113	33	113
Finance costs				
Synlait Milk Finance Limited	-	-	114	-

Note that as at 28 February 2013 Synlait Farms Limited ceased to be a related party due to divestment from Synlait Limited.

(h) Outstanding balances

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

	Group		Parent	
	Year ended		Year ended	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Receivables				
Bright Dairy and Food Co Ltd - Sale of milk powder products	325	481	325	481
Bright Dairy and Food Co Ltd - Reimbursement of costs	58	(39)	58	(39)
Synlait Farms Limited - Management fees received	-	8	-	8
Payables				
Bright Dairy and Food Co Ltd - Directors fees	-	14	-	14
Synlait Farms Limited - purchase of raw milk	4,439	6,817	4,439	6,817
Synlait Milk Finance Limited	-	-	91,281	-

28 INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(a):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2013	2012
			%	%
Synlait Milk Finance Limited	New Zealand	Ordinary	100	-

In June 2013 a subsidiary, Synlait Milk Finance Limited, was set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funding is loaned to Synlait Milk Limited and appropriate interest is charged.

29 COMPARISON OF PROSPECTIVE FINANCIAL INFORMATION

Prospective Statement of Comprehensive Income
For the year ending 31 July 2013

	Notes	Group Year ended 2013 Actual $'000	Group Year ended 2013 Prospectus $'000	Variance $'000
Revenue	a	420,010	426,426	(6,416)
Cost of sales		(354,862)	(361,827)	6,965
Gross Profit	b	65,148	64,599	549
Other income	c	1,587	195	1,392
Sales and distribution expenses	d	(23,478)	(23,079)	(399)
Administrative and operating expenses	e	(14,978)	(14,230)	(748)
Earnings before net finance expense and income tax[1]		28,279	27,485	794
Add back depreciation and amortisation expense[1]		10,182	9,963	219
Earnings before net finance expese, income tax, depreciation and amortisation[1]		38,461	37,448	1,013
Net financing costs		(12,253)	(12,431)	178
Profit before income tax		16,026	15,054	972
Income tax expense		(4,498)	(4,215)	(283)
Profit for the year		11,528	10,839	689
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		(3,387)	(2,350)	(1,037)
Net change in fair value of cash flow hedges transferred to profit and loss		(337)	643	(980)
Income tax on other comprehensive income		1,043	743	300
Total comprehensive income for the year		8,847	9,875	(1,028)

[1] The above Non GAAP financial information was included in the prospectus and therefore has been included in these financial statements for comparative purposes.

Explanation of variances

(a) Revenue for the year was lower than PFI by $6.4m, primarily due to a reduction in Infant Formula and Nutritional volumes sold. Demand for Infant formula products were affected in the last quarter of the financial year primarily due to proposed regulatory changes announced in China causing product order and delivery delays as customers absorbed the impact of these changes.

(b) Gross profit was up $0.5m compared to PFI due primarily to higher prices achieved on ingredients products and higher margins achieved on nutritional products.

(c) Earthquake insurance proceeds received of $1.3m are included in Other Income, while the associated earthquake repair costs of $0.6 are included in manufacturing costs.

(d) Sales and distribution expenses are higher than PFI due to additional warehouse rent.

(e) Administration and operating expenses are above PFI due to higher than anticipated travel costs, computer expenses, and internal costs that were unable to be capitalised.

Prospective Statement of Changes in Equity

For the year ending 31 July 2013

		Group	Group	
		Year ended	Year ended	
		2013	2013	
	Notes	Actual	Prospectus	Variance
		$'000	$'000	$'000
Equity at the start of the period		88,244	88,244	-
Accounting policy change to monthly milk price		(1,953)	(1,953)	-
Restated Equity at the start of the period		86,291	86,291	-
Profit for the year		11,528	10,839	689
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges	f	(3,387)	(2,350)	(1,037)
Net change in fair value of cash flow hedges transferred to profit and loss	f	(337)	643	(980)
Income tax on income and expenses recognised directly in equity		1,043	743	300
Total other comprehensive loss		(2,681)	(964)	(1,717)
Issue of new shares		75,000	75,000	-
Share issue costs		(6,100)	(6,175)	75
Total contributions by and distributions to owners		68,900	68,825	75
Equity at the end of the period		164,038	164,991	(953)

Explanation of variances

(f) Movement in reserves due to the mark to market value of derivatives being higher than PFI.

