BUILDING

Synlait Milk Limited Annual Report 2014

MO...

BLENDING & CONSUMER PACKAGING

Our state-of-the-art blending and consumer packaging facility has world class operating efficiency and quality standards. Our customers now have a complete product supply solution with total integrity, from raw milk sourcing through to retail packaging.

COMPLETED JULY 2014.

MOMEN...

LACTOFERRIN EXTRACTION & PURIFICATION FACILITY

We're one of only two manufacturers world-wide with the capability to produce lactoferrin as a spray-dried powder. Our process is designed to protect its bio-activity and increase its solubility, something our infant formula, health food and pharmaceutical customers demand.

COMPLETED APRIL 2014.

MOMENTUM

22,500M^2 DRYSTORE

Our new 22,500m^2 drystore enables all inwards goods and finished product to be stored at our Dunsandel site. Now with product manufacture, packaging, and containerisation for export all on one site our customers can have complete confidence in the integrity of their product.

COMPLETED APRIL 2014.

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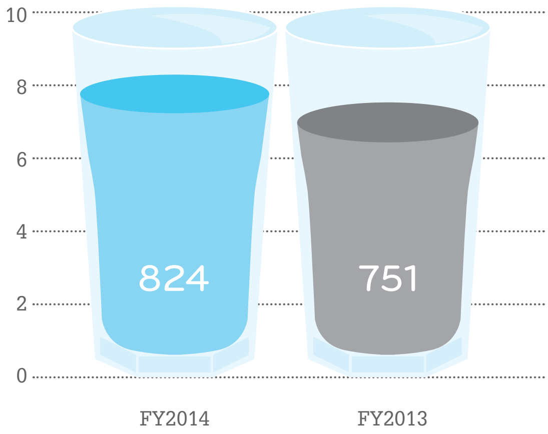
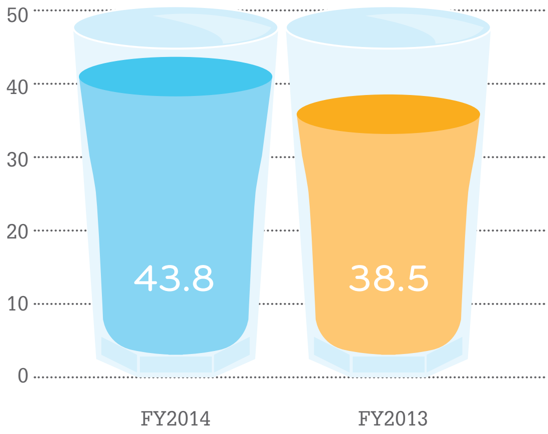
TREND STATEMENT

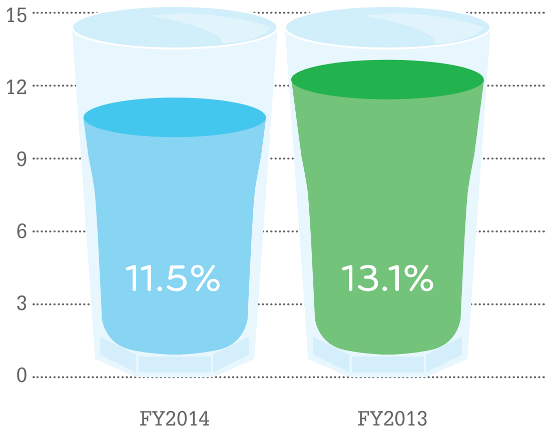
Gross Profit per Metric Tonne (MT) (NZD)



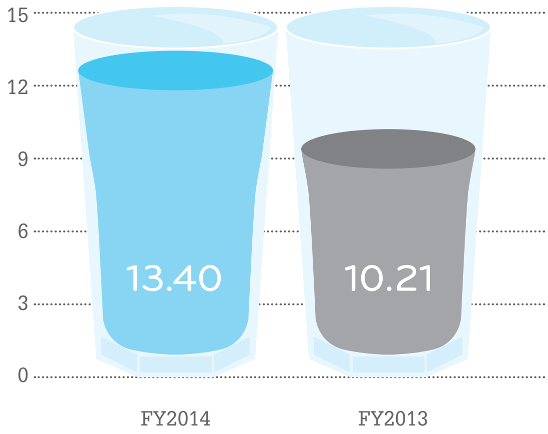
Earnings Before Interest, Taxes, Depreciation and Amortisation (In millions NZD)



Return on Capital Employed



Earnings per Share (Cents)



Trend Statement						
Currency as stated (in millions)	FY2014	FY2014	FY2013	FY2012	FY2011	FY2010
	Actual	PFI*	Actual	Actual	Actual	Actual
Financial performance						
Revenue	600.5	524.4	420.0	376.8	298.9	233.4
Gross profit	77.1	76.4	65.1	46.0	21.1	23.7
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	43.8	44.0	38.5	22.1	4.8	10.2
Earnings before net finance costs and income tax (EBIT)	32.4	32.1	28.3	13.4	-	5.3
Net profit after tax (NPAT)	19.6	19.7	11.5	4.4	(3.1)	(11.7)
Revenue (USD per MT)	5,214	4,438	3,894	3,644	3,848	2,882
Earnings per share (EPS)	13.40	13.44	10.21	5.62	(3.21)	(21.21)
Gross profit per MT (NZD)	824	832	751	594	385	462
EBIT per MT sold (NZD)	349	349	326	174	(10)	124
Net cash from / (used in) operating activities[1]	58.7	98.3	(47.1)	29.7	9.2	13.8
Balance sheet						
Total assets	476.9	380.4	346.1	277.3	245.3	151.0
Capital employed	335.2	272.4	231.0	195.3	170.8	102.4
Net return on capital employed (pre-tax)	11.5%	12.6%	13.1%	7.3%	0.0%	5.0%
Foreign exchange rate (NZD:USD)	0.81	0.81	0.80	0.78	0.73	0.64
Synlait contracted milk price (kgMS)[2]	8.27	5.80	5.81	6.14	7.66	6.21

Key Operational Metrics	FY2014	FY2014	FY2013	FY2012	FY2011	FY2010
Sales						
Ingredients	87,248	80,435	81,085	73,003	54,648	51,271
Infant formula and nutritionals	6,396	11,465	5,661	4,412	238	-
Total sales (MT)	93,644	91,900	86,746	77,415	54,886	51,271
Production						
Ingredients	89,276	79,262	81,148	76,661	53,807	49,729
Infant formula and nutritionals	7,216	11,684	10,081	4,737	608	294
Total production (MT)	96,492	90,946	91,229	81,398	54,415	50,023
Milk purchases						
Milk purchased from contracted supply	47,903	46,400	42,076	37,572	24,934	21,865
Milk purchased from Fonterra and other suppliers	2,033	-	4,692	6,453	4,524	4,525
Total milk purchases (kgMS in thousands)	49,936	46,400	46,768	44,025	29,458	26,390

* Prospective financial information.

[1] Net movements in the trade finance facility is now classified as a financing cashflow as opposed to operating cashflow. All comparative and forecast information has been regrouped accordingly.

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

CHAIRMAN'S REPORT

Graeme Milne
CHAIRMAN

Continued growth underscores our sixth year of operation. Exporting over 90,000 metric tonnes (MT) of added value dairy ingredients and nutritional powders has lifted our revenue to more than $600 million.

FINANCIAL OVERVIEW

Our focus during FY2014 has been to deliver on the promises we made to shareholders in our investment statement and prospectus on 24 June 2013. Financially, we have delivered. Revenue, at $601 million, is well above the prospective financial information (PFI) target of $524 million. Buoyant world market prices through the majority of the reporting period were a large contributor to our revenue. Profitability was on target with our PFI, with gross profit being $77 million and earnings before interest and taxes (EBIT) at $32 million. Net profit after tax (NPAT) was slightly under the PFI target of $19.7 million at $19.6 million, however this is well up on FY2013's $11.5 million profit.

Our result was achieved with a number of positives and negatives to the original plan. Positively, world market prices for our major products stayed firm for the first seven months of FY2014 and firmer than other dairy based products, such as cheese and casein, which we do not manufacture. This advantage, however, was largely eliminated by two countervailing factors.

The first was the very same high-priced market. In these circumstances, it becomes very difficult to achieve targeted premiums and gross margin for specialised ingredients. Market uncertainties in China meant our key infant formula market was the second major factor. While regulations changed and requirements were clarified, key customers were forced to delay and in some cases cancel orders, which also lead to significant stock write downs, reducing production volumes below target for the year. Despite this, the sales of infant and nutritional products were 13% up on the previous year from 5,661 MT in FY2013 to 6,396 MT in FY2014.

GROWTH INITIATIVES

The second major target in our investment statement and prospectus was to establish the next phase of the company's development, both in market and physically at our site in Dunsandel. The growth initiatives are proceeding well with three projects now completed.

Our drystore expansion was completed on time in April 2014 at a cost of $17.0 million, our new lactoferrin extraction and purification facility was completed in April 2014 at a cost of $21.9 million (the first product sales having already occurred) and our blending and consumer packaging facility was completed on time in July 2014 at a cost of $29.2 million.

As we enter FY2015, work is well underway with other growth initiatives. Construction has begun on our new administration building and quality testing laboratory, estimated to cost $21.0 million. Our next large scale infant formula capable spray dryer, dryer three (D3), is also underway with an estimated total capital cost of $135.0 million and a completion date of September 2015. Our butter manufacturing plant is currently being designed with a view to build in FY2016. These projects will equip us well for significant future growth in both scale and profitability.

INTERNATIONAL MARKET CONDITIONS

Our vision is focused on becoming a trusted supplier of choice to the world's leading milk-based health and nutrition companies. Our business is strongly influenced by the global dairy commodity market, both in terms of market prices and consequently farm gate milk prices.

In our FY2013 Annual Report we predicted high milk powder prices, in excess of USD $5,000 per MT, could not last due to consumer resistance and production increases in the United States of America and the European Union. All this has come to pass with a major reduction in commodity prices, starting in March 2014 and continuing through to the close of FY2014.

Milk powder prices have fallen from USD$5,000 per MT to less than USD$3,000 per MT in this short period. While the value of the New Zealand Dollar has decreased, these prices translate to a farm gate return of approximately $4.50 per kg of milk solids (MS) (August 2014), down from a peak of $9.50 per kgMS (February 2014). Milk suppliers will actually receive an annual average of these prices. For our milk suppliers, the average total milk price in FY2014 was $8.31 per kgMS, which was well up on FY2013's $5.89 per kgMS.

With such volatility, it is extremely difficult to predict international prices with any certainty. However, it is clear that demand from developing economies will continue to increase.

What is less clear is whether raw milk supply will be under or over demand, in a market that is currently oversupplied. The soft period is forecast to last at least until end of the 2014 calendar year and could well be longer. While volatility produces uncertainty, low or high prices are manageable within our business plan and do not fundamentally undermine profitability. We have strong risk mitigation policies and procedures around sales and foreign exchange hedging, which are both key to manage the volatility risk. Our value added ingredients and nutritional products strategies provide further resilience by not only adding margin, but also by reducing the proportion of ingredients in final products being based purely on milk.

MILK SUPPLY

Our total number of milk suppliers increased from 148 in FY2013 to 161 in FY2014. Along with the increased number of contracted farms we have reduced the average distance from supplier farms to our Dunsandel manufacturing site to 45km, bringing cost and production efficiencies. Our Lead With Pride™ farm quality assurance programme, launched in FY2013, has received strong support from our milk supply base with over a quarter of our suppliers actively working through the programme. Our second annual milk supplier conference was well received by our milk supply base and customers who attended.

PEOPLE

Many talented individuals have joined the company during the year. Staff numbers have increased from 171 in FY2013 to 238 in FY2014. Our focus on leadership development remains central to the business. During FY2014 our first leadership conference was held for all staff in leadership positions. External speakers, including myself, shared skills and insights with our team, with that knowledge now being applied throughout our business.

Dr. John Penno, our Managing Director, continues to skillfully lead the company during this period of considerable growth. John has travelled extensively this year, leading the development of key customers and markets and gaining personal insight into the Chinese regulatory requirements. My thanks go to John, the Senior Leadership Team and the whole staff for their efforts during the course of FY2014.

GOVERNANCE

Our Board of Directors have been involved in market development during FY2014, visiting key customers in Singapore and Shanghai to gain in-depth insights into customer and market dynamics.

I would like to thank all of our Directors. In particular, Bill Roest as Chair of the Audit and Risk Committee and Ruth Richardson as Chair of Remuneration and Governance Committee, who have served the company admirably. During FY2014 a comprehensive review of our Director's effectiveness was conducted by an external advisory group. Our Board is diverse in culture, ethnicity, language, gender, skills, experience and location. Several insights were gained from this review on which we will be able to leverage to the advantage of the company.

SHAREHOLDERS RETURN

Shareholders return this year was a pleasing increase of 33% from a closing share price on July 31 FY2013 of $2.61, to a closing share price of $3.46 on July 31 FY2014. The Directors, in line with indications in our investment statement and prospectus, have not declared any dividends this year. Given the continued profitable growth prospects planned, we do not expect to declare any dividends at least for the immediate future.

OUTLOOK

During FY2015 we will continue to invest in our growth initiatives, particularly D3. Improvements in returns through increased sales in the infant formula and nutritional markets will, however, be largely balanced by increased operating and funding costs. We are confident in our future outlook and look forward to continuing to work for shareholders during 2015.

Graeme Milne

CHAIRMAN

MANAGING DIRECTOR'S REPORT

John Penno
MANAGING DIRECTOR

MARKET DEVELOPMENT

Our vision of becoming the trusted supplier of choice to the world's leading milk-based health and nutrition companies is building momentum.

In the coming year we expect that approximately half of our milk powder business will be sold into the infant formula and nutritional markets.

This will be in the form of finished retail-ready infant formula marketed and distributed by our customers, infant formula base powder that is finished and retail packed by our customers, or as milk powder used as an ingredient in infant formula made at our customers' manufacturing sites.

We now produce product for four of the world's five leading multinational infant formula companies, together representing 52% of the global infant formula market by volume.

We are in ongoing discussions with each of them about developing our relationship to include increased volumes, the manufacture of higher value products as well as co-operating on research and development opportunities.

The development of these relationships supports our sales strategy to have 70% of our business with leading multinational customers. This strategy will ultimately drive increased volume, reduce the number of customers we work with and bring production efficiencies to our business.

The strategy allows for 25% of our business to be with regional market leaders, companies that hold leading positions in country specific regional markets and are typically innovative and nimble. Bright Dairy with their Pure Canterbury™ infant formula brand and New Hope Dairy with their akara™ infant formula brand are examples of regional leaders in China.

The remaining 5% of our business is targeted at companies that have a unique position in the market with growth potential and high value, such as The a2 Milk Company with their a2 Platinum® infant formula.

Our core business strategy remains firmly business to business. This enables us to scale quickly and isolates us from the risk of investing in brand development. Importantly, it assures our customers that we are not going to compete with them.

During FY2014 our new lactoferrin extraction and purification facility became commercially operational. We are now one of only two manufacturers world-wide with the capability to produce lactoferrin as a spray-dried powder, through a process designed to protect its bio-activity and increase solubility.

We have learnt our lactoferrin is well suited to pharmaceutical applications and as a result some of our largest customers have become pharmaceutical companies. This opens up some interesting new relationships for this business.

Breakdown of Sales Strategy

70% Multinationals

25% Regional Market Leaders

5% Unique Positioned Companies

CHINA REGULATIONS

While the ongoing development of the business was pleasing during FY2014, it occurred in the face of significant volatility, not only in international dairy prices but also in the regulatory regime changes for the importation of dairy products, particularly infant formula in China.

China remains the focus for most global infant formula companies due to the nation's growth, increased urbanisation, higher disposable incomes and relaxation of the 'one child' policy.

In our FY2013 financial report and FY2014 half year report, we focused on the significant regulatory changes for the infant formula industry that were occurring in China. We continue to support these changes that seek to increase the quality and safety of infant formula products available to Chinese consumers. This will ensure that only companies capable of attaining and assuring world leading quality standards are able to sell their brands in the Chinese market.

Part of the new regulatory regime is to register all factories manufacturing infant formula products for the Chinese market, and to register any brands imported into China against a registered factory. There is also a stated policy intent to ensure that there is a close association between the brands and factories such that it is clear that the manufacturing company is prepared to stand behind the quality of the branded product in the market.

Under these regulations we made an application to the Certification and Accreditation Administration of the Peoples Republic of China (CNCA) to be registered as a dairy and infant formula manufacturer in February 2014. In March we were invited, along with a small number of New Zealand companies, to present to the CNCA in Beijing. In April we were inspected by a CNCA-led audit team from China, to become an exporter of general dairy products and infant formula base powders. We passed the audit and on 1 May 2014 our factory was registered to export these products to China.