Prospective Financial Position

As at 31 July 2013

	Notes	Group Year ended 2013 Actual $'000	Group Year ended 2013 Prospectus $'000	Variance $'000
Assets				
Current assets				
Cash and cash equivalents	j	2,365	-	2,365
Trade and other receivables	g	59,134	68,876	(9,742)
Goods and services tax refundable		2,917	2,771	146
Income accruals and prepayments		570	784	(214)
Inventories	h	65,025	58,847	6,178
Derivative financial instruments	m	1,138	-	1,138
Total current assets		131,149	131,278	(129)
Non-current assets				
Property, plant and equipment	i	210,780	217,954	(7,174)
Intangible assets	k	4,052	230	3,822
Derivative financial instruments	m	86	-	86
Total non-current assets		214,918	218,184	(3,266)
Total assets		346,067	349,462	(3,395)
Liabilities				
Current liabilities				
Working Capital Facility	j	33,079	39,755	(6,676)
Trade and other payables	l	57,535	60,959	(3,424)
Trade Finance Facility		46,924	48,478	(1,554)
Derivative financial instruments	m	4,379	1,104	3,275
Total current liabilities		141,917	150,296	(8,379)
Non-current liabilities				
Loans and borrowings	n	27,917	20,950	6,967
Deferred tax liabilities		11,755	11,772	(17)
Derivative financial instruments	m	440	1,453	(1,013)
Total non-current liabilities		40,112	34,175	5,937
Total liabilities		182,029	184,471	(2,442)
Equity				
Share Capital		172,548	172,473	75
Reserves	m	6,175	7,892	(1,717)
Retained (deficit) / earnings		(14,685)	(15,374)	689
Total equity attributable to equity holders of the Company		164,038	164,991	(953)
Total equity and liabilities		346,067	349,462	(3,395)

Explanation of variances

(g) Accounts receivable were $9.7m lower than PFI due to a strong focus on cash collections.

(h) Inventories were $6.2m higher than PFI due to higher Infant protein raw material on hand and higher Infant and special milk stock on hand.

(i) Property, plant and equipment was $7.2m lower than the PFI predominantly due to there being lower payments than expected associated with capital projects.

(j) Net working capital facility is below the PFI, primarily due to management deciding to defer making a voluntary repayment of $10m to the Revolving Credit Facility (Loans and Borrowings).

(k) Intangibles are $3.8 m higher due to computer software assets having been disclosed in Property, Plant and Equipment in the PFI.

(l) Trade and other payables are $3.4m lower than the PFI due to timing of ingredients purchases and payments assumed in the PFI.

(m) Derivative financial instruments are a net $1.0m higher than PFI, spread over assets and liabilities. This is primarily due to the foreign exchange 'out of the money position' with cover on hand at year end at rates higher than the spot rates. The mark to market movement being reflected in reserves.

(n) Loans and borrowings are $7.0m higher than PFI due to the deferment in making a $10.0 m voluntary repayment before the balance date, offset by the slower than expected capital project payments assumed in the PFI.

Prospective Cash Flow Statement
For the year ending 31 July 2013

		Group	Group	
		Year ended	Year ended	
		2013	2013	
	Notes	Actual	Prospectus	Variance
		$'000	$'000	$'000
Cash flows from operating activities				
Cash receipts from customers	o	415,907	413,382	2,525
Cash paid for milk purchased		(289,268)	(288,586)	(682)
Cash paid to other creditors and employees	p	(141,231)	(134,010)	(7,221)
Goods and services tax refunds		575	723	(148)
Income tax refunds		229	228	1
Net cash inflow/(outflow) from operating activities		(13,788)	(8,263)	(5,525)
Cash flows from investing activities				
Interest received		1,272	62	1,210
Acquisition of property, plant and equipment	q	(7,989)	(15,237)	7,248
Acquisition of intangibles		(55)	-	(55)
Net cash inflow/(outflow) from investing activities		(6,772)	(15,175)	8,403
Cash flows from financing activities				
Proceeds and costs from issue of shares		68,900	69,568	(668)
Repayment of borrowings	r	(64,521)	(81,120)	16,599
Receipt of borrowings		670	9,840	(9,170)
Interest paid		(13,525)	(12,927)	598
Net cash inflow/(outflow) from financing activities		(8,476)	(14,639)	7,359
Net decrease in cash and cash equivalents		(29,036)	(38,077)	10,237
Net overdraft at beginning of period		(1,678)	(1,678)	-
Net overdraft at end of period[1]		(30,714)	(39,755)	10,237

[1]Net working capital facility is used in the comparison to PFI Statement of Cash Flows for comparability purposes as this is how it was treated in the Prospectus. In the financial statements cash and cash equivalent is used and this will be the treatment going forward.

Explanation of variances

(o) Sales receipts are $2.5m higher than PFI due to higher cash collections from customers at the end of July offset by the lower sales volumes.

(p) Cash paid to creditors are $7.2m higher than the PFI, due to payments for raw materials and other creditors occurring before year end.

(q) Cash purchases of Property, Plant and Equipment are $7.2m lower than PFI as payments for capital projects have been slower than expected.

(r) Net borrowings is $7.4m less than the PFI, due to the deferment of a $10m voluntary repayment assumed in the PFI, offset by lower drawdowns relating to lower spend on capital projects to July 2013.

30 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Synlait Milk Limited and group on pages 49 to 88, which comprise the consolidated and separate statements of financial position of Synlait Milk Limited, as at 31 July 2013, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's 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 audit work, for this report, or for the opinions we have formed.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor, investigating accountant and auditor in respect of the 24 June 2013 IPO, the provision of financial model assurance services, taxation consulting services and other advisory services we have no relationship with or interests in Synlait Milk Limited or its subsidiary.

OPINION

In our opinion, the financial statements on pages 49 to 88:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Synlait Milk Limited and group as at 31 July 2013, and their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Synlait Milk Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants

23 September 2013

Christchurch, New Zealand

WE'RE COMMITTED TO A HIGH PERFORMANCE WORKING ENVIRONMENT

STATUTORY INFORMATION

STOCK EXCHANGE LISTING

Our shares are listed on the Main Board of the New Zealand Stock Exchange (NZX).

SHARES ON ISSUE

As at 31 July 2013 we had 146,341,197 ordinary shares issued to 2,412 holders.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2013 are as follows:

Rank	Name	Units at 31 Jul 2013	% of Units
1.	Bright Dairy Holding Limited	57,247,647	39.12
2.	FNZ Custodians Limited	13,977,713	9.55
3.	Mitsui & Co.Limited	7,373,331	5.04
4.	Citibank Nominees (New Zealand) Limited - NZCSD <CNOM90>	5,428,175	3.71
5.	John Penno	5,423,817	3.71
6.	Mitsui & Co.(Australia) Limited	4,915,556	3.36
7.	Ben Dingle	4,543,666	3.10
8.	Tea Custodians Limited - NZCSD <TEAC40>	3,835,769	2.62
9.	HSBC Nominees (New Zealand) Limited - NZCSD <HKBN90>	2,420,357	1.65
10.	Jpmorgan Chase Bank NA - NZCSD <CHAM24>	2,270,099	1.55
11.	New Zealand Superannuation Fund Nominees Limited -NZCSD <SUPR40>	1,959,012	1.34
12.	Accident Compensation Corporation - NZCSD <ACCI40>	1,837,094	1.26
13.	Juliet Maclean	1,298,212	0.89
14.	Falcon Rural Investments Limited	1,237,797	0.85
15.	Custodial Services Limited <A/C 3>	1,193,350	0.82
16.	BNP Paribas Nominees (NZ) Limited - NZCSD <COGN40>	1,124,117	0.77
17.	Paul Lancaster + Bronwyn Lancaster	1,121,723	0.77
18.	National Nominees New Zealand Limited - NZCSD <NNLZ90>	912,673	0.62
19.	Horo Holdings Limited	902,292	0.62
20.	Therese Roche	900,000	0.62
Totals: Top 20 holders of Ordinary Shares		119,922,400	81.95
Total Remaining Holders Balance		26,418,797	18.05