The only exception is for exports of finished infant formula to China. Documentation required to support our application for registration as an exporter of retail-ready infant formula to China was sent to the Chinese regulatory body on 28 August 2014 by the Ministry for Primary Industries (MPI). This followed the approval of our Risk Management Programme by MPI for our blending and consumer packaging plant. The brands we applied for registration against our factory included Pure Canterbury™, akara™ and a2 Platinum®.

These regulation changes were well signalled in our initial public offering (IPO) prospectus and investment statement released 24 June 2013. The development of our Dunsandel site to include long term contracts for raw milk supply, batch liquid blending and spray drying, powder blending and consumer packaging all on one site with a full label claim laboratory was designed to meet the prescribed model for Chinese infant formula manufacturers. It is not a coincidence that it is also the preferred configuration for multinational infant formula companies, as this provides end-to-end manufacturing integrity.

In fact, we are pleased to announce we have entered into a conditional agreement, subject to certain approvals, for a 25% shareholding in Sichuan New Hope Nutritional Foods Co., Ltd., the company responsible for the ownership, sale and distribution of the akara™ branded infant formula range in China. Through a small investment, the partnership will create an integrated supply chain for the manufacture, packaging, supply, distribution and sale of akara™ to consumers in China, ensuring transparency back from can to paddock.

It is pleasing to report that the disruption caused to the Chinese market seems to be easing. A large number of locally manufactured and imported brands have withdrawn from the Chinese market during FY2014, giving rise to increased demand for remaining brands. We are also seeing Chinese base powder customers returning to the international market. As a New Zealand based infant formula manufacturer, with milk supply, spray drying and blending and packaging on a single site, we believe we are well positioned to continue engaging with these customers and will continue to participate in this part of the market.

To support our growth in China we are in the process of establishing a sales office in Shanghai. This office is a shared facility with a small group of leading New Zealand primary producers, and is further supported by New Zealand Trade and Enterprise.

This recognises the importance of this market to our future, the increasing depth of relationship required with our chosen customers and the sophisticated product portfolio we have chosen to specialise in.

GROWTH INITIATIVES

Under Mike Stein, General Manager of Quality and Technical Services, we are developing our quality systems to meet the standards expected by our infant formula and nutritional customers. Under Mike's leadership, we made the decision to establish an on-site 'centre of excellence' and increase the scope of our proposed quality testing laboratory from chemical and physical property testing to include full microbiological testing, as well as integrated facilities to support new product development. This will be incorporated into the ground floor of a new building that will also provide a productive and collaborative working environment for our office-based staff.

Our blending and consumer packaging line was completed on time and commissioned in July. Customer feedback has confirmed that this is a world class line in terms of operating efficiency and product quality standards. With a processing capability of 30,000 MT per annum it is a large capacity line, making it a cost competitive solution for large volume customers.

With our target multinational customer development advancing faster than we had anticipated, we announced mid-year that we were increasing the capacity of our second large scale infant formula spray drying plant (D3) from 8 MT per hour to 10 MT per hour (whole milk powder (WMP) equivalent). Tetra Pak, who built our existing large scale infant formula spray dryer, were awarded the build contract to deliver operational efficiencies from the application of a similar design to the existing plant. This plant is now under construction with commissioning expected in September 2015, ready for the FY2016 season.

By the end of the coming year, this will give the total site processing capacity of about 150,000 MT, including 50,000 MT of infant formula products, 30,000 MT of finished consumer packed infant formula, 23 MT of lactoferrin and 25,000 MT of anhydrous milk fat (AMF). With our technical centre of excellence in place it will make our Dunsandel site one of the largest and most technically advanced infant formula and nutritional manufacturing sites in the world.

MILK SUPPLY

We continue to enjoy strong support from contract milk suppliers. In FY2014 the number of supplying farms has grown from 148 to 161. This includes replacing 20 farms that had been supplying milk from South Canterbury under Oceania contracts. These new farms are located closer to our production facility making our milk collection more efficient. All of our supplying farms are now on a standard three year contract, with all contracts automatically extending for a further 12 months on their anniversary unless one party indicates their intention to end the agreement on expiry (after a further two seasons). This means at the start of each season we have milk supply security for the next three years.

In FY2015 we expect to contract a further 40 supplying farms. This will provide the additional milk volume required for the commissioning of D3 in FY2016. The strong support we have received in FY2014 gives us confidence that we will be able to meet this target.

The Lead With Pride™ on farm quality assurance programme is becoming a key foundation to our customer development programme. Suppliers have responded favourably to this very demanding programme recognising its value, not only to our strategy, but also to their businesses. We now have approximately a quarter of our suppliers actively working their way through the programme. It was pleasing to receive approval from Environment Canterbury for Lead With Pride™ as a farm environment plan template, the first of its kind under the proposed Land & Water Regional Plan in Canterbury.

The coming season is likely to be challenging for dairy farmers with the recent period of high prices resulting in slowing demand from consumers, and significant increases in milk production around the world. These conditions have resulted in an oversupply of dairy and a rapid decline in dairy commodity prices, which will directly translate into lower farm gate milk prices.

PEOPLE

The anticipated growth in demand for our products and our developing engagement with our customers has driven the development of our team, our processes and our plant and equipment.

To recruit the right people and have them develop in their roles quickly, we have invested heavily in our human resources team. We now have a comprehensive induction process all new employees must complete, as well as extensive leadership training for all people managers.

To reflect the growing scale of the business and the way our customer relationships have developed, our Senior Leadership Team was reorganised. The most significant change was to move from two product category based sales teams, to a single customer-focused sales team now led by Mike Lee, General Manager Sales.

THANKS

Finally, I would like to acknowledge the dedication of our team.

While our Company is an exciting place to be, it is seldom easy to work in such a fast paced and demanding environment. I acknowledge all my staff for the ongoing effort they make, not only in doing their jobs efficiently and effectively, but also continually striving to improve the way we are doing things and the outcomes we are achieving.

Each and every day the Senior Leadership Team continues to rise to the challenge of working with me to lead the business as it continues to grow and develop – they are great people and I love working alongside them.

I would like to acknowledge the ongoing support that I receive from our Board of Directors. I believe that shareholders, staff, customers and suppliers are well served by a Board focused on building a great business.

I would like to thank our suppliers for their continued support and dedication to producing quality milk. Without their attention and commitment to high-quality and sustainable dairy farming practices, we would not have such a premium core ingredient for all of our products.

I would also like to thank our shareholders for their ongoing support and commitment. We continue to enjoy a strong relationship with our corporate shareholders Bright Dairy and Food Co. of Shanghai, Mitsui of Japan and FrieslandCampina of the Netherlands, who have grown their shareholding during the year from 7.50% to 9.99%. I acknowledge the support of our institutional and private shareholders. We will continue to commit to effective communication with you in order to keep you well informed and allow you to feel connected to building a great company as we continue to make more from milk.

John Penno
MANAGING DIRECTOR

BUILDING
MOMENTUM
ON THE
WORLD STAGE

OUR PARTNERSHIPS

Antonio Rivera, Vice President, Supply Chain Asia and Europe presents at our supplier conference.

SPONSORING A SPLASHING GOODTIME

The opening of the Selwyn Aquatic Centre in June 2013 was highly anticipated amongst the local Rolleston community, who had previously been without a public pool. Developed with their community needs in mind, the $14.7 million facility includes an eight lane 25 metre pool, a hydrotherapy pool with spa area, a learn-to-swim pool and a leisure pool.

A fundraising campaign was launched to fill a funding gap of $1.5 million, and $10,000 was committed to the campaign in support of the community value the centre delivers. Many of our team and their families live in Rolleston and the wider Selwyn District, and with a large number of our milk suppliers also in the area, we're well aware of how beneficial this facility is to people of all ages.

Whether it be swimming lessons, a school holiday programme for children or an aquafitness class, the fun, safe and vibrant atmosphere at the Selwyn Aquatic Centre is something we're proud to support in our community.

akara™ INSPIRED BY AKAROA

Based in Chengdu, with annual sales of around USD$8.8 billion, New Hope Group is one of the largest agribusinesses in China with more than 400 subsidiaries and over 80,000 employees.

New Hope Dairy is a leading subsidiary of the New Hope Group. The division has proven manufacturing and marketing experience in yogurt, high-end chilled milks, innovative milk products and flavoured milks.

In early 2014 New Hope Dairy launched a range of infant formula products that have been manufactured by us.

Called akara™, the infant formula is named after the French settlement of Akaroa in Canterbury. The brand mascot is a Hectors dolphin, which symbolises their brand's purity and affinity with the region.

The akara™ brand has a three tier product range in the high to mid-range price points. The product has wide distribution throughout China.

The marketing of akara™ has utilised traditional advertising such as television commercials, and has also engaged a highly sophisticated social media campaign.

Targeted at new fathers, the social media campaign has encouraged consumers to follow the akara™ brand via Weibo and WeChat (China's version of Facebook and Twitter). The campaign has also offered a competition where by consumers share photos of themselves and their new born child in order to win a trip to New Zealand to discover the home of the akara™ product.

We have hosted over 40 consumers and media as part of this promotion. During their time in New Zealand the competition winners visited our headquarters where they were able to talk with members of our Senior Leadership Team, have a tour of our manufacturing facility and visit a supplying farm and witness milking. In return, the competition winners shared their experiences via social media.

To further support the social media campaign, we work alongside one of our milk suppliers to write a weekly blog that is shared with their Chinese consumers educating them on what happens on farm to create the milk for infant formula.

Sales of akara™ have been successful and over the coming financial year the product will be one of our leading infant formula customers.

ADVANCING NUTRITION WITH MEAD JOHNSON

Headquartered in Glenview, Illinois, Mead Johnson is a global leader in paediatric nutrition.

For more than a century, Mead Johnson has led the way in developing safe, high-quality and innovative products to help meet the nutritional needs of infants and children.

With more than 70 products in over 50 countries and more than 7,000 staff, Mead Johnson products are trusted by millions of parents and healthcare professionals around the world.

Mead Johnson is committed to advancing the science of paediatric nutrition around the world. To further its efforts, the company has established the Mead Johnson Paediatric Nutrition Institute (MJPNI). The MJPNI connects innovative scientific technology and research with cutting-edge manufacturing, as well as educational initiatives for academics, healthcare professionals and consumers.

We were pleased in FY2014 to start supplying Mead Johnson with added-value milk powder products. Securing this contract was a major milestone for us and marks the start of what we believe will be a long-term partnership with the company.

A testament to the nature of our relationship, representatives of Mead Johnson attended and presented at our FY2014 milk supplier conference. Our milk suppliers greatly appreciated hearing from Mr. Antonio Rivera, Vice President, Supply Chain Asia and Europe at the event.

THE PLATINUM STANDARD IN INFANT FORMULA

New Zealand-listed company The a2 Milk Company™ has a distinct point of difference in the global dairy market.

While most cow's milk contains both A2 and A1 beta-casein protein, The a2 Milk Company™ markets and distributes milk products that exclusively contain the A2 protein. It is believed a2 Milk™ is easier on digestion. Evidence suggests this is due to the milk being free of A1 beta casein. Interestingly this makes milk free from A1 beta casein more like human breast milk, which is also 'A2' like in terms of protein structure and the way it digests. The company has had success in Australia with fresh milk products. a2 Milk™ is Australia's fastest growing milk brand in supermarkets achieving approximately 9% value share.

In early 2012 we entered into a supply agreement with The a2 Milk Company™. This involved working with a number of our milk suppliers who had expressed an interest in converting their herds to cows that don't produce the A1 beta casein protein. This involves a simple and non-invasive proprietary DNA test to select and segregate the cows to exclusively produce milk that is naturally free of A1 beta casein.

Today 17 of our supplier farms take part in supplying a2 Milk™. In addition to on-farm genetics, a2 milk™ must be collected and processed separately from our standard milk supply.

The milk produced by our supplier farmers and processed by us is used to create a2Platinum®, the only infant formula range using exclusively the all-natural A2 protein and free from A1 beta casein protein.

Launched in 2013, the product is distributed in China, Australia and New Zealand.

To date sales of a2 Platinum® have exceeded expectation, particularly in the Australian market. It is forecast over the coming financial year that a2Platinum® will be one of our leading infant formula customers.

We continue to work collaboratively with The a2 Milk Company™ to provide sales and marketing information for promotional purposes and hosting media and distributor delegations at our facility.

SUPPLIER CONFERENCE 2014: DESTINATION

Fostering understanding between our raw milk suppliers and our customers is of particular importance to us.

Creating this link allows our milk suppliers to gain a better appreciation for the high standards our customers expect and our customers are able to witness the level of passion our supplier base has for producing high quality milk.

The key event we have for encouraging this relationship is our annual milk supplier conference. The conference connects suppliers with where their milk goes. This year over 300 of our milk suppliers and rural professionals attended the day conference and gala dinner, themed 'Destination', to build the connection between our suppliers and customers.

Guests enjoyed market commentary from ANZ Chief Economist Cameron Bagrie and DairyNZ Principal Scientist Dr.John Roach, in addition to hearing from representatives from some of our customers, including Mead Johnson, New Hope Group and Hoogwegt Australia.

Following the day event guests enjoyed a gala dinner that featured cultural elements and a menu inspired by our largest export market, China. During the course of the evening, guests were entertained by All Black legend Eric Rush's travel stories.

Feedback from delegates and international guests was largely positive, with many looking forward to next year's event.

SHANGHAI PRESENCE

As our nutritional business grows in China, we've partnered with other primary industry businesses in New Zealand to establish a shared services company in China. Once established, this company will be a wholly foreign owned enterprise (WFOE). It will provide office facilities and administrative support staff in central Shanghai for representatives of members working in the dynamic Chinese market.

For us, this partnership is another step in building our relationship with customers and decision makers in the Chinese market.

We think our on-ground presence will enhance our reputation in China, ultimately building and communicating awareness of our mission to supply the world's best milk products and nutritional ingredients to the world.

OUR PLACE

Looking after our place is important to us. We've implemented several initiatives to manage our impact on the environment, and this year our focus was to build on these and realise their environmental benefits.

LEADING WITH PRIDE

Our Lead With Pride™ programme has been well received in its second year. More than a quarter of our milk suppliers are currently working through the programme in a commitment to dairy farming excellence.

The four pillars of environment, animal health and welfare, milk quality and social responsibility set out criteria benchmarked against best practice.

Canterbury's regional council, Environment Canterbury, approved Lead With Pride™ as their first farm environment plan template in July 2014.

Dairy farmers have obligations under the Canterbury Water Management Strategy to manage environmental risks effectively, and Lead With Pride™ exceeds the minimum requiremen ts to achieve this.

"We hope the farm environment plans that come from this template are valuable both for farmers and for Synlait," said Bill Bayfield, Chief Executive of Environment Canterbury.

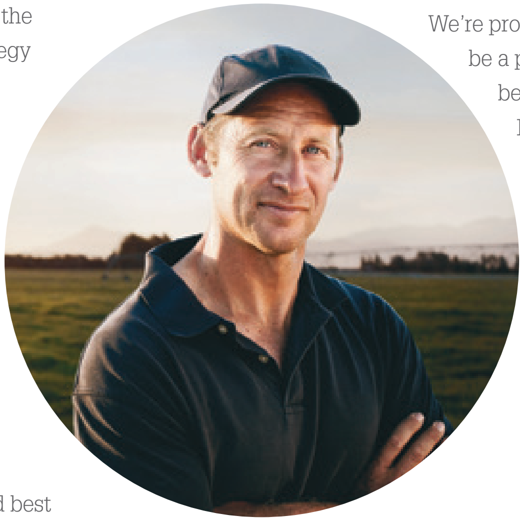
To see how Lead With Pride™ demonstrates industry leadership and best practice, visit synlait.com.

RECOGNITION FOR ENVIRONMENTALLY MINDED SUPPLIER

Our inaugural Supplier Environmental Award was announced at the 2014 Supplier Conference in July 2014. Recognising environmental leadership, the award celebrates how agricultural production can go hand in hand with environmental preservation.

A South Canterbury supplying farm, owned by New Zealand Super Fund and operated by Aaron and Frances Coles, won the award for their hand in preserving the quality of Ohapi Creek, a freshwater stream that runs through the farm. Fencing stock off from waterways, carrying out riparian planting and maintaining water quality on farm led to the site being chosen to release 7,000 young salmon for the second year in a row.

We're proud that this farm was chosen to be a part of the joint conservation effort between Fish and Game and the McKinnons Riparian Support Trust.



LEAD WITH PRIDE™

CERTIFIED
BEST PRACTICE
DAIRY FARMING

SUSTAINABLE DAIRYING ACCORD

We are committed to the Sustainable Dairying: Water Accord (SDWA), a New Zealand memorandum of understanding (MoU) amongst dairy industry regulators, associations and businesses to enhance the overall performance of dairy farming as it affects freshwater.

SDWA requires dairy farms to exclude dairy cattle from significant waterways and wetlands, undertake riparian planting where benefits to water quality exist and ensure crossing of dairy cattle will not result in the degradation of waterways.

Many of our suppliers have already fulfilled SDWA requirements through their involvement in Lead With Pride™, with 97% of waterways already mapped and systems in place to monitor and manage nutrients, effluent waste and water use. We will work with existing and new suppliers to ensure they fulfil their role as responsible dairy farmers, and we deliver on our commitment to SDWA.

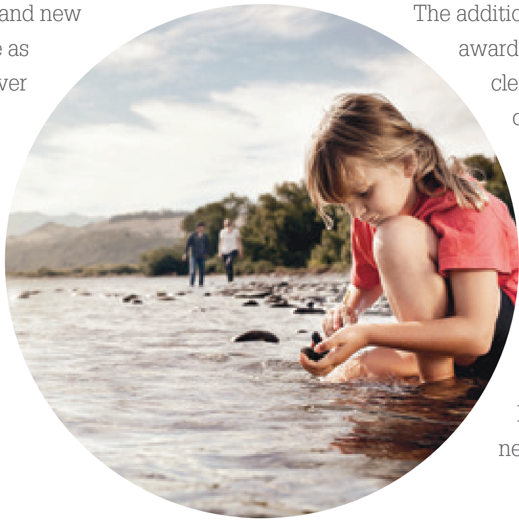
RESPONSIBLE DAIRY PROCESSING

Our Dunsandel site is evolving each year as a result of growth initiatives. Making sure we take care of our environment is a focus for us, and we share the passion of our customers and suppliers for being a responsible dairy processor.

A review of our site stormwater system identified the opportunity to enhance infrastructure around heavily trafficked areas by reconstructing our infiltration basin. Replacing the original basin allowed us to meet current best practice standards, with a design that simplifies functionality and maintenance.

We undertook measures to refine and expand our loss monitoring system. Integrating turbidity sensors and continual samplers into the plant enables us to collect more robust data and better quantify our waste streams. The addition of a rapid infiltration basin awards further gains in managing our clean wastewater stream, effectively conveying large volumes of clean wastewater quickly and safely to the ground. As a net positive water user, we return more water to the environment than we use to operate.

We will continue to deliver on our environmental commitment and look forward to other initiatives in the next financial year.



22,500M² OF ADDITIONAL STORAGE

The second of our six growth initiatives identified during our initial public offering was completed in April 2014.

The 22,500m² drystore now gives us the capability to warehouse all finished product and inbound goods at our Dunsandel headquarters.

The additional space also provides our customers with increased confidence with packaging and containerisation for export, now occurring at a single site.

Increased drystore capacity was required to meet our growing processing ability with the addition of D3 in 2015.

However, there was also a need to consolidate our previous warehousing options that had become increasingly fragmented in post-earthquake Christchurch, as the availability of food grade warehousing had decreased.

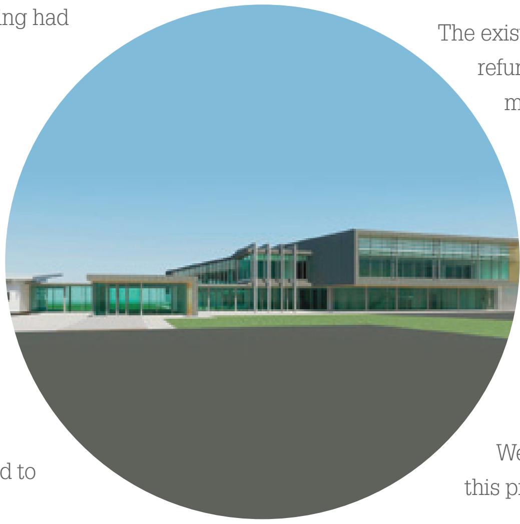
The new drystore has a capacity of 30,000 pallet spaces and increases total site capacity to 35,000 pallet spaces.

Storing and exporting our product from one site has increased operational efficiencies. Prior to our increased capacity, finished produced was handled a minimum of nine times before export, today that has reduced to a minimum of four times.

Less handling of finished product dramatically reduces our risk of product damage and also reduces our staffing costs.

In addition to the drystore expansion, the site also features a new fleet of forklifts. These are equipped with the latest emissions technology, anti-collision software and speed limiters that help to keep our people safe.

We are now looking forward to developing further efficiencies and flexibility with the confirmation of Lyttelton Port and Port of Tauranga developing in-land ports at Rolleston, a short distance from our Dunsandel site.



DEDICATION TO A SINGLE SITE

The rapid growth of our business has resulted in there being a shortage of office space. Currently this has been resolved through the purchase or lease of portable buildings. However, this has long been recognised as a short-term solution.

Our long held vision has been to position our Dunsandel site as the ‘flagship’ site for the Company. To support this vision a master planning exercise was undertaken with architecture firm Jasmax, leading to the existing concept and design that we have today incorporating a modern administration office and a state-of-the-art quality testing laboratory.

Following this, Calder Stewart were awarded the construction project and have now completed building designs and are preparing the site for building. Unispace is leading the interior design and internal fit out of the administration office.

The existing permanent office space will be refurbished to a high standard to provide meeting spaces, a café and additional staff facilities.

Due for completion in June 2015 the new building will accommodate all administration staff, physically connect the administration office and the manufacturing facilities, support a number of working styles and promote our vision of being one team.

We look forward to sharing more about this project with you in the future.

OUR PROCESS

THE FORMULA OF OUR BLENDING AND CONSUMER PACKAGING FACILITY

Our blending and consumer packaging facility was completed in July 2014.

It was our intention to build the best facility of its type in the Southern Hemisphere, and feedback from customers who refer to the plant as 'next generation' affirms our goal.

The $29.2 million facility can process 30,000 MT per annum, or up to 110 cans per minute. The facility is capable of processing both 400 gram and 900 gram can formats and is designed for expansion toward other packaging variants.

The plant features leading European equipment and a three-zone hygiene system. Automation has been effectively used throughout the line to reduce the amount of physical handling of product and a purpose built in-process lab inspects every can that is processed through the plant.

The commissioning of our blending and consumer packaging facility now offers our customers a complete supply chain solution from raw milk sourcing and collection through to retail packaging with minimal handling all at our Dunsandel site.

LACTOFERRIN EXTRACTION AND PURIFICATION FACILITY

Construction of our lactoferrin extraction and purification facility began in September 2013, with commercial production starting in April 2014. The project involved a significant upgrade to our specialty milks dryer (SMD), and the initial scope was expanded to deliver a pharmaceutical-grade facility in direct response to customer demand and market forecasts. The final capital cost was $21.9 million, up from the original budget of $15.1 million and the FY2014 interim revised budget of $19.2 million.

Lactoferrin is a key ingredient in infant formula, nutritional and over the counter (OTC) products. Found naturally in human breast milk, it offers several health properties through a range of functions from iron binding ability to having antimicrobial, anti-inflammatory and antioxidant benefits.

Our facility is one of two world-wide capable of producing spray-dried lactoferrin. We now have a process that enables command over the powder particle shape, density and morphology that results in improved dissolvability, coatability and protects its bio-activity. Coatability is a crucial component in the production of tablets, which form the backbone of the OTC market. Spray-dried lactoferrin contrasts with the more commonly freeze-dried and milled lactoferrin, which often contains particles that can be more difficult to dissolve, compress and coat.

Currently, global demand for lactoferrin exceeds supply.

We are targeting sales of 15 MT in FY2015. The global market for lactoferrin in 2012 was 185 MT, and this is projected to grow to 262 MT in 2017. We're looking forward to working with our customers to apply further innovation in this high value nutraceutical ingredient.

QUALITY UNDER THE MICROSCOPE

Located on the ground floor of our new administration building, construction of our new quality testing laboratory begun in August 2014 and is due to be completed in June 2015.

A dedicated team has spent the past year designing a technical centre of excellence to support our vision of becoming a trusted supplier of choice to the world's leading milk-based health and nutrition companies. The centre will encompass a world class quality testing laboratory, product development laboratory, pilot scale plant, sensory analysis facility and finished product / raw material sampling facilities.

This investment will provide several benefits:

- Strengthened internal technical capabilities for food safety, quality, regulatory compliance and product / process development.
- Appeal to leading scientists and food technologists.
- Continue our high quality standards consistently and efficiently.
- Greater control of the quality testing process.
- Improved testing timeframes.
- Faster product release to our customers.

Eurofins, a global leader in contracted laboratory services, have been engaged to incorporate leading edge technologies and best-in-class operating systems into our design.

Over the past year, we've recruited several chemists, microbiologists and lab specialists to serve on the project team, and ultimately manage the laboratory on completion.

We will work closely with International Accreditation New Zealand for independent, best-practice accreditation. This ensures the laboratory not only fulfils regulatory requirements, but meets the exacting standards our customers have come to know and expect from our products and processes. Additionally, the laboratory will also be certified to ISO 17025 standards, the globally recognised standard developed specifically for testing laboratories.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OUR PEOPLE

CREATING A LEADERSHIP CULTURE

We continue to invest in developing and growing our people, giving us great leaders at every level of our business.

With the introduction of Blanchard's Situational Leadership II (SLII) programme in 2013, we now have more than 50 people leaders and emerging leaders fully trained in this cornerstone leadership model.

Delivered internally by our own certified trainers, SLII provides a foundation for delivering on our four key leadership competencies: managerial, customers, personal leadership and leading others.

All of our people leaders attended our first Leadership Conference in July 2014. Joined by three Board members, each person committed to undertaking one positive leadership action at work.

These commitments range from working closer with colleagues and improved sharing of knowledge to improving the communication of our strategic plan and making changes to the way we hold meetings.

Guest speakers included Graeme Milne (Chairman, Synlait Milk Board of Directors), Sam Knowles (Director, Synlait Milk Board of Directors), Richard Smith (High Performance Leader, Crusaders Rugby Team) and Richard Searle (Mt Eliza Executive Education).

We also support our current and emerging leaders with a range of professional development opportunities throughout the year, including scholarships for Outward Bound and higher education.

Three staff are currently completing the Waikato Institute of Technology (WINTEC) Diploma in Dairy Processing. The qualification focuses on the science behind dairy processes, giving students a deeper understanding of the manufacturing process. A year into the qualification, they're already applying newly acquired knowledge in their current roles.

Nine staff will complete NZQA Certificate of Business (First Line Leadership) course, which has been tailored to us and delivered in-house by Blue Mercury Leadership. Each person has completed a continuous improvement project within the business, and will present their results to the Senior Leadership Team in October as part of the course.

SYNLAIT 101

Introduced in 2013, our orientation programme for new staff has been refined and formalised into a three day overview taking place in the first week of starting at the Company. The programme is designed to help new staff be excited about their role and understand how different teams work as one to make more from milk.

The programme gives a complete overview of the journey of milk from pasture to customer, it also introduces our safety culture, performance development system and leadership model helping to build a strong understanding of how the Company operates from day one.

Presentations from various staff introduce different teams within the Company, from milk supply to marketing and energy management to plant operations. A clear focus is on staff being comfortable in their new environment. A site tour, warehouse tour and factory tour are given and a tanker trip to collect milk from several farms completes the programme.

EVERYONE HOME SAFE EVERY DAY

Our focus is on proactive engagement with our people to continually achieve high participation with our safety systems and processes. This begins with our new employee programme and continues with regular updates and monitoring.

Safety the Synlait Way is our unique programme that will deliver on our health and safety strategy.

It focuses on developing initiatives around the leadership, capability and engagement of our people, as well as implementing positive performance indicators through compliance with a business-wide safety management system.

You can read more about health and safety in Our Governance on page 34.

GREAT PEOPLE

We have a strong workplace culture and a big part of that is the diversity of expertise and experience amongst our people, which we encourage to maintain a dynamic and engaging environment.

We employ approximately 238 people and we'd like to introduce you to a few.

Liz Ireland[1] and Stuart Nicholls[2] joined us as University of Canterbury graduates in February 2014. Both hold a Masters of Engineering in Management, and undertook a specialist six-month project with us in 2013 to complete their study.

Liz produced a feasibility report for our Quality and Technical Services team, looking at how buttermilk - a by-product of anhydrous milk fat (AMF) manufacture – might be used to produce a new value-added product.

Stuart supported the Operations team to develop a production scheduling tool. The tool was designed to support staff focusing more on processing and less on scheduling, which is crucial during peak production periods.

Stuart now works with our Business Planning and Optimisation team as a manufacturing and quality analyst. Liz is now a lactoferrin operator in our Manufacturing team, having been a validation engineer since February 2014.

Aaron Shaw[3], Jamie Routhan[4] and Silvia Dominciano[5] were awarded scholarships to study for the New Zealand Diploma in Dairy Processing in 2013.

Aaron has been with us for five years and is a process leader. His leadership is already benefiting from his study with a better grasp of technical problem solving, helping his operating teams to maintain a high quality product throughout manufacturing.

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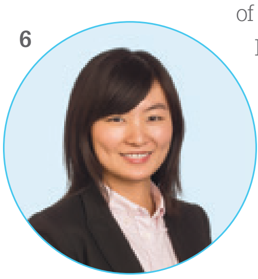

Jamie has recently taken on the role of shift leader, building on his four years' of experience in our production plant. With responsibility for a shift of 12 staff and five process plants, he's excited by the opportunities the Diploma will create for him. Once he has competed his course, he will be further qualified to oversee technical and quality aspects throughout the wider manufacturing process.

Silvia Dominciano studied animal science in Brazil and brings several years of New Zealand dairy farming experience to her role as research officer in the Quality and Technical Services team. Silvia's knowledge of dairy breeding and nutritional management from farming is useful on a daily basis. With the addition of dairy manufacturing knowledge from the Diploma, she contributes to the high-value products we produce via our specialty milks dryer (SMD).

Vivian Chen[6] brought three years of experience with the Chinese dairy industry to her role as sales support officer in May 2013. Joining us directly from Shanghai, Vivian is now a regional customer services manager for our customers in China and meticulously tracks their products throughout the manufacturing process. From assisting with canning production forecasting to monitoring quality grading and managing final logistics, she contributes significantly to the customer experience we're proud of and known for.

Vivian connects customers with our Dunsandel site on a daily basis, drawing on her personal knowledge of the China market to help customers like New Hope and Bright Dairy understand exactly what's going on at every step of the way. Outside of work, Vivian has embraced the Kiwi culture and is known to give her colleagues a run for their money in our social touch rugby team.

OUR FUTURE

In the initial public offering prospectus we outlined a series of growth initiatives that we had planned to undertake to expand our capacity and product offerings.

We are now one year into the three year build programme and have made significant progress on these builds. This report outlines our current status on each of our significant projects.

1. Blending and Consuming Packaging

Construction of this plant is complete and it was commissioned in early July 2014. We have now received Ministry for Primary Industries approval of our Risk Management Plan, and are therefore able to manufacture and export products from this plant. Due to enhancements made to the original specification of the packaging line and associated plant, the annual capacity has been increased.

Status:	Completed
Capacity:	30,000 MT per annum (original capacity 17,500 MT)
Total Cost:	$29.2 million (original budget $27.5 million)
Commissioned:	July 2014

2. 22,500m² Drystore

The construction of the drystore was completed on time. All inventories, previously held on site and across four other external locations were consolidated into our full on site drystore facilities totalling approximately 35,000 m². As noted in our Interim Report, the company decided to bring forward the build of the drystore associated with our D3 project due to the considerable cost savings available by building all the additional drystore space at the same time.

Status:	Completed
Capacity:	22,500 m² (original capacity 12,500m²)
Total Cost:	$17.0 million (original combined budget $19.5 million)
Commissioned:	April 2014

3. Lactoferrin Extraction and Purification Facility

This facility was completed and commissioned on time but ahead of previously advised budgets. The additional capital cost reflected the increased scope of the design of the facility combined with the significant improvements made to the existing special milks dryer used to spray dry the lactoferrin product. In the period to year end 4 MT of lactoferrin powder was manufactured, with 2 MT sold and delivered. We expect to sell 15 MT of lactoferrin in FY2015.

Status:	Completed
Capacity:	23 MT per annum
Total Cost:	$21.9 million (revised FY2014 interim report budget $19.2 million, original budget $15.1 million)
Commissioned:	April 2014

4. Quality Testing Laboratory and Administration Building

Construction of our quality testing laboratory and administration building is underway as a combined facility. The quality testing laboratory includes new product development facilities and will lead to significantly reduced external quality testing costs over time. The administration offices are being scoped to ensure capacity for future growth of the business and will allow the Company to continue to maintain our head office at our Dunsandel site.

Status:	Construction started
Expected Total Cost:	$21.0 million (original budget $8.4 million)
Expected Commissioning Date:	June 2015 (revised interim report date February 2014, original date August 2014)

5. Dryer 3

The construction of our third large scale spray dryer is underway. This infant formula capable dryer is due to be commissioned in September 2015 in time for the start of the FY2016 milk season. The dryer contract was awarded to Tetra Pak and the new 30 MT boiler was awarded to RCR Energy.

Status:	Construction started
Capacity:	10.5 MT per hour on whole milk powder equivalent (original capacity 8 MT per hour on whole milk powder equivalent)
Expected Total Cost:	$135.0 million (original budget $103.5 million)
Expected Commissioning Date:	September 2015 (original date August 2015)

6. Ammix Butter Plant

While planning for the build of a butter plant continues, it is now likely that the build of this facility will be deferred until FY2016.