SUBSTANTIAL SHAREHOLDERS

A 'substantial shareholder' is defined in the Securities Markets Act 1988. Shareholders are required to disclose their holdings to us and to our share registrar by giving a 'Substantial Shareholder Notice' when:

They begin to have a substantial shareholding (5% or more of our shares)

There is a subsequent movement of 1% or more in a substantial holding, or if they cease to be have a substantial holding

There is any change in the nature or interest in a substantial holding

The following Substantial Shareholder Notices were received as at the date of this Annual Report:

STATUTORY INFORMATION CONT...

	Fully Paid Shares	Percentage of Paid Capital
Bright Dairy Holding Limited	57,247,647	39.12
FrieslandCampina	10,975,590	7.50
Mitsui & Co. Limited	12,288,887	8.40

DISTRIBUTION OF SHAREHOLDERS

As at 31 July 2013.

Range	Total holders	Units	% of Issued Capital
1 - 99	3	216	0.00
100 - 199	7	884	0.00
200 - 499	35	11,139	0.01
500 - 999	73	48,993	0.03
1,000 - 1,999	165	219,275	0.15
2,000 - 4,999	1,273	3,425,216	2.34
5,000 - 9,999	434	2,708,323	1.85
10,000 - 49,999	352	6,059,850	4.14
50,000 - 99,999	21	1,541,020	1.05
100,000 - 499,999	28	5,984,254	4.09
500,000 - 999,999	10	6,772,954	4.63
1,000,000 and over	11	119,569,073	81.71
Total	2,412	146,341,197	100.00

VOTING RIGHTS

Section 16 of our Constitution states that a shareholder may vote at any meeting of shareholders in person or through a representative. Where voting is by a show of hands or voice, every shareholder present (or through their representative) has one vote. In a poll, every shareholder present (or through their representative) has one vote per fully-paid up share they hold. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes.

More detail on voting can be found in our Constitution at the following link - www.synlait.com/site/uploads/2013/07/Synlait-Milk-Limited-Constitution.pdf

TRADING STATISTICS

Synlait Milk Limited listed on NZX on the 23 July 2013 at an initial share price of $2.20. The trading range for the 9 days of trading from initial listing is shown below:

Minimum:	$2.61
Maximum:	$2.80
Range:	$2.61 - $2.80
Total Shares Traded:	11,550,218

DIVIDEND POLICY

The Board has a Dividend Policy to determine whether it is appropriate to declare a dividend for shareholders in any financial year. The policy provides that any decision to pay a dividend will depend on, amongst other things:

– Current and forecasted earnings
– Internal capital requirements
– Availability of tax imputation credits and

– Synlait Milks debt/equity position

Any dividend can only be declared by the Board if the requirements of the Companies Act 1993 are also satisfied.

The Board has determined no dividend will be payable in the periods ending 31 July 2013 or 31 July 2014.

NZX WAIVERS

We have received various waivers from NZX to allow our Constitution and the composition of our Board to reflect our non-standard governance arrangements.