Status:	Planning
Capacity:	7 MT per hour (25,000 MT per annum or 40,000 MT per annum with external cream source).
Expected Total Cost:	$15.0 million
Expected Commissioning Date:	TBC (original date May 2015)

7. Tanker Fleet Yard

Whilst not part of our major capital works, we have also undertaken the build of a tanker fleet yard and associated maintenance workshop for the fleet of milk tankers that are provided under contract with Hilton Haulage. This facility is expected to be completed in September 2014 at a cost of $1.8 million.

ON THE MAP THE AREAS IN DARKER BLUE ARE COMMENCED PROJECTS WITH THOSE IN LIGHTER BLUE STILL IN THE PLANNING.

OUR REMUNERATION

We have an established Remuneration Policy.

Our aim is to attract, reward and retain staff with skills and capabilities to ensure the successful business outcomes by providing a remuneration environment focused on productivity, performance and accountability.

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 Leadership Team and the Managing Director.

Our Senior Leadership Team and our employees' remuneration details (including the Managing Director's) are set out in the 'Statutory Information' section. We also assess our Senior Leadership Team's performance annually and director's fees biennially (the last assessment was in 2013).

We have the following share incentive plans in place for our staff:

– Senior Employee IPO Incentive Scheme:

This scheme provides an incentive to retain senior executive's post IPO for a period of 3 years, vesting a set number of Synlait 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 (NPAT) 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 targets (including FY2014) were met, the total cost of the scheme would approximate $1.9m.

The FY2014 targets were not met.

– Staff Short Term Incentive Share Scheme:

The targets were not met and the Scheme is therefore now expired. For further information about the scheme please refer to note 21 of the annual finanical statements.

SHORT TERM INCENTIVE SCHEME

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

For employees below Senior Leadership Team level the short term incentive 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 Leader manager level the short term incentive opportunity ranges from 20% of based remuneration for direct reports to the Managing Director and 40% of base remuneration for the Managing Director. The staff, including Senior Leadership Team, short term incentive is awarded based on exceeding budgeted NPAT (40%), and personal performance hurdles (60%).

SUPERANNUATION

We participate in Kiwi Saver, and pay the employer contribution of 3% to all employees participating in Kiwi Saver.

OUR GOVERNANCE

Our momentum continues to build due to our strong governance framework and continual focus on implementing effective policies that create excellence within the workplace.

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 since 23 July 2013 (see the code "SML" on www.nzx.com).

While we are a young public company, we are very fortunate to have a track record of a very strong governance framework before we were listed.

In 2014 we have continued from this excellent foundation, and have made further improvements designed to ensure we are a professionally run organisation you can trust.

Some of our governance highlights for 2014 are:

- Extensive review and fine tuning of our Delegated Authorities Policy to better align the relevant levels and ensuring any perceived risk areas are well covered.
- Development and adoption of an integrated Risk Management Framework.
- Full external review of the performance of our Board, individual Directors and suggestions for improvements.
- Full review and confirmation of our Strategic Plan - including a refresh of our 5 Year Plan and development of our 10 Year Strategic Plan.

We continue to be 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, efficiently and effectively managing Synlait Milk to deliver on the results we all expect.

We are a non-standard Company in terms of NZX listing requirements, with certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in our Statutory Information section (page 98), but generally the waivers concern the appointment of our Directors.

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.

All our Directors are profiled on page 39 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).

In 2013 at our last Annual General Meeting (AGM), John Penno, Sam Knowles and Graeme Milne all retired and were re-elected unopposed to their Director position. At the Annual General Meeting, scheduled for December 2014, Bill Roest will be retiring in accordance with our Constitution but is standing for re-election.

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

In 2014 we conducted a full review of the performance of our Board and all Directors. This was facilitated by an external consultancy firm, who separately talked to each Director.

The major findings from this review:

- The Board is functioning to a high level in terms of "…efficiency, strong ethics, trust and thoroughness in carrying out the process of Board meetings and conducting business of the Board."
- The Board "…has developed clear protocols in its frequency of meetings, distribution of papers and managing the minutes and outcomes of Board meetings in order to govern the organisation and drive its performance."

Areas agreed for focus next year for the Board, are:

- An increased focus on in-depth workshop sessions for the Board on more complex issues.
- Continuing in-market visits and development of industry and customer engagement.
- Assess the development opportunities for individual Directors.

OUR BOARD COMMITTEES

We have 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 Hon. 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 Milk 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.

We also have a standing committee appointed:

- **Disclosure Committee** – chaired by the Managing Director (other members being the Chair of the Board and the Chief Financial Officer (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" that is required to be disclosed to the market under the NZX Listing Rules is immediately disclosed.

POLICIES AND CHARTERS

In 2013, a major new initiative was the completion of the integrated Risk Management Framework for the Company. This is a series of policies and plans which tie together the various risk management structures we already have in place in the Company, and then report those up through the Senior Leadership Team and ultimately to the Board.

The Framework consists of the:

- **Risk Management Policy:** This sets out the high-level appetite of the Company for risk and identifies the major risk categories. It established the Board's commitment to risk management. The Policy links all the underlying documents together (so provides the overall Risk Management Framework).
- **Risk Management Procedures & Guidelines:** This is a more detailed document, that sets out how we identify and define what is a "risk" (as opposed to an "incident" or a "hazard"), sets the levels for the severity and likelihood of a risk occurring (producing a "risk assessment"), and introduces the capturing of risks in functional areas through the Risk Matrix.
- **Crisis Management Plan:** Defines what is a "crisis", and puts the practical operational procedures in place to manage that crisis event should it ever occur.
- **Incident Management Plan:** Defines what is an "incident" and puts the operational procedures in place to manage an incident.

We have also successfully conducted three dry-run trials of our Crisis Management Plan, involving various levels of the Company in hypothetical scenarios.

Our development of a sustainability and environmental policy is still a work in progress, but we have made significant progress. The environment plan template within our "Lead With Pride™ programme was approved by Environment Canterbury as the first farm environment plan template under the proposed Land & Water Regional Plan. We are also are currently going through a revised District Plan process.

Also in 2014 we continued with the implementation of the Sustainable Dairying: Water Accord. This is dealt with in more detail in the Our Place section of this Annual Report (page 20).

In addition, in accordance with recognised best practice governance, we have in place the following essential corporate governance documents (amongst others):

- Board Charter: This guides 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 and Risk Committee Charter and Remuneration and 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 foreign exchange, 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 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 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 Leadership Team 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 interest are set out in Statutory Information section (page 96).

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.

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 have a continuing commitment to health, safety and wellness at Synlait Milk.

Our vision is: Everyone home safe 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 and 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

LEFT TO RIGHT;
BILL ROEST,
SIHANG YANG,
RUTH RICHARDSON,
GRAEME MILNE,
KE LI,
JOHN PENNO,
ZONGBO DONG
SAM KNOWLES

The Board of Directors in the recently completed drystore. For Health and Safety Purposes containerisation was not operational during this photo-shoot.

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. He is a director of Synlait Milk Limited and Synlait Milk Finance Limited.

Bill's long and varied career included 12 years as Chief Financial Officer of Fletcher Building Limited until April 2013. He has held several leadership roles in New Zealand's corporate sector, including Managing Director of Fletcher Residential and Fletcher Aluminium.

Bill is also a director of Housing Foundation Limited, Metro Performance Glass and Fisher and Paykel Appliances Holdings Limited, where he chairs the Audit Committee. Bill is a member of the Institute of Directors, Chartered Accountants Australia and New Zealand and an Association of Chartered Certified Accountants (UK) fellow.

Sihang Yang

BRIGHT DAIRY APPOINTED DIRECTOR

Yang was appointed a director of Synlait Milk in August 2010. With 15 years of industry experience, he is Bright Dairy & Food Co.'s director of strategy and research and director of several Bright Dairy subsidiaries.

Yang previously worked for Heilongjiang Dairy Group as the director of technology and subsequently as the director of quality assurance. He was later appointed the secretary-general of Heilongjiang Dairy Industry Association and a director of China Dairy Industry Association.

Yang is currently a director of Synlait Milk Limited, Synlait Milk Finance Limited and Zhejiang Hai Hua Dairy Co., Ltd. He holds a master's degree in food science and engineering.

Hon. Ruth Margaret Richardson

NON-EXECUTIVE DIRECTOR, CHAIR OF REMUNERATION AND GOVERNANCE COMMITTEE

A professional company director, Ruth specialises in agribusiness, commercialising innovation, information technology and finance. Ruth joined the Synlait Group as the first independent director in 2004. Ruth was the Member of Parliament for Selwyn (Synlait Milk's base) from 1981 – 1984 and later New Zealand's Minister of Finance from 1990 to 1993.

Following her political career, Ruth established herself as a public policy consultant and accepted a range of corporate governance roles. Ruth is currently Chairman of Jade Software Corporation Limited, SYFT Technologies Limited, Kiwi Innovation Network Limited (Kiwinet), The New Zealand Merino Company and the Kula Fund Advisory.

She is a director of Synlait Milk Limited, Synlait Milk Finance Limited. Previous governance roles include Dairy Brands, the Reserve Bank of New Zealand and Wrightson Limited. Ruth holds a Bachelor of Laws (with honours) from the University of Canterbury.

Graeme Roderick Milne

CHAIRMAN (INDEPENDENT)

Graeme joined the Synlait Group as a director in 2006. With extensive experience, his career in the dairy industry has seen him working in New Zealand, Australia and Europe. He is the Chairman of Synlait Milk Limited and Synlait Milk Finance Limited.

Graeme was appointed CEO of Bay Milk Products in 1992, and has held several leadership roles since then. This included CEO of the New Zealand Dairy Group prior to the formation of Fonterra and interim CEO of Richmond Limited and Bonlac Limited in Australia.

Now a farmer, Graeme maintains several governance roles with a range of organisations. He is the chairman of the Terracare Fertilisers Limited, New Zealand Pharmaceuticals Limited and Johnes Disease Research Limited. Graeme is also a director of Genesis Energy Limited, FMG and Alliance Group Limited.

Ke Li

BRIGHT DAIRY APPOINTED DIRECTOR

Li was appointed a director of Synlait Milk in August 2010. Li is currently a director of Synlait Milk Limited and Synlait Milk Finance Limited.

Li has worked for Bright Dairy for over 12 years. During her years at Bright Dairy, Li's sales and marketing expertise has helped the significant growth of many different Bright Dairy brands, including the Bright brand. Li leads the team tasked with promoting Pure Canterbury™ infant formula products in China, which has achieved remarkable growth in the last few years.

A vice president of Bright Dairy & Food Co., Ltd and head of marketing, Li also heads Bright Dairy's public relations department.

She is a director of a number of Bright Dairy subsidiaries. Li holds a Master of Business Administration from La Trobe University, Melbourne.

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 Synlait Milk Finance Limited, Synlait Farms Limited (which is a supplier of raw milk to Synlait Milk) and Synlait Farms Finance 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 leader's award from the Sir Peter Blake Trust and was also awarded the Federated Farmers inaugural agribusiness person of the year.

Zongbo Dong

BRIGHT DAIRY APPOINTED DIRECTOR

Dong was appointed a director of Synlait Milk in August 2010. Currently he is a director of Synlait Milk Limited and Synlait Milk Finance Limited.

Since 1985, Dong has worked in accounting and finance roles for the dairy industry. Dong was appointed vice general manager and CFO of Shanghai Danone Yogurt and Cheese Co., Ltd. in the 1990s.

He oversaw 16 Bright Group subsidiaries merge into the Bright Dairy & Food Co., Ltd. structure.

He became CFO for Bright Dairy & Food Co., Ltd in 2007. Dong is currently a director and supervisor for a number of Bright Dairy subsidiaries, is a member of the Institute of Public Accountants (Australia) and has certification granted by China Association of Chief Financial Officers.

Sam Knowles

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

Sam has held senior executive positions in major banks in both Australia and New Zealand, and is currently a director of Synlait Milk Limited and Synlait Milk Finance Limited.

He has extensive experience in private and public sector governance, with more than 12 years on several boards of NZX listed companies, including as Chairman of Xero. He had a key role in establishing Kiwibank, leading the company from being a start-up to a large successful business.

Sam's governance roles focus on growth businesses. He is Chairman of Partners Life, OnBrand Partners and Umajin Limited. Sam is also a director of TrustPower, SLI Systems, Magritek and Rangatira.

SENIOR LEADERSHIP TEAM

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

The Senior Leadership Team in the recently completed containerisation yard. For Health and Safety Purposes containerisation was not operational during this photo-shoot.

Michael Stein

GENERAL MANAGER QUALITY AND TECHNICAL SERVICES

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, technical 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.

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 120 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.

Natalie Lombe

GENERAL MANAGER CULTURE, CAPABILITY AND STRATEGY

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.

John Penno

CHIEF EXECUTIVE OFFICER AND 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 Synlait Milk Finance Limited, Synlait Farms Limited (which is a supplier of raw milk to Synlait Milk) and Synlait Farms Finance 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 leader's award from the Sir Peter Blake Trust and was also awarded the Federated Farmers inaugural agribusiness person of the year.

Mike Lee

GENERAL MANAGER SALES

Mike joined Synlait Milk in September 2011 and leads 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.

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

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 Chartered Accountants Australia and New Zealand and holds a Bachelor of Management Studies from the University of Waikato.

OUR FINANCIAL REVIEW

Nigel Greenwood
CHIEF FINANCIAL OFFICER

Our revenue for FY2014 of $601 million increased 43.0% on our FY2013 result of $420 million, primarily driven by higher international commodity prices that prevailed for most the year. The average US dollar commodity price in FY2014 was USD $4,650 compared with USD $3,460 in FY2013. Total volume shipped for FY2014 was 93,644 MT, an increase of 8.0% on our FY2013 result of 86,746 MT shipped.

Ingredient sales volumes in FY2014 at 87,248 MT was 7.6% ahead of our FY2013 result of 81,085 MT. Infant and nutritional sales volumes in FY2014 at 6,396 MT were only slightly ahead of 5,661 MT in FY2013 and well below our prospective financial information (PFI) volumes of 11,684 MT. As noted in the Managing Directors capital report our sales of infant formula products were significantly impacted by the regulatory changes in China that were implemented during the course of FY2014.

Our gross profit for FY2014 at $77.1 million increased 18.4% on our FY2013 result of $65.1 million and was in line with our PFI of $76.4 million. However, this result was primarily achieved via a one off product mix benefit estimated to be $24.5 million. There were a number of significant costs incurred during FY2014 that impacted on our gross margin performance in comparison to our PFI gross margin. The main impacts were as follows:

– The anticipated margin on infant formula sales not achieved. $8.3 million.
– Stock provisions and write offs on infant formula inventories. $7.5 million.
– Product sales phasing estimated costs. $6.5 million.
– Foreign exchange impact. $4.1 million.

The lower infant formula margin together with the associated infant formula provisions and write-offs totalling $15.8 million primarily relate to manufactured infant formula inventories that were unable to be sold into the China market as a result of the Regulatory changes. Some of these inventories have expired and have since been sold as stock food, while the remainder have been provided to estimated net realisable values in order to sell this product.

We have estimated our product sales phasing financial cost at $6.5 million caused by the rapid decline in international commodity prices during the last five months of FY2014. In addition, we have estimated that our annual average NZ dollar to US dollar exchange rate for FY2014, at 0.813 cents, is expected to be higher than that applied in the calculation of the farm gate milk price resulting in an estimated cost of $4.1 million.

The cost of milk purchased remains our most significant cost when determining gross profit. Our final base milk price for FY2014 is $8.27 per kgMS, significantly higher than our FY2013 base milk price of $5.81 per kgMS. In addition, we paid $0.04 per kgMS in seasonal and value added premiums to increase the average total milk price to $8.31 per kgMS compared with $5.89 per kgMS in FY2013.

EBITDA at $43.8 million increased 13.8% on FY2013 result of $38.5 million and was in line with our PFI of $44.0 million. Overheads, including depreciation, at $44.7 million had increased $6.3 million on our FY2013 result of $38.4 million, mainly due to the increased investment in staff during FY2014. However, these costs were in line with our PFI at $44.4 million.

Net finance costs at $5.3 million in FY2014 are well down on our FY2013 costs of $12.3 million, primarily due to the benefit of the net initial public offering (IPO) proceeds of $68.9 million received late July 2013 being applied against our term debt. The net finance costs are ahead of our PFI of $4.8 million due to higher working capital interest costs driven by the higher inventory and receivables values as a result of the very high commodity prices prevailing during FY2014.

Our FY2014 NPAT at $19.6 million increased 70% on our FY2013 result of $11.5 million and slightly behind of our PFI of $19.7 million.

This resulted in basic and diluted earnings per share (EPS) of 13.40 cents in FY2014 against 10.21 cents in FY2013. It also generated a pre-tax return on average capital employed of 11.5% in FY2014 compared with 13.1% in FY2013.

FINANCIAL POSITION

Due to the growth in retained earnings our total shareholders funds increased to $183 million in FY2014, an increase of 11.6% over FY2013 balance at $164 million. However, our shareholders funds to total tangible assets dropped from 47.4% in FY2013 to 38.4% in FY2014 driven by the growth in both current and fixed assets. Total shareholders funds were in line with our PFI at $185 million.

Total tangible assets in FY2014 were at $472 million an increase of 38% over $342 million in FY2013 and were also above our PFI of $380 million. Current assets in FY2014 were up $43 million when compared to FY2013 and $75 million higher than PFI. The primary cause of this was both receivables and inventory values had increased due to higher commodity prices than in FY2013 and from our PFI. This drove high receivables and inventory values for FY2014. Our investment in fixed assets have increased to the build of our new drystore, lactoferrin extraction and purification facility and blending and consumer packaging plant as well as the initial costs associated with the build of dryer three.

Total liabilities for FY2014 grew to $294 million an increase of 61% over $182 million in FY2013 and well above our PFI of $195 million. A significant cause of this increase was the level of trade and other payables which at $117 million were well above our FY2013 balance at $58 million and the PFI at $87 million. This was due to the higher than anticipated milk price in FY2014 increasing the milk supplier liability at year end. Loans and borrowings at $91 million had also increased on our FY2013 position at $28 million and the PFI at $47 million. While term debt in FY2014 was expected to increase due to our investment in our growth initiative projects, the amount is $44 million more than PFI due to a number of reasons:

- A decision to bring forward the build of drystore three. $5.2 million.
- Increased spend on the lactoferrin extraction and purification facility. $6.8 million.
- Earlier than anticipated costs associated with the build of dryer three. $17.7 million.
- Deferment of voluntary repayment on the revolver facility until FY2015. $18.8 million.

Further information on our growth initiative projects are set out earlier in the report on pages 29 to 31.

CASH FLOW

Cash flow from FY2014 operating activities of $59 million reflects a forecast reversal from FY2013 cash outflows of $47 million. However, our result was $23 million below the PFI primarily due to higher working capital balances for receivables and inventory at year end.

The cash investment in our capital projects at $96 million primarily reflected the build of our growth initiative projects during FY2014 and was above our PFI of $69 million for the reasons already noted earlier in this report.

Net cash inflows from financing activities in FY2014 at $39 million had decreased by $17 million on our FY2013 result of $56 million this was primarily due to the net impact of increased borrowings of $80 million, associated with our investment in capital growth initiative projects during FY2014, offset by the net proceeds from the IPO of $69 million in FY2013.

Our net debt position at the end of FY2014 was $152 million, $46 million higher than the $106 million in FY2013 and $65 million higher than our PFI of $87 million. The causes of these increases over both FY2013 and our PFI have been addressed earlier in this report.

Nigel Greenwood
CHIEF FINANCIAL OFFICER

OUR
MOMENTUM
IN DOLLARS
AND CENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2014

CONTENTS	PAGE

DIRECTORS' DECLARATION

AS AT 31 JULY 2014

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiary set out on pages 49 to 93 for the year ended 31 July 2014.

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 2014 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
19 September 2014

John Penno
MANAGING DIRECTOR
19 September 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2014

		Group		Parent	
		Year ended		Year ended	
		2014	2013	2014	2013
	Notes	$'000	$'000	$'000	$'000
Revenue	6	600,518	420,010	600,518	420,010
Cost of sales	7	(523,430)	(354,862)	(523,430)	(354,862)
Gross profit		77,088	65,148	77,088	65,148
Other income	6	65	1,587	65	1,587
Sales and distribution expenses	7	(27,760)	(26,541)	(27,760)	(26,541)
Administrative and operating expenses	7	(16,954)	(11,915)	(16,954)	(11,915)
Earnings before net finance expense and income tax		32,439	28,279	32,439	28,279
Finance expenses	8	(6,516)	(13,525)	(6,516)	(13,525)
Finance income	8	1,172	1,272	1,172	1,272
Net finance costs	8	(5,344)	(12,253)	(5,344)	(12,253)
Profit before income tax		27,095	16,026	27,095	16,026
Income tax expense	9	(7,492)	(4,498)	(7,492)	(4,498)
Net profit after tax for the year		19,603	11,528	19,603	11,528
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Effective portion of changes in fair value of cash flow hedges		1,875	(3,387)	994	(1,633)
Net change in fair value of cash flow hedges transferred to profit and loss		(2,249)	(337)	(1,208)	(1,386)
Income tax on other comprehensive income	9	104	1,043	60	845
Total items that may be reclassified subsequently to profit and loss		(270)	(2,681)	(154)	(2,174)
Other comprehensive income for the year, net of tax		(270)	(2,681)	(154)	(2,174)
Total comprehensive income for the year		19,333	8,847	19,449	9,354
Earnings per Share					
Basic and diluted earnings per share (cents)	20	13.40	10.21	13.40	10.21

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 2014

Group	Notes	Share Capital	Employee Benefits Reserve	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
		$'000	$'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							
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
Profit or loss for the year		-	-	-	-	19,603	19,603
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	1,875	-	-	1,875
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(2,249)	-	-	(2,249)
Income tax on other comprehensive income		-	-	104	-	-	104
Total other comprehensive income		-	-	(270)	-	-	(270)
Issue of new shares	20	-	-	-	-	-	-
Share issue costs	20	(301)	-	-	-	-	(301)
Employee benefits reserve	21	-	60	-	-	-	60
Total contributions by and distributions to owners		(301)	60	-	-	-	(241)
Equity as at 31 July 2014		172,247	60	(2,103)	8,008	4,918	183,130

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 2014

Parent	Notes	Share Capital	Employee Benefits Reserve	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
		$'000	$'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							
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
Profit or loss for the year		-	-	-	-	19,603	19,603
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	994	-	-	994
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(1,208)	-	-	(1,208)
Income tax on other comprehensive income		-	-	60	-	-	60
Total other comprehensive income		-	-	(154)	-	-	(154)
Share issue costs	20	(301)	-	-	-	-	(301)
Employee benefits reserve	21	-	60	-	-	-	60
Total contributions by and distributions to owners		(301)	60	-	-	-	(241)
Equity as at 31 July 2014		172,247	60	(1,480)	8,008	4,918	183,753

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 2014

		Group		Parent	
		2014	2013	2014	2013
	Notes	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	10	2,393	2,365	2,393	31,487
Trade and other receivables	11	89,046	59,134	89,046	59,134
Goods and services tax refundable		8,880	2,917	8,880	2,917
Income accruals and prepayments		786	570	786	570
Inventories	12	71,262	65,025	71,262	65,025
Derivative financial instruments	25	1,632	1,138	1,595	1,138
Total current assets		173,999	131,149	173,962	160,271
Non-current assets					
Property, plant and equipment	14	298,186	210,780	298,186	210,780
Intangible assets	15	4,589	4,052	4,589	4,052
Investments in subsidiary	29	-	-	1	1
Other investments	13	70	-	70	-
Derivative financial instruments	25	42	86	-	-
Total non-current assets		302,887	214,918	302,846	214,833
Total assets		476,886	346,067	476,808	375,104
Current liabilities					
Working capital facility	18	12,500	33,079	-	-
Trade and other payables	16	116,730	57,535	116,007	57,421
Current tax liabilities		2,618	-	2,618	-
Trade finance facility	18	50,613	46,924	50,613	46,924
Advances from subsidiary	17	-	-	13,660	63,926
Derivative financial instruments	25	2,916	4,379	2,443	2,980
Total current liabilities		185,377	141,917	185,341	171,251
Non-current liabilities					
Loans and borrowings	18	91,376	27,917	-	-
Deferred tax liabilities	19	16,525	11,755	16,767	11,953
Derivative financial instruments	25	478	440	-	-
Advances from subsidiary	17	-	-	90,947	27,355
Total non-current liabilities		108,379	40,112	107,714	39,308
Total liabilities		293,756	182,029	293,055	210,559
Equity					
Share capital	20	172,247	172,548	172,247	172,548
Reserves	22	5,965	6,175	6,588	6,682
Retained earnings/(deficit)		4,918	(14,685)	4,918	(14,685)
Total equity attributable to equity holders of the Company		183,130	164,038	183,753	164,545
Total equity and liabilities		476,886	346,067	476,808	375,104

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 2014

		Group		Parent	
		Year ended		Year ended	
		2014	2013	2014	2013
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Cash receipts from customers		568,266	382,600	569,307	381,552
Cash paid for milk purchased		(362,551)	(289,268)	(362,551)	(289,268)
Cash paid to other creditors and employees		(141,077)	(141,231)	(141,686)	(141,345)
Goods and services tax refunds / (payments)		(5,963)	575	(5,963)	575
Income tax refunds		-	229	-	229
Net cash inflow / (outflow) from operating activities	23	58,675	(47,095)	59,107	(48,257)
Cash flows from investing activities					
Interest received		130	1,272	130	1,272
Acquisition of property, plant and equipment		(95,876)	(6,437)	(95,876)	(7,989)
Proceeds from sale of property, plant and equipment		133	-	133	-
Acquisition of intangible assets		(1,508)	(1,607)	(1,508)	(55)
Purchases of available-for-sale financial assets		(70)	-	(70)	-
Net cash inflow / (outflow) from investing activities		(97,191)	(6,772)	(97,191)	(6,772)
Cash flows from financing activities					
Proceeds from issue of shares (net)		(301)	68,900	(301)	68,900
Repayments of borrowings		(17,699)	(64,521)	(89,213)	(94,782)
Receipt of borrowings		80,638	670	28,596	670
Net movement in working capital and trade finance facilities		(16,890)	64,042	63,786	33,307
Interest paid		(7,204)	(13,525)	(7,204)	(13,525)
Movement in advances from subsidiary		-	-	13,326	91,280
Net cash inflow / (outflow) from financing activities		38,544	55,566	8,990	85,850
Net increase / (decrease) in cash and cash equivalents		28	1,699	(29,094)	30,821
Cash and cash equivalents at the beginning of the financial year		2,365	666	31,487	666
Cash and cash equivalents at end of year	10	2,393	2,365	2,393	31,487

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 JULY 2014

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 dairy products.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 1028 Heslerton Road, Rakaia, RD 13, New Zealand.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 19 September 2014.

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 4.

(a) Principles of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary. A subsidiary is a controlled entity over which the Group has power, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. 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. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

(b) Segment reporting

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

Although the Group sells to many different countries, for management reporting purposes the Group operates in one principal geographical area being New Zealand.

(c) New Accounting Policy - Share based payments

Employees (including Senior Management) of the Group may receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled). The cost of equity settled transactions with employees are measured by reference to the grant date fair value of the equity instruments granted. The fair value of equity settled options are recognised as an expense, together with a corresponding increase to the employee benefits reserve within equity, over the vesting period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the fair value of each option along with the best estimate of the number of equity instruments that will ultimately vest which includes an assessment of performance and service conditions.

The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(d) Reclassified balances

Where appropriate, prior year comparatives have been regrouped to conform with the current year classification. Reclassifications are summarised below.

The Group has changed the classification of cashflows from the trade finance and working capital facilities within the Statement of Cash Flows resulting in a movement of amounts between operating and financing activities. As a result, the comparative amounts have changed in the Statement of Cash Flows:

- 31 July 2013 receipts from customers decreased by $33,307,000;
- 31 July 2013 repayments of borrowings increased by $30,735,000; and
- 31 July 2013 net movement in working capital and trade finance facilities increased by $64,042,000.

Mitsui & Co NZ is Synlait Milk Limited's export sales agent. Under this agreement Mitsui pays Synlait Milk the amounts invoiced to export customers within an agreed period after shipment of products. The amounts received from Mitsui (the trade finance facility) were previously included in receipts from customers but have been reclassified to be a financing activity. The Group has reclassified these amounts as it considers the Mitsui & Co NZ trade finance facility to be a financing activity in nature.

The working capital facility is drawn and repaid on a weekly basis and can be considered analogous to an overdraft facility, the cashflows for which are considered financing in nature. Given the short term nature of the transactions, it is more appropriate to disclose the movements on a net basis as opposed to the total draw downs and total repayments.

These changes have no impact on the statements of comprehensive income or financial position.

The Group has also changed the classification of some employee costs, depreciation and repairs and maintenance expenditure within the profit and loss component of the Statement of Comprehensive Income to better reflect actual performance resulting in a movement between sales and distribution expenses and administrative and operating expenses. As a result, the comparative amounts have changed in the Statement of Comprehensive Income:

- 31 July 2013 sales and distribution expenses increased by $3,063,000; and
- 31 July 2013 administrative and operating expenses decreased by $3,063,000.

These changes have no impact on the statements of financial position or cash flows.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in New Zealand Dollars ($), which is the Group's functional currency and are rounded to the nearest thousand ($000).

(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 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 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 profit and loss component of 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 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 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 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 first recognized as a deduction against revaluation reserves and then recognised in the profit or loss component of the statement of comprehensive income once those reserves have been exhausted.

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.

(i) Cash and cash equivalents

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

(j) 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 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

Inventories are stated at the lower of cost and net realisable value. Cost is comprised of direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined on a weighted average basis and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Investments in subsidiaries

Investments in subsidiaries 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 (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

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not classified at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss component of the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss component of the statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss component of the statement of comprehensive income as part of finance income. Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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 indicate 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 profit and loss component of 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. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 profit and loss component of the 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 and loss component of the statement 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 consolidated statement of comprehensive income.

(n) Derivatives

The 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 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 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 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 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 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 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, buildings and plant and equipment are carried at fair value. 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.

Fair value estimation

The fair valuation of land is undertaken on a cyclical basis, not exceeding three years, by an independent registered valuer. The valuation considered the highest and best use of the land, which is the current use, and was based on comparable sales for rural blocks within the locality on a per hectare basis. The fair valuation of buildings, plant and equipment is undertaken on a cyclical basis, not exceeding three years, by an independent registered valuer. As the assets are specialized in nature, there is no comparable market data from which to derive a market based valuation. The valuation has consequently been prepared on a depreciated replacement cost basis and assumes that the current use of these assets is the best and highest use. The replacement cost was based on a volume basis for the dryers and an area basis for all other facilities.

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 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 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.

Capital work in progress is not depreciated. The total cost of this work is transferred to the relevant asset category on the completion of the project and then 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 - 14 years

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

(q) Intangible assets

(i) Patents, trademarks and other rights

Separately acquired patents and trademarks are shown at historical cost. Patents and trademarks acquired in a business combination are recognised at fair value at the acquisition date. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives of 10 years.

(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 Group are recognised as intangible assets.

(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) 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.

(u) 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.

(v) 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.

(w) 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 2014 or later periods but which the Group has not early adopted:

- NZ IFRS 9 'Financial Instruments: Classification and measurement' (effective 1 January 2018). NZ IFRS 9 amends the requirements related to the classification and measurement of financial assets and financial liabilities. The Group is considering adopting this standard in the 2015 financial year and is currently assessing the impact of adoption.
- NZ IFRS 15, 'Revenue from Contracts with Customers' (effective 1 January 2017). NZ IFRS 15 will be effective from the Group's 2018 financial year. The impact of this standard 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.

(x) Standards, amendments, and interpretations effective in 2014

- NZ IFRS 10 'Consolidated financial statements' (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. There is no impact of the standard on the financial statements.
- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective 1 January 2013). This standard replaces existing requirements for disclosure of subsidiaries and joint ventures (now joint arrangements), and makes limited amendments in relation to associates. There is 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). The Group has applied NZ IFRS 13 for the first time in the current year. NZ IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. NZ IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under NZ IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.
- Other than additional disclosures, the application of NZ IFRS 13 has not had any material impact on the amounts recognised in these financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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, the industry milk price and the fair value of land, building and plant and equipment.

Inventories are valued at the lower of cost and net realisable 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 form 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.

Land, buildings and plant and equipment are recognised at fair value as described in note 14 (a).

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

Revenues of approximately 52% (2013: 56%) are derived from the top three external customers.