Full details of the waivers granted by the NZX can be found at the following link: www.nzx.com/files/attachments/178616.pdf

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors (and past Directors) for services for the year ended 31 July 2013 were:

Director	Class	Position	Retired / Appointed	Total Remuneration
Graeme Milne	Independent	Chairman		$83,000
Bill Roest	Independent	Chairman Audit & Risk	Appointed 8 May 2013	$13,696
Sam Knowles	Independent		Appointed 4 July 2013	$4,035
Li Ke	Bright Appointed			$45,333
Dong Zongbo	Bright Appointed			$49,190
Yang Sihang	Bright Appointed			$45,333
Ruth Richardson	Bright Appointed	Chairman Remuneration & Governance		$50,333
John Penno [1]	Board Appointed	Managing Director		$645,765
Ben Dingle	Board Appointed		Retired 8 May 2013	$34,365
Zhang Dazheng	Board Appointed		Retired 8 May 2013	$40,043

1. As Managing Director, John Penno does not receive directors fees. His remuneration received in the year to 31 July 2013 listed above constitutes payment for his position as Managing Director and Chief Executive Officer.

DIRECTORS' INTERESTS

Directors' interests recorded in the Interests Register of the Company as at 31 July 2013 are set out as follows:

Graeme Roderick Milne
Director, Genesis Power Limited
Chairman, New Zealand Pharmaceuticals Ltd
Chairman, Terracare Ltd
Chairman, Waikato District Health Board
Director, New Zealand Institute for Rare Disease Research Ltd
Trustee, Rockhaven Trust
Partner, G R & J A Milne
Chairman, Jones Disease Research Consortium
Chairman, Rural Broadband Initiative National Advisory Committee
Director, Farmers Mutual Group
Director, Alliance Group Ltd
Member, NZ Meat Industry Strategy Co-ordination Group
Member, Massey University School of Advanced Engineering and Technology (SEAT) Advisory Board
Sole Shareholder and Chairman, Synlait Milk Limited

STATUTORY INFORMATION CONT...

Ruth Margaret Richardson
Chairman, Jade Corporation
Chairman, Kula Fund
Director, Ruth Richardson [NZ] Ltd
Chair, SYFT Technologies Limited
Chairman, Kiwinet
Director, The New Zealand Merino Company
Chairman, Synlait Limited
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
Willem Jan Roest
Director, Fisher & Paykel Appliances Ltd
Director, Housing Foundation Ltd
Trustee, New Zealand Housing Foundation
Trustee, WJ & IJ Family Trust
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
Ms Li Ke
Employee, Bright Dairy Ltd – substantial Shareholder in SML
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
Mr Dong Zongbo
Employee, Bright Dairy Ltd – substantial Shareholder in Synlait Milk Limited
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
Mr Yang Sihang
Employee, Bright Dairy Ltd – substantial Shareholder in SML
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
John William Penno
Trustee, John Penno Trust
Director, Synlait Farms Limited
Director, Synlait Milk Limited
Director, Synlait Milk Finance Limited
Ian Samuel Knowles
Chairman, Xero Ltd
Director, Trustpower Ltd
Director, Rangatira Ltd
Chairman, Unlimited Realities Ltd
Chairman, Partners Life Ltd
Chairman, OnBrand Ltd
Director, Magritek Ltd
Director, SLI Systems Ltd
Trustee, Te Omanga Hospice

Trustee, United World College NZ
Director, Angel HQ Inc
Director, Com Investments Ltd
Director, Growthcom Ltd
Director, Habourside Rentals Ltd
Trustee, Ruby Trust, Com Trust and Ian Samuel Knowles Children's Trust
Director, Synlait Milk Finance Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

The Directors' respective shareholding in Synlait as at 31 July 2013 is as follows:

	Directly Held
John Penno	5,423,817
Graeme Milne	59,526
Ruth Richardson	46,000
Sam Knowles	45,000
Willem (Bill) Roest	22,750

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2013.

Synlait Milk Finance Limited

Directors: John Penno, Graeme Milne, Bill Roest, Sam Knowles, Ruth Richardson, Li Ke, Dong Zongbo, Yang Sihang

DIVERSITY

We are committed to hiring and retaining the best people for the job – regardless of gender, age, disability, religion, race, sexual orientation, family circumstances, politics and ethnicity. We pride ourselves on having an inclusive working environment that promotes employment equity and workforce diversity at all levels – from factory floor to Board table.