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

	2014	2013
China	26%	19%
Rest of Asia	32%	34%
Africa	23%	23%
Rest of world	19%	24%
	100%	100%

6 REVENUE

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Dairy products	600,518	420,010	600,518	420,010
Insurance proceeds	-	1,304	-	1,304
Other sundry income	32	245	32	245
Management fees	33	38	33	38
	600,583	421,597	600,583	421,597

7 EXPENSES

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
The following items of expenditure are included in cost of sales				
Depreciation and amortisation	9,406	8,966	9,405	8,966
Employee benefit expense	9,245	6,589	9,245	6,589
Repairs and maintenance	2,774	3,109	2,774	3,109
The following items of expenditure are included in sales and distribution expenses				
Depreciation and amortisation	879	397	879	397
Donations	14	54	14	54
Research and development	326	312	326	312
Rent expense	1,676	1,355	1,676	1,355
Repairs and maintenance	332	332	332	332
Employee benefit expense	3,953	2,666	3,953	2,666
The following items of expenditure are included in administrative and operating expenses				
Depreciation	1,092	819	1,092	819
Repairs and maintenance	41	31	41	31
Employee benefit expense	7,561	4,344	7,561	4,344
Defined benefit contributions - Kiwisaver	279	138	279	138
Directors fees	440	346	440	346
Share based payments expense (note 21)	60	-	60	-

Deloitte services included in administrative and operating expenses and share capital				
Audit	127	105	127	105
IPO	-	473	-	473
Taxation advice	69	121	69	121
Financial modelling	205	215	205	215
Accounting advice and other consulting	95	40	95	40
Total	496	954	496	954

8 FINANCE INCOME AND EXPENSES

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Interest income on bank deposits	130	103	130	103
Settlement of ineffective portion of cash flow hedges	1,042	1,169	1,042	1,169
Total finance income	1,172	1,272	1,172	1,272
Interest and facility fees	(8,768)	(12,811)	(8,768)	(12,811)
Capitalised borrowing costs	2,252	-	2,252	-
Settlement of ineffective portion of cash flow hedges	-	(714)	-	(714)
Total finance costs	(6,516)	(13,525)	(6,516)	(13,525)
Total finance costs	(5,344)	(12,253)	(5,344)	(12,253)

9 INCOME TAX

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
(a) Income tax expense				
Current tax:				
Current tax on profits for the year	(2,618)	-	(2,618)	-
Total current tax	(2,618)	-	(2,618)	-
Deferred tax:				
Temporary differences	(693)	(4,498)	(693)	(4,498)
Tax losses utilised	(4,298)	-	(4,298)	-
Adjustment to prior year tax losses brought forward	(84)	-	(84)	-
Other prior year adjustments	201	-	201	-
Total deferred tax (note 19)	(4,874)	(4,498)	(4,874)	(4,498)
Income tax (expense) / benefit	(7,492)	(4,498)	(7,492)	(4,498)

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
(b) Reconciliation of effective tax rate				
Profit before income tax	27,095	16,026	27,095	16,026
Income tax using the Company's domestic tax rate - 28%	(7,587)	(4,487)	(7,587)	(4,487)
Other non deductible costs	(22)	(11)	(22)	(11)
	(7,609)	(4,498)	(7,609)	(4,498)
Adjustment to prior year tax losses brought forward	(84)	-	(84)	-
Other prior year adjustments	201	-	201	-
Total prior period adjustments	117	-	117	-
Income tax expense	(7,492)	(4,498)	(7,492)	(4,498)

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
(c) Imputation credits				
Imputation credits available directly and indirectly to the shareholders of the parent company	2,618	-	2,618	-

(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 2014			
Cash flow hedges	(373)	104	(269)
Other comprehensive income	(373)	104	(269)
31 July 2013			
Cash flow hedges	(3,724)	1,043	(2,681)
Other comprehensive income	(3,724)	1,043	(2,681)
Parent			
31 July 2014			
Cash flow hedges	(215)	60	(155)
Other comprehensive income	(215)	60	(155)
31 July 2013			
Cash flow hedges	(3,019)	845	(2,174)
Other comprehensive income	(3,019)	845	(2,174)

10 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Cash and cash equivalents	2,393	2,365	2,393	31,487

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 24(a,ii). The maximum exposure to credit risk at the end of the reporting period is the carrying amount.

(b) Fair value

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

11 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Net trade receivables				
Trade receivables	88,585	59,090	88,585	59,090
Provision for doubtful receivables	(100)	-	(100)	-
	88,485	59,090	88,485	59,090
Other receivables	561	44	561	44
Total receivables	89,046	59,134	89,046	59,134

The increase in trade receivables is predominantly due to the increased sales volumes in July 2014 compared to July 2013.

(a) Impaired receivables

As of 31 July 2014, trade receivables of $9.7 m were overdue but not impaired (2013: $3.5 m). These relate to a number of independent customers for whom there is no recent history of default. The majority has since been collected but $0.9 m remains unpaid which is expected to be collected in the 2015 financial year.

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

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
0 to 30 days	7,079	391	7,079	391
30 to 60 days	1,508	3,093	1,508	3,093
Over 60 days	1,142	-	1,142	-
Total trade receivables	9,729	3,484	9,729	3,484

(b) Bad and doubtful trade receivables

The Company and Group have recognised a loss of $100,000 (2013: $nil) in respect of bad and doubtful trade receivables during the year ended 31 July 2014.

(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$81.2 m (2013: $47.3 m) of USD and Euro denominated trade receivables.

12 CURRENT ASSETS - INVENTORIES

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Raw materials at cost	15,348	16,047	15,348	16,047
Finished goods at cost	29,422	44,160	29,422	44,160
Finished goods at net realisable value	26,492	4,818	26,492	4,818
Total inventories	71,262	65,025	71,262	65,025

Inventories recognised at net realisable value has increased significantly from 2013 as a result of some manufactured infant formula not being able to be sold into the China market as a result of the change in Chinese government regulations. The total provision as at reporting date was $9.9m (2013 $3.1m) with $7.5m relating to infant formula.

13 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Unlisted securities				
Equity securities	70	-	70	-

In July 2014, Primary Collaboration New Zealand Limited was incorporated with 6,000 shares issued at a par value of $10 each. Synlait Milk Limited has subscribed to 1,000 shares and has fully paid this share capital. An additional capital contribution was made by all shareholders in proportion to their shareholding in July 2014 with Synlait Milk Limited contributing $60,000.

14 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Group and Parent	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
Cost	3,042	31,459	183,486	2,396	4,317	224,700
Revaluation	170	1,761	10,272	-	-	12,203
Balance at 1 August 2012	3,212	33,220	193,758	2,396	4,317	236,903
Additions	-	-	-	-	6,592	6,592
Reclassification / transfer	5	-	3,365	13	(3,383)	-
Disposals	-	-	(195)	-	-	(195)
Balance at 31 July 2013	3,217	33,220	196,928	2,409	7,526	243,300
Additions	-	-	-	-	98,126	98,126
Reclassification / transfer	-	27,894	44,893	1,099	(73,886)	-
Disposals	-	-	(287)	(74)	-	(361)
Balance at 31 July 2014	3,217	61,114	241,534	3,434	31,766	341,065
Accumulated depreciation						
Cost	-	3,224	17,266	1,167	-	21,657
Revaluation	-	180	967	-	-	1,147
Balance at 1 August 2012	-	3,404	18,233	1,167	-	22,804
Depreciation	-	1,020	7,851	286	-	9,157
Revaluation depreciation	-	90	509	-	-	599
Disposals	-	-	(40)	-	-	(40)
Balance at 31 July 2013	-	4,514	26,553	1,453	-	32,520
Depreciation	-	1,208	8,266	430	-	9,904
Revaluation depreciation	-	90	509	-	-	599
Disposals	-	-	(70)	(74)	-	(144)
Balance at 31 July 2014	-	5,812	35,258	1,809	-	42,879
Carrying amounts						
At 31 July 2013	3,217	28,706	170,375	956	7,526	210,780
At 31 July 2014	3,217	55,302	206,276	1,625	31,766	298,186

(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 policy in respect of revaluations is described in note 3(p).

For buildings, plant and equipment the depreciated replacement cost method represents a tier 3 valuation under the fair value hierarchy. The depreciated replacement cost is defined as the gross current replacement cost reduced by factors providing for age, physical depreciation and technical and functional obsolescence taking in to account the assets' total estimated useful life and anticipated residual value (if any). The depreciated replacement cost includes all the costs to purchase, deliver and install the asset. The key sensitivity of the depreciated replacement cost valuation relates to the estimated useful lives of the assets being valued. As there are a large number of assets all with varying estimated useful lives, it is not practical to determine a number sensitivity to this input factor.

The valuation for land, which is a tier 2 valuation under the fair value hierarchy, has been completed by reference to transactions which have been observed in the market. The fair value determined in the valuation assumes that there is a willing, but not anxious buyer and seller; a reasonable period within which to negotiate the sale, having regard to the nature and situation of the land and the state of the market for land of the same kind; no account is taken of the value of other advantages or benefit additional to market value to the buyer incidental to ownership of the property being valued; and the Group has sufficient resources to negotiate an agreement for the sale of the land. The key sensitivity to the market based valuation is the observable market transactions on which the valuation is based. It is impractical to provide numerical sensitivities for such valuations.

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 $3.1m, $53.9m and $198.0m respectively, at reporting date. Management has estimated that the valuation has not materially changed since 2012 and that depreciated replacement cost is a fair estimate of current value. In accordance with policy, an independent valuation will be undertaken during the 2015 financial year.

(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) Capital work in progress

Assets under construction includes capital expenditure projects, until they are commissioned and transferred to fixed assets. Capital work in progress of $31.8 m at balance date is predominantly constituted of the project to date spend ($21.5 m) on the construction of the third dryer.

(d) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $2.3 m (2013: $nil) on qualifying assets. Interest has been capitalised at the rate in which borrowing has been specifically drawn to fund the qualifying asset as disclosed in note 18.

15 NON-CURRENT ASSETS - INTANGIBLE ASSETS

Group and 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 2013						
Opening net book value	65	2,533	102	171	-	2,871
Additions	8	-	55	-	1,544	1,607
Development costs recognised as an asset	-	273	-	-	(273)	-
Amortisation charge	-	(336)	-	(90)	-	(426)
Closing net book value	73	2,470	157	81	1,271	4,052
Year ended 31 July 2014						
Opening net book value	73	2,470	157	81	1,271	4,052
Additions	-	-	4	-	1,504	1,508
Development costs recognised as an asset	-	683	-	-	(683)	-
Disposals	-	-	(97)	-	-	(97)
Amortisation charge	(39)	(754)	-	(81)	-	(874)
Closing net book value	34	2,399	64	-	2,092	4,589

Intangibles in progress of $2.1 m at balance date is predominantly constituted of the project to date spend ($1.5 m) on the development and implementation of sales and operational planning software.

16 TRADE AND OTHER PAYABLES

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Trade payables	69,526	31,671	69,526	31,671
Accrued expenses	45,625	24,199	44,902	24,085
Employee entitlements	1,579	1,665	1,579	1,665
Total trade and other payables	116,730	57,535	116,007	57,421

Payables denominated in other currencies other than the functional currency comprise NZ$0.5 m (2013: $2.8 m) of USD and AUD denominated trade payables and accruals.

The large increase in payables and accruals from July 2013 has been driven by the increased milk price, of which final payments to suppliers remain outstanding.

17 ADVANCES FROM SUBSIDIARY

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current liabilities				
Advances from Synlait Milk Finance Limited	-	-	13,660	63,926
	-	-	13,660	63,926
Non current liabilities				
Advances from Synlait Milk Finance Limited	-	-	90,947	27,355
	-	-	90,947	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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current liabilities				
Working capital facility	12,500	33,079	-	-
Trade finance facility	50,613	46,924	50,613	46,924
	63,113	80,003	50,613	46,924
Non-current liabilities				
Bank loans	91,535	28,596	-	-
Loan facility fees	(159)	(679)	-	-
	91,376	27,917	-	-

(a) Terms of loans and borrowings

The bank loans and working capital facility within Synlait Milk Limited are secured under the terms of the General Security Deed dated 26 June 2013, by which all present and future property is secured to the ANZ Bank and Bank of New Zealand.

The Company facilities include:

- A secured revolving credit facility of $75m that matures on 31 July 2016
- A secured term facility of $135m that matures on 31 July 2017 to fund the construction of Dryer 3
- A secured working capital facility of $85m that matures on 31 October 2014 (Management are currently finalising the level of this facility required during the 2015 financial year at which point this facility will be extended to October 2015)
- An unlimited and unsecured trade finance facility from Mitsui & Co. Limited that matures on 31 July 2015

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 2014 and 31 July 2013.

	Nominal Interest rate %	Year of maturity	Carrying amount 2014	Carrying amount 2013
Secured term loan facility (D3) - ANZ / BNZ	5.04	2017	16,678	-
Secured revolving credit facility - ANZ / BNZ	4.82	2016	74,857	27,917
Secured working capital facility - ANZ / BNZ	4.83	2015	12,500	33,079
Trade finance facility - Mitsui & Co. Limited	1.41	2015	50,613	46,924

The nominal interest rate is calculated by adding the BKBM rate (or Libor rate for Mitsui trade finance facility) and the marginal rate. It excludes line fees and swap costs.

19 DEFERRED TAX ASSETS AND LIABILITIES

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Assets				
Derivatives	817	713	575	515
Other items	3,128	278	3,128	278
Tax losses carried forward	-	4,382	-	4,382
Total deferred tax assets	3,945	5,373	3,703	5,175
Liabilities				
Property, plant and equipment	(20,460)	(17,108)	(20,460)	(17,108)
Other items	(10)	(20)	(10)	(20)
Total deferred tax liabilities	(20,470)	(17,128)	(20,470)	(17,128)
Total deferred tax	(16,525)	(11,755)	(16,767)	(11,953)

Movements - Group	Balance 1 Aug 2012	Recognised in profit or loss	Recognised in other comprehen-sive 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)

	Balance 1 Aug 2013	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2014
	$'000	$'000	$'000	$'000
Property, plant and equipment	(17,108)	(3,352)	-	(20,460)
Derivatives	713	-	104	817
Other items	258	2,860	-	3,118
Tax losses carried forward	4,382	(4,382)	-	-
Total	(11,755)	(4,874)	104	(16,525)

Movements - Parent	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)

	Balance 1 Aug 2013	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2014
	$'000	$'000	$'000	$'000
Property, plant and equipment	(17,108)	(3,352)	-	(20,460)
Derivatives	515	-	60	575
Other items	258	2,860	-	3,118
Tax losses carried forward	4,382	(4,382)	-	-
Total	(11,953)	(4,874)	60	(16,767)

20 SHARE CAPITAL

	2014	2013	2014	2013
	Shares	Shares	$'000	$'000
(a) Share capital				
Ordinary shares				
On issue at beginning of period	146,341,197	51,022,858	172,548	103,648
Share split	-	61,227,429	-	-
Issue of shares	-	34,090,910	-	75,000
Share issue costs	-	-	(301)	(6,100)
	146,341,197	146,341,197	172,247	172,548

The share split in 2013 was to ensure there was the required number of shares in Synlait Milk Limited prior to the IPO on 23 July 2013. The issue of new shares formed part of the IPO of the Company on 23 July 2013.

The weighted average number of shares during the year of 146,341,197 (2013: 112,904,085) 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 SHARE-BASED PAYMENTS

The Group operates two share based incentive plans. The first is an equity settled plan for senior management and the second is an equity settled plan for all other employees. The plans are designed to enhance the alignment between Shareholders and the employees of the company.

(a) IPO Incentive Scheme

The Group has entered into an agreement with each participant which will provide them with a conditional contractual right to be issued or transferred a predetermined number of shares on the third anniversary of completion of the listing of the Group on the NZX Main Board (the Performance Date). The issue or transfer of shares pursuant to this scheme will be at an issue price equal to the IPO listing price of $2.20. Each participant has been provided with an entitlement which has a value (calculated as the number of new shares they could receive multiplied by the IPO listing price) equal to a maximum of 75% of their base salary as at 1 August 2013. That entitlement is split into three equal tranches of 25%.

The issue or transfer of new shares is conditional on the pre-determined performance and service conditions being satisfied. The performance conditions will be assessed at the end of each of the three years following the listing of the Group on the NZX Main Board.

There are two separate performance conditions each of which must be satisfied. The first requires the Group's net profit after tax (NPAT) for the relevant financial year to be at least 10% above the budgeted NPAT for those periods. If this condition is not met in any period, then the award for this period will never vest, even if the condition outlined below is met.

The second requires certain annual compound growth targets in total shareholder return (TSR) to be satisfied as follows:

20% or more	25.00
15%	18.75
12%	6.25
Less than 12%	-

TSR means the total return, as determined by the Board of Directors (the Board) in consultation with an independent expert, to ordinary shareholders comprising any movement in the market price of the Shares plus gross dividends, expressed as a percentage of the market price at the start of the relevant year. For these purposes the market price is the volume weighted average market price of the Shares on the NZX Main Board over the twenty business days prior to the relevant assessment date. The market price at the start of the first year is the IPO listing price of $2.20.

If the performance conditions are not satisfied in full for the first and / or second tranche, the relevant tranche(s) will be retested at the end of each following year up to and including on the Performance Date. Retesting of the TSR performance condition will be based on the compound growth in TSR over the relevant years since the IPO. The highest TSR performance result over the applicable testing dates will be adopted.

Notwithstanding that the performance conditions may be satisfied in part or full for any or all of the three tranches, participants must also satisfy the service conditions. One of the service conditions is that the participant must continue to be in full time employment with Synlait Milk Limited at the Performance Date. In addition a participant will only be issued or transferred shares under this scheme if the closing price of the shares on the NZX Main Board on the Performance Date is above the IPO listing price of $2.20.

There will be no restriction on the sale of the shares once they have been issued or transferred to participants, however participants remain subject to the Group's share trading policy applicable to all employees, and those shares will have full voting and dividend rights.

Should any of the performance or service conditions not be met, other than for a qualifying reason, or the executive does not execute the option, the right to shares will be forfeited and the participant will receive no benefits under the plan (subject to the Board exercising a discretion to allow some or all of the shares or notional shares to vest).

The IPO incentive scheme represents the grant of in substance nil price options. The fair value of the options granted under the IPO incentive scheme are estimated as at the date of grant using an option pricing model that takes into account the terms and conditions upon which the options were granted. In accordance with the rules of the plan, the model simulates the Group's total shareholder return relative to the sliding performance scale over the vesting period. The model takes into account the paths of outcomes that would result in vesting in relation to the TSR performance condition, the cost of equity, share price volatilities, an assessment of the probability of vesting to produce a predicted fair value for each option. The fair value of each option is then applied to the number of options expected to vest to determine a total plan fair value. The NPAT performance condition and the service condition are taken into account in determining the number of options expected to vest.

As some of the prerequisite conditions for this scheme were not satisfied during 2014, some of the options granted have been forfeited as summarised below.

The following table sets out the number of, and movement in, share options during the year:

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
Outstanding 1 August	-	-	-	-
Granted during the year	1,564,709	-	1,564,709	-
Forfeited during the year	(521,570)	-	(521,570)	-
Outstanding 31 July	1,043,139	-	1,043,139	-

Given the extensive number of permutations of potential outcomes, the options have been valued using a probabilistic option-pricing model. Management have assessed the likelihood of each of the outcomes in satisfying the varying TSR conditions and the other key inputs into this model are listed below:

	First Tranche	Second Tranche	Third Tranche
Risk free rate	3.0%	3.6%	3.6%
Market risk premium	5.5%	5.5%	5.5%
Market debt / equity	30.0%	30.0%	30.0%
Volatility	20.0%	20.0%	20.0%
Share price at grant date	$2.20	$3.65	$3.70
Total value of options granted at grant date ($000's)	862	897	155

Volatility has been estimated by reference to trading entities similar to the Group.

(b) Short Term Incentive Scheme

Under the wider employee plan, every employee, other than those included in the IPO incentive scheme, will automatically receive shares in SML equivalent to a fixed amount divided by the market price of Synlait shares on vesting date. The eligibility to receive shares is dependent on continued employment through the vesting period and the Company's net profit before tax performance. The participant receives a tax paid bonus equivalent to the fixed amount agreed under the plan if vesting occurs. The vesting period for the plan is from November 2013 through to the date upon which the financial results for the financial year ended 31 July 2014 are announced. The fair value of the rights under the wider employee incentive plan is considered to equal the tax paid fixed amount payable.

175 letters of offer were extended under the employee share plan totalling a maximum $522,000 (including PAYE) in November 2013.

As the prerequisite performance conditions for this scheme were not satisfied during 2014, all options granted have been subsequently forfeited.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Group $'000		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Expenses for equity settled share based payment transactions	60	-	60	-

22 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 cash flow hedging instruments relating to hedged transactions that have not yet occurred.

(iii) Employee benefits reserve

The employee benefits reserve is comprised of the cumulative share based payment expense for share options note yet vested.

(b) Dividends

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

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

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Profit for the year	19,603	11,528	19,603	11,528
Non-cash and non operating items:				
Depreciation and amortisation of non-current assets	11,377	10,182	11,377	10,182
Loss on sale of fixed assets	84	-	84	-
Write off intangibles	97	-	97	-
Non-cash share based payments expense	60	-	60	-
Interest costs classified as financing cash flow	5,474	13,525	5,474	13,525
Interest received classified as investing cash flow	(130)	(1,272)	(130)	(1,272)
Deferred tax	4,874	4,496	4,874	4,496
Gain on derivative / financial instruments	(2,249)	-	(1,208)	-
Movements in working capital:				
(Increase) / decrease in trade receivables	(29,395)	(38,846)	(29,395)	(72,941)
(Increase) / decrease in other receivables	(517)	260	(517)	33,307
(Increase) / decrease in prepayments	(216)	(411)	(216)	(411)
(Increase) / decrease in inventories	(6,237)	(34,279)	(6,237)	(34,279)
(Increase) / decrease in other current assets	(5,963)	806	(5,963)	806
(Decrease) / increase in trade and other payables	59,195	(13,084)	58,586	(13,198)
(Decrease) / increase in current tax liabilities	2,618	-	2,618	-
Net cash inflow from operating activities	58,675	(47,095)	59,107	(48,257)

24 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 2014		31 July 2013	
	USD	Euro	USD	Euro
	$'000	$'000	$'000	$'000
Trade receivables, being Statement of Financial Position exposure before hedging activities	67,147	1,393	37,803	3

The Group holds derivative contracts with notional balances of US$135.0 m (31 July 2013: US$97.0 m) in respect of future sale transactions. The Group's exposure to foreign currency in the period ended 31 July 2014 is limited to it's sales of dairy products, 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 interest rate swap contracts outstanding:

	31 July 2014		31 July 2013	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Less than 1 year	4.85%	68,583	4.32%	105,129
1 to 2 years	4.60%	129,000	5.23%	57,527
2 to 3 years	4.71%	116,500	4.89%	39,000
3 to 4 years	4.73%	94,000	4.04%	20,000
4 to 5 years	4.76%	71,750	-	-
5 to 6 years	4.79%	50,000	-	-
6 to 7 years	4.82%	35,000	-	-
7 to 8 years	4.85%	25,000	-	-
8 to 9 years	4.85%	19,167	-	-
9 to 10 years	4.86%	15,000	-	-

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

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.

(iii) Sensitivity analysis

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

The sensitivity analysis below has been determined based on the mark to market impact on financial instruments of changing interest and foreign exchange rates at balance date. The analysis is prepared assuming the amount of the financial instrument outstanding at the balance sheet date was outstanding for the whole year.

Consolidated	Group				Parent			
	2014		2013		2014		2013	
31 July 2014	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
1% increase in interest rate	-	3,692	-	473	-	-	-	-
1% decrease in interest rate	-	(3,902)	-	(473)	-	-	-	-
5% increase in exchange rate	(1,630)	(5,404)	(19)	(4,627)	(1,630)	(5,404)	(19)	(4,627)
5% decrease in exchange rate	1,475	4,675	18	4,187	1,475	4,675	18	4,187

(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. The total repayments and associated maturity of financial liabilities as at balance date is reported below.

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 2014					
Working capital facility	12,513	-	-	-	12,513
Trade and other payables	116,730	-	-	-	116,730
Trade finance facility	50,666	-	-	-	50,666
Loans and borrowings	4,449	79,306	17,519	-	101,274
Derivative financial instruments	2,916	88	263	127	3,394
Total	187,274	79,394	17,782	127	284,577
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

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 2014					
Trade and other payables	116,007	-	-	-	116,007
Trade finance facility	50,666	-	-	-	50,666
Advances from subsidiary	18,159	79,394	17,782	127	115,462
Derivative financial instruments	2,443	-	-	-	2,443
Total	187,275	79,394	17,782	127	284,578
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

(d) Financial instruments by category

Financial assets		Derivatives used for hedging	Loans and receivables	Available for sale	Total
		$'000	$'000	$'000	$'00
Group					
At 31 July 2014					
Cash and cash equivalents		-	2,393	-	2,393
Derivative financial instruments		1,674	-	-	1,674
Trade and other receivables		-	89,046	-	89,046
Available for sale financial assets		-	-	70	70
		1,674	91,439	70	93,183
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
		1,224	61,499	-	62,723

	Derivatives used for hedging	Loans and receivables	Available for sale	Total
	$'000	$'000	$'000	$'000
Parent				
At 31 July 2014				
Cash and cash equivalents	-	2,393	-	2,393
Derivative financial instruments	1,595	-	-	1,595
Trade and other receivables	-	89,046	-	89,046
Available for sale financial assets	-	-	70	70
	1,595	91,439	70	93,104
At 31 July 2013				
Cash and cash equivalents	-	31,487	-	31,487
Derivative financial instruments	1,138	-	-	1,138
Trade and other receivables	-	59,134	-	59,134
	1,138	90,621	-	91,759

Financial liabilities	Derivatives used for hedging	At amortised cost	Total
	$'000	$'000	$'000
Group			
At 31 July 2014			
Derivative financial instruments	3,394	-	3,394
Working capital facility	-	12.500	12,500
Trade finance facility	-	50,613	50,613
Trade and other payables	-	116,730	116,730
Borrowings	-	91,376	91,376
	3,394	271,219	274,613
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
Borrowings	-	27,917	27,917
	4,819	165,455	170,274

Parent	Derivatives used for hedging $'000	At amortised cost $'000	Total $'000
At 31 July 2014			
Derivative financial instruments	2,443	-	2,443
Trade finance facility	-	50,613	50,613
Trade and other payables	-	116,007	116,007
Borrowings	-	104,607	104,607
	2,443	271,227	273,670
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
Borrowings	-	91,281	91,281
	2,980	195,626	198,606

25 FINANCIAL INSTRUMENTS

(a) Financial instruments

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Derivative balances comprise of:				
Foreign currency forward contracts	(848)	(1,841)	(848)	(1,842)
Interest rate swaps	(872)	(1,754)	-	-
Balance at end of period	(1,720)	(3,595)	(848)	(1,842)
Classified as:				
Non current asset	42	86	-	-
Current asset	1,632	1,138	1,595	1,138
Non current liabilities	(478)	(440)	-	-
Current liabilities	(2,916)	(4,379)	(2,443)	(2,980)
	(1,720)	(3,595)	(848)	(1,842)

(b) 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 2014.

Group	Level 1	Level 2	Level 3	Total balance
At 31 July 2014	$'000	$'000	$'000	$'000
Assets				
Foreign exchange contracts	-	77	-	77
Options - foreign exchange	-	1,518	-	1,518
Interest rate swaps	-	79	-	79
Total assets	-	1,674	-	1,744
Liabilities				
Foreign exchange contracts	-	3	-	3
Options - foreign exchange	-	2,440	-	2,440
Interest rate swaps	-	951	-	951
Total liabilities	-	3,394	-	3,394
At 31 July 2013				
Assets				
Foreign exchange contracts	-	189	-	189
Options - foreign exchange	-	949	-	949
Interest rate swaps	-	86	-	86
Total assets	-	1,224	-	1,224
Liabilities				
Foreign exchange contracts	-	1,187	-	1,187
Options - foreign exchange	-	1,792	-	1,792
Interest rate swaps	-	1,840	-	1,840
Total liabilities	-	4,819	-	4,819

Parent	Level 1	Level 2	Level 3	Total balance
At 31 July 2014	$'000	$'000	$'000	$'000
Assets				
Foreign exchange contracts	-	77	-	77
Options - foreign exchange	-	1,518	-	1,518
Total assets	-	1,595	-	1,665
Liabilities				
Foreign exchange contracts	-	3	-	3
Options - foreign exchange	-	2,440	-	2,440
Total liabilities	-	2,443	-	2,443
At 31 July 2013				
Assets				
Foreign exchange contracts	-	189	-	189
Options - foreign exchange	-	949	-	949
Total assets	-	1,138	-	1,138
Liabilities				
Foreign exchange contracts	-	1,187	-	1,187
Options - foreign exchange	-	1,792	-	1,792
Total liabilities	-	2,979	-	2,979

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 Group is subject to International Swaps and Derivatives Association (ISDA) master agreements with its counterparties, thus where relevant, settlement of financial instruments are netted.

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;
- The fair value of the forward foreign exchange options are valued by projecting the cash flows that will occur and then discounting the cash flows to the valuation date using a zero-coupon yield curve. The future cash flows have been determined using an implied forward rate calculated with reference to exchange rate volatilities;
- 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.

26 CONTINGENCIES

As at 31 July 2014 the Parent entity and Group had no contingent liabilities or assets (2013:$Nil).

27 COMMITMENTS

(a) Capital commitments

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

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Lactoferrin	-	9,790	-	9,790
Blending and canning	-	15,375	-	15,375
Drystore 3	-	13,557	-	13,557
Dryer 3	78,322	-	78,322	-
Administration and laboratory building	11,946	-	11,946	-
Transport yard	775	-	775	-
Other	266	-	266	-
Total	91,309	38,722	91,309	38,722

The above balances have been committed in relation to future expenditure on capital projects. Amounts already spent have been included as work in progress.

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

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Less than one year	69	578	69	578
Between one and five years	120	144	120	144
Total	189	722	189	722

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.

28 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 (2013: 39.12%).

(b) Other related entities

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

(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 2014. The total short-term benefits paid to the key management and personnel is set out below.

	2014	2013
	$'000	$'000
Short-term benefits	3,538	3,211
Share based payment expense (note 21)	34	-

During the year, the executive team was realigned into a Senior Leadership Team of seven including the CEO (2013: nine). The short term benefits paid to these key management personnel was $3.1m for the year ended 31 July 2014.

(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 2014 (2013: $nil).

(ii) Other transactions and balances

Directors of the Company control 3.8% of the voting shares of the company at balance date (2013: 3.8%).

(e) Subsidiaries

Investments in subsidiaries are set out in note 29.

(f) Transactions with related parties

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Purchase of goods and services				
Bright Dairy and Food Co Ltd - Directors fees	161	183	161	183
Synlait Farms Limited - Purchase of raw milk	-	42,420	-	42,420
Sale of goods and services				
Bright Dairy and Food Co Ltd - Sale of milk powder products	22,210	8,470	22,210	8,470
Bright Dairy and Food Co Ltd - Reimbursement of costs	(64)	87	-	87
Synlait Farms Limited - Management fees received	-	33	-	33
Interest expense				
Synlait Milk Finance Limited	-	-	6,835	114

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

(g) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties: Note that as at 28 February 2013 Synlait Farms Limited ceased to be a related party due to divestment from Synlait Limited.

	Group		Parent	
	Year ended		Year ended	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current receivables (sales of goods and services)				
Bright Dairy and Food Co Ltd - Sale of milk powder products	1,336	325	1,336	325
Bright Dairy and Food Co Ltd - Reimbursement of costs	(64)	58	(64)	58
Current payables (purchases of goods)				
Synlait Farms Limited - purchase of raw milk	-	4,439	-	4,439
Synlait Milk Finance Limited	-	-	104,607	91,281

29 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)(i).

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2014	2013
			%	%
Synlait Milk Finance Limited	New Zealand	Ordinary	100	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. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

30 COMPARISON OF PROSPECTIVE FINANCIAL INFORMATION

Prospective Statement of Comprehensive Income
For the year ending 31 July 2014

	Notes	Group Year ended 2014 Actual $'000	Group Year ended 2014 Prospectus $'000	Variance $'000
Revenue	a	600,518	524,447	76,071
Cost of sales		(523,430)	(448,017)	(75,413)
Gross Profit	b	77,088	76,430	658
Other income		65	30	35
Sales and distribution expenses[1]	c	(23,305)	(24,727)	1,422
Administrative and operating expenses[1]	d	(21,409)	(19,648)	(1,761)
Earnings before net financing costs and income tax[2]		32,439	32,085	354
Add back depreciation and amortisation expense[2]		11,377	11,893	(516)
Earnings before net finance costs, income tax, depreciation and amortisation[2]		43,816	43,978	(162)
Net financing costs	e	(5,344)	(4,766)	(578)
Profit before income tax		27,095	27,319	(224)
Income tax expense		(7,492)	(7,649)	157
Profit for the year		19,603	19,670	(67)
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		1,875	1,400	475
Net change in fair value of cash flow hedges transferred to profit and loss		(2,249)	(1,104)	(1,145)
Income tax on other comprehensive income		104	(84)	188
Total comprehensive income for the year		19,333	19,882	(549)

[1] When necessary, current year actuals have been regrouped to conform with the classification of the prospective financial information to enable a fair comparison.

[2] The above Non GAAP financial information was included in the prospectus and therefore has been included in these financial statements for comparative purposes. EBITDA is a metric which management monitors to operate the business.

Explanation of variances

(a) Revenue for the year was higher than PFI by $76.1 m, primarily due to an increase in dairy commodity prices and the ultimate sales price achieved by Synlait.

(b) Gross Profit, while in line with PFI incorporates the upside associated with our product mix benefits as well as a number of costs associated with lower infant formula sales than forecast, provisioning against infant formula inventories, product sales phasing impacts and a high foreign exchange effective rate.

(c) Lower export freight costs than forecast have kept sales and distribution costs below forecast.

(d) Higher than forecast indirect employee costs have resulted in administrative and operating expenses exceeding forecast.

(e) Lower operating cash flow during the year has resulted in higher than forecast working capital facility balances and a higher financing cost as a result.