In accordance with NZX requirements, our reported gender breakdown at Senior Management and Board level as at 31 July 2013 is:

	Female	Male	Total	% Female
Board	2	6	8	25
Senior Management Team	1	8	9	11

EMPLOYEE REMUNERATION

During the year ended 31 July 2013 the following employees and former employees received individual remuneration over $100,000:

Remuneration range	Number of employees
$100,000 - $110,000	8
$110,000 - $120,000	5
$120,000 - $130,000	4
$130,000 - $140,000	2

STATUTORY INFORMATION CONT...

$140,000 - $150,000	1
$150,000 - $160,000	3
$160,000 - $170,000	2
$170,000 - $180,000	3
$240,000 - $250,000	1
$260,000 - $270,000	1
$270,000 - $280,000	1
$300,000 - $310,000	1
$310,000 - $320,000	1
$360,000 - $370,000	1
$390,000 - $400,000	1
$640,000 - $650,000	1

DONATIONS

For the year ended 31 July 2013 we donated $43,035.70 to charitable organisations.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

In accordance with section 162 of the Companies Act 1993 and our constitution, we indemnify and insure Directors and Officers against liability to other parties that may arise from their position. This is through the Company and the Directors entering into Deeds of Access, Insurance and Indemnity. Details are maintained in the Company's Interests Register. This cover does not apply to any liabilities arising from criminal or reckless acts by our Directors or Officers.

CURRENCY

Within this Annual Report, all amounts are in New Zealand dollars unless otherwise specified.

CREDIT RATING

We do not have a credit rating.

ANNUAL SHAREHOLDER MEETING

Our inaugural annual shareholder meeting is expected to be held on Tuesday 3 December 2013 in Christchurch. We will confirm the details of the time and place by notice to all our shareholders nearer to that date.

ANNUAL REPORT

Our Annual Report is available on our website at www.synlait.com/investors/corporate-governance/ and will be emailed out to those shareholders opting for e-communication with us and our share registry. We prefer to communicate with our shareholders promptly by email without using up valuable printing resources, but any shareholder who does request a hard copy of our Annual Report will be sent one in the regular post.

FURTHER INFORMATION ONLINE

This Annual Report, all our core governance documents (our Constitution, some of our key Policies and Charters) and all our announcements can be viewed on our website: www.synlait.com/investors/corporate-governance/

DIRECTORY

REGISTERED OFFICE

1028 Heslerton Road,
Rakaia, Rd 13,
New Zealand
Telephone: +64 3 373 3000
Email: info@synlait.com

BOARD OF DIRECTORS

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

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

Ian Samuel Knowles – Independent Director

John William Penno (Managing Director) – Board Appointed Director

Ke Li – Bright Dairy Director

Zongbo Dong – Bright Dairy Director

Sihang Yang – Bright Dairy Director

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

SENIOR MANAGEMENT

John Penno – Chief Executive Officer & Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Supply Chain

Tony McKenna – General Manager Nutritionals

Natalie Lombe – General Manager Human Resources

Mike Lee – General Manager Ingredients

Neil Betteridge – General Manager Manufacturing

Michael Stein – General Manager Quality

Michael Wan – Marketing & Communications Manager

Quentin Lowcay – General Counsel & Company Secretary

AUDITOR

Deloitte
50 Hazeldean Rd
Christchurch 8024
New Zealand

LAWYERS

Minter Ellison Rudd Watts
Lumley Centre
88 Shortland St
Auckland 1010

Duncan Cotterill
1 Sir William Pickering Drive
Burnside
Christchurch 8053

James & Wells
Level 5, State Insurance Building
88 Division St
Riccarton 8041
Christchurch

BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited
Goldman Sachs New Zealand Limited

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2
159 Hurstmere Rd
Takapuna
Auckland 06022
Freephone (within NZ): 0800 467 335
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787

MANAGING YOUR SHAREHOLDING ONLINE

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

General enquiries can be directed to enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

OTHER INFORMATION

Please visit us at our website www.synlait.com

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