Prospective Statement of Changes in Equity
For the year ending 31 July 2014

		Group	Group	
		Year ended	Year ended	
		2014	2014	
	Notes	Actual	Prospectus	Variance
		$'000	$'000	$'000
Equity at the start of the period		164,038	164,991	(953)
Profit for the year		19,603	19,670	(67)
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges	f	1,875	1,400	475
Net change in fair value of cash flow hedges transferred to profit and loss	f	(2,249)	(1,104)	(1,145)
Income tax on income and expenses recognised directly in equity		104	(84)	188
Total other comprehensive loss		(270)	212	(482)
Share issue costs		(301)	-	(301)
Employee benefits reserve	g	60	330	(270)
Total contributions by and distributions to owners		(241)	330	(571)
Equity at the end of the period		183,130	185,203	(2,073)

Explanation of variances

(f) Movement in reserves is due to the mark to market value of derivatives being higher than PFI due to the fall of the NZD/USD exchange rate in the second half of July.

(g) Employee benefits reserve is lower than PFI due to a revision of the non-market conditions relevant to the valuation of the share options following the forfeiture of some options in FY14.

Prospective Financial Position - For the year ending 31 July 2014

		Group	Group	
		Year ended	Year ended	
		2014	2014	
		Actual	Prospectus	Variance
	Notes	$'000	$'000	$'000
Assets				
Current assets				
Cash and cash equivalents		2,393	-	2,393
Trade and other receivables	h	89,046	45,064	43,982
Goods and services tax refundable		8,880	3,763	5,117
Income accruals and prepayments		786	402	384
Inventories	i	71,262	49,841	21,421
Derivative financial instruments		1,632	-	1,632
Total current assets		173,999	99,070	74,929
Non-current assets				
Property, plant and equipment[1]	j	302,594	281,117	21,477
Other investments		70	-	70
Intangible assets[1]		181	230	(49)
Derivative financial instruments		42	-	42
Total non-current assets		302,887	281,347	21,540
Total assets		476,886	380,417	96,469
Liabilities				
Current liabilities				
Working capital facility	k	12,500	4,923	7,577
Trade and other payables	l	116,730	87,311	29,419
Current tax liabilities		2,618	-	2,618
Trade finance facility	m	50,613	35,748	14,865
Derivative financial instruments		2,916	146	2,770
Total current liabilities		185,377	128,128	57,249
Non-current liabilities				
Loans and borrowings	n	91,376	46,570	44,806
Deferred tax liabilities		16,525	19,504	(2,979)
Derivative financial instruments		478	1,012	(534)
Total non-current liabilities		108,379	67,086	41,293
Total liabilities		293,756	195,214	98,542
Equity				
Share Capital		172,247	172,473	(226)
Reserves		5,965	8,434	(2,469)
Retained (deficit) / earnings		4,918	4,296	622
Total equity attributable to equity holders of the Company		183,130	185,203	(2,073)
Total equity and liabilities		476,886	380,417	96,469

[1] When necessary, current year actuals have been regrouped to conform with the classification of the prospective financial information to enable a fair comparison.

Explanation of variances

(h) Accounts receivable was $44.0 m higher than PFI due to a larger than forecast amount of sales being achieved in July 2014.

(i) Inventories were $21.5 m higher than PFI due to higher than forecast inventory levels in addition to a higher cost of inventory as a consequence of a higher milk price.

(j) Property, plant and equipment was $21.5 m higher than the PFI predominantly due to deposits paid for the third dryer forecast for FY15.

(k) Net working capital facility is higher than PFI, primarily due to lower than forecast operating cash flows as a consequence of later sales phasing.

(l) Trade and other payables are $29.4 m higher than the PFI due to the higher milk price.

(m) Trade finance facility was $14.9 m higher than the PFI due to sales phasing being later in the year than forecast.

(n) Loans and borrowings are $44.8 m higher than PFI due to higher than forecast capital spend and lower than forecast discretionary repayments.

Prospective Cash Flow Statement - For the year ending 31 July 2014

		Group	Group	
		Year ended	Year ended	
		2014	2014	
	Notes	Actual	Prospectus	Variance
		$'000	$'000	$'000
Cash flows from operating activities				
Cash receipts from customers	o	571,955	533,927	38,028
Cash paid for milk purchased	p	(362,551)	(301,319)	(61,232)
Cash paid to other creditors and employees		(141,077)	(146,086)	5,009
Goods and services tax refunds		(5,963)	(992)	(4,971)
Net cash inflow/(outflow) from operating activities		62,364	85,530	(23,166)
Cash flows from investing activities				
Interest received		130	193	(63)
Acquisition of property, plant and equipment[1]	q	(97,380)	(68,713)	(28,667)
Proceeds from sale of property, plant and equipment		133	-	133
Acquisition of intangibles[1]		(4)	-	(4)
Purchases of available-for-sale financial assets		(70)	-	(70)
Net cash inflow/(outflow) from investing activities		(97,191)	(68,520)	(28,671)
Cash flows from financing activities				
Proceeds and costs from issue of shares		(301)	(743)	442
Repayment of borrowings	r	(17,699)	(36,500)	18,801
Receipt of borrowings	r	80,638	62,121	18,517
Interest paid		(7,204)	(7,056)	(148)
Net cash inflow/(outflow) from financing activities		55,434	(17,822)	37,612
Net decrease in cash and cash equivalents		20,607	34,832	(14,225)
Net working capital facility at the beginning of the period		(30,714)	(39,755)	9,041
Net working capital facility at the end of the period [2]		(10,107)	(4,923)	(5,184)

[1] When necessary, current year actuals have been regrouped to conform with the classification of the prospective financial information to enable a fair comparison.

[2] 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 $38.0 m higher than PFI due to higher dairy commodity prices, partially offset by later sales phasing.

(p) Cash paid for milk purchases were $61.2 m higher than PFI due to an increased milk price.

(q) Cash purchases of Property, Plant and Equipment are $28.7 m higher than PFI as there has been an acceleration of capital projects.

(r) Net borrowings is $37.3 m more than the PFI, due to lower than forecast operating cash flows, increased capital spend and lower discretionary loan repayments.

31 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 47 to 93, which comprise the consolidated and separate statements of financial position of Synlait Milk Limited, as at 31 July 2014, 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 and 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. These services have not impaired our independence as auditor of the Company and Group.

AUDITOR'S REPORT CONT...

OPINION

In our opinion, the financial statements on pages 47 to 93:

- 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 2014, 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 2014:

- 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

19 September 2014

Auckland, 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 2014:

Register	Sub-register	Current Holders	Zero Holders	Units
New Zealand	FASTER	2,884	1,207	146,341,197
	Class Total	2,884	1,207	146,341,197

Last year as at 31 July 2013, we had the same amount of shares of 146,341,197 but these were held by 2,412 holders.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2014 are as follows:

Rank	Name	Units at 31 July 2014	% of Units
1.	Bright Dairy Holding Limited	57,247,647	39.12
2.	FNZ Custodians Limited <DTA Non Resident A/C>	14,898,539	10.18
3.	Mitsui & Co.limited	7,373,331	5.04
4.	John Penno	5,423,817	3.71
5.	Mitsui & Co.(Australia) Limited	4,915,556	3.36
6.	Ben Dingle	4,543,666	3.10
7.	Citibank Nominees (New Zealand) Limited - NZCSD <CNOM90>	4,240,100	2.90
8.	FNZ Custodians Limited	3,946,137	2.70
9.	Tea Custodians Limited - NZCSD <TEAC40>	2,150,490	1.47
10.	Jpmorgan Chase Bank NA NZ Branch-Segregated Clients ACCT - NZCSD <CHAM24>	1,933,774	1.32
11.	HSBC Nominees (New Zealand) Limited - NZCSD <HKBN90>	1,402,796	0.96
12.	Juliet Maclean	1,298,212	0.89
13.	HSBC Nominees (New Zealand) Limited A/C State Street -NZCSD <HKBN45>	1,288,559	0.88
14.	Custodial Services Limited <A/C 3>	1,257,678	0.86
15.	New Zealand Superannuation Fund Nominees Limited -NZCSD <SUPR40>	1,223,914	0.84
16.	Falcon Rural Investments Limited	1,101,434	0.75
17.	Paul Leslie Lancaster + Bronwyn Anne Lancaster	1,098,723	0.75
18.	BNP Paribas Nominees (NZ) Limited - NZCSD <COGN40>	941,186	0.64
19.	Horo Holdings Limited	902,292	0.62
20.	Therese Roche	900,000	0.62
Totals: Top 20 holders of Ordinary Shares		118,087,851	80.69
Total Remaining Holders Balance		28,253,346	19.31

STATUTORY INFORMATION CONT...

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:

	Fully Paid Shares	Percentage of Paid Capital
Bright Dairy Holding Limited	57,247,647	39.1%
FrieslandCampina	14,634,119	9.999%
Mitsui & Co. Limited	12,288,887	8.397%

This represented an increase in the shareholding of FrieslandCampina from the previous balance as at 31 July 2013 of 10,975,590 shares or 7.50% of paid capital.

DISTRIBUTION OF SHAREHOLDERS

As at 31 July 2014.

Range	Total holders	Units	% of Issued Capital
1 - 99	4	261	0.00
100 - 199	30	3,939	0.00
200 - 499	106	34,358	0.02
500 - 999	212	139,579	0.10
1,000 - 1,999	439	556,255	0.38
2,000 - 4,999	1,171	3,236,223	2.21
5,000 - 9,999	479	3,042,805	2.08
10,000 - 49,999	373	6,753,802	4.62
50,000 - 99,999	24	1,577,957	1.08
100,000 - 499,999	24	5,821,651	3.98
500,000 - 999,999	10	6,629,486	4.53
1,000,000 and over	12	118,544,881	81.00
Total	2,884	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

STATUTORY INFORMATION CONT...

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 period 1 August 2013 to 31 July 2014 are as follows (with comparative figures for 2013 included):

	2014	2013
Minimum:	$2.60 (5-Aug-13)	$2.61
Maximum:	$4.20 (12-Dec-13)	$2.80
Range:	$2.60 - $4.20	$2.61 - $2.80
Total Shares Traded:	**34,131,443**	**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's 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 period ending 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 2014 were as follows (including comparative figures for 2013):

Director	Class	Position	Retired / Appointed	2014 - Total Remuneration	2013 - Total Remuneration
Graeme Milne	Independent	Chairman	Retired & Reappointed 3/12/13	96,500	83,000
Bill Roest	Independent	Audit and Risk Committee Chair		60,000	13,696
Sam Knowles	Independent	Director	Retired & Reappointed 3/12/13	55,000	4,035
John Penno	Board Appointed	Managing Director	Retired & Reappointed 3/12/13	661,000	645,765
Ruth Richardson	Bright Appointed	Remuneration and Governance Chair		60,000	50,333
Li Ke	Bright Appointed	Director		55,000	45,333
Yang Suhang	Bright Appointed	Director		55,000	45,333
Dong Zongbo	Bright Appointed	Director		55,000	45,333

[1] Note: As Managing Director, John Penno does not receive director's fees. His remuneration received in the year to 31 July 2014 listed above constitutes payment for his position as Managing Director and Chief Executive Officer.

STATUTORY INFORMATION CONT...

DIRECTORS' INTERESTS

Directors' interests recorded in the Interests Register of the Company as at 31 July 2014 are set out as follows:

Nature of Interest
Graeme Roderick Milne
Director Genesis Energy Limited
Chairman New Zealand Pharmaceuticals Ltd
Director New Zealand Institute for Rare Disease Research Ltd
Chairman Synlait Milk Limited
Chairman Synlait Milk Finance Limited
Chairman Terracare Fertilisers Ltd
Trustee Rockhaven Trust
Partner G R & J A Milne
Chairman Johnes Disease Research Ltd
Chairman Rural Broadband Initiative National Advisory Committee
Director Farmers Mutual Group
Director Alliance Group Ltd
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Member Massey University School of Advanced Engineering and Technology (SEAT) Advisory Board
Deed of Indemnity and Access – from SML
Sole Shareholder and Chairman of SML New Zealand Limited
Shareholder in Synlait Milk Limited
Chairman of Pacific T and R Ltd
Chairman Rimanui Farms Ltd
Ruth Margaret Richardson
Chairman, Jade Software Corporation
Director Synlait Milk Limited
Chairman, Kula Fund Advisory Committee
Director Ruth Richardson [NZ] Ltd
Receipt of Directors' Fees from the Company at approved rate
SYFT Technologies Limited Chair
Chairman Kiwinet
Insurance cover arranged by Synlait Milk Limited
Chairman New Zealand Merino Company
Deed of Indemnity and Access – from SML
Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited

Willem Jan Roest

Director Fisher & Paykel Appliances Ltd
Director Housing Foundation Ltd
Trustee New Zealand Housing Foundation
Trustee WJ & IJ Family Trust
Director Metro Performance Glass Ltd
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access – from Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Director Synlait Milk Limited
Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited

Ms Li Ke

Insurance cover arranged by Synlait Milk Limited
Employee of Bright Dairy Ltd – substantial Shareholder in SML
Deed of Indemnity and Access – from Synlait Milk Limited
Director Synlait Milk Limited
Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited

Mr Dong Zongbo

Insurance cover arranged by Synlait Milk Limited
Employee of Bright Dairy Ltd – substantial Shareholder in SML
Deed of Indemnity and Access – from Synlait Milk Limited
Director Synlait Milk Limited
Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited

Mr Yang Sihang

Insurance cover arranged by Synlait Milk Limited
Employee of Bright Dairy Ltd – substantial Shareholder in SML
Deed of Indemnity and Access – from Synlait Milk Limited
Director Synlait Milk Limited
Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited

John William Penno

Trustee John Penno Trust
Director Synlait Farms Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access – from Synlait Milk Limited
Managing Director Synlait Milk Limited

Director of SML New Zealand Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Director of Primary Collaboration New Zealand Limited
Ian Samuel Knowles
Director Trustpower Ltd
Director Rangatira Ltd
Chairman Umajin 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 Com Trust and Ian Samuel Knowles Children's Trust
Director Synlait Milk Limited
Director Synlait Milk Finance Limited
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access – from Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Shareholder in Synlait Milk Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

The Directors' respective shareholding in Synlait as at 31 July 2014 is as follows:

	2014	2013
	Directly Held	Directly Held
John Penno	5,423,817	5,423,817
Graeme Milne	59,526	59,526
Ruth Richardson	46,000	46,000
Sam Knowles	45,000	45,000
Willem Roest	22,750	22,750

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2014.

Synlait Milk Finance Limited

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

STATUTORY INFORMATION CONT...

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 Leadership and Board level as at 31 July 2014 is:

	Female	Male	Total	% Female
Board	2	6	8	25%
Senior Leadership Team	1	6	7	14%

The gender breakdown for the Senior Leadership Team has changed from 31 July 2013 due to a smaller Senior Leadership Team now being in place (dropping from 9 under the former Senior Management Team).

EMPLOYEE REMUNERATION

During the year ended 31 July 2014 the following employees and former employees received individual remuneration over $100,000:

Remuneration range	2014	2013
	Number of employees	Number of employees
$100,000 - $110,000	7	8
$110,000 - $120,000	6	5
$120,000 - $130,000	3	4
$130,000 - $140,000	9	2
$140,000 - $150,000	3	1
$150,000 - $160,000	2	3
$160,000 - $170,000	4	2
$170,000 - $180,000	2	3
$180,000 - $190,000	2	0
$210,000 - $220,000	1	0
$220,000 - $230,000	1	0
$230,000 - $240,000	0	0
$240,000 - $250,000	1	1
$250,000 - $260,000	0	0
$260,000 - $270,000	0	1
$270,000 - $280,000	0	1
$280,000 - $290,000	0	0
$290,000 - $300,000	0	0
$300,000 - $310,000	2	1
$310,000 - $320,000	0	1
$320,000 - $330,000	0	0
$330,000 - $340,000	0	0
$340,000 - $350,000	0	0
$350,000 - $360,000	0	0
$360,000 - $370,000	1	1
$370,000 - $380,000	1	0

STATUTORY INFORMATION CONT...

$380,000 - $390,000	0	0
$390,000 - $400,000	0	1
$400,000 - $410,000	0	0
$410,000 - $420,000	0	0
$420,000 - $430,000	1	0
$430,000 - $440,000	1	0
$440,000 - $450,000	1	0

DONATIONS

For the year ended 31 July 2014 we donated $14,000 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 annual shareholder meeting will be held on 2 December 2014 in Christchurch.

We will confirm the time and place by notice to all our shareholders nearer to that date.

ANNUAL REPORT

Our Annual Report and past Annual Reports and Interim Reports are all available on our website at www.synlait.com/investors/corporate-governance/.

We will email our Annual Report to those shareholders who have opted for e-communication with us and our share registry. We prefer to communicate with our shareholders by email without using up valuable printing resources and postage costs, 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), our Investor relations policies 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 LEADERSHIP

John Penno – Chief Executive Officer & Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Supply Chain

Natalie Lombe – General Manager Culture, Capability & Strategy

Mike Lee – General Manager Sales

Neil Betteridge – General Manager Manufacturing

Michael Stein – General Manager Quality & Technical Services

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

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

Synlait Milk Ltd
1028 Heslerton Road
RD13, Rakaia 7783
New Zealand
P+ 64 3 373 3000
www.synlait.com