

ON TRACK

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Synlait Milk Limited Interim Report 2014

KEY MESSAGES

Operating

- Significant improvement in the financial performance over FY2013 interim results.
- China market regulations impacting FY2014 infant nutritional product sales and requiring inventory provisions.
- Favourable product mix in the ingredient business leading to improving gross margin per metric tonne.
- Expect to outperform FY2014 prospectus forecast.

Growth

- First three growth initiative projects on track.
- Market development with tier one customers ahead of expectations.

RESULTS OVERVIEW

Revenue

\$284.9million ↑ 62%

Gross Profit

\$40 million ↑ 42%

Gross Profit per MT*

\$919 ↑ 26%

EBITDA

\$24.6 million ↑ 22%

Net Profit After Tax

\$12.1 million ↑ 79%

Shareholders Funds

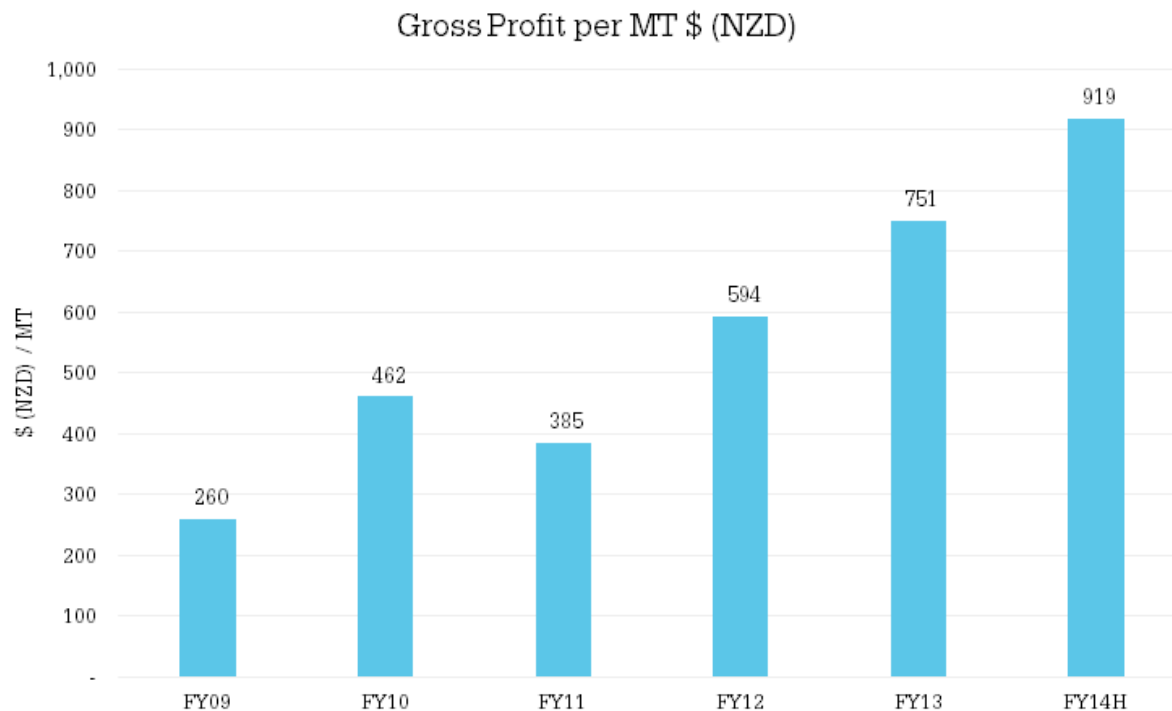
\$176.5 million ↑ 94%

* Compared to full year FY2013

GROWTH IN VOLUMES AND MARGINS IMPROVE PROFITABILITY

NZD (\$m)	2014 Interim Unaudited	2013 Interim Unaudited	Change %
Revenue	284.9	176.4	61.5%
Gross Margin	40.0	32.8	21.8%
EBITDA	24.6	20.3	21.6%
EBIT	19.3	15.1	27.8%
NPAT	12.1	6.8	79.0%
EPS	8.27	6.02	37.4%

MARGIN GROWTH KEY TO SUCCESS



IMPROVEMENT ACROSS ALL KEY METRICS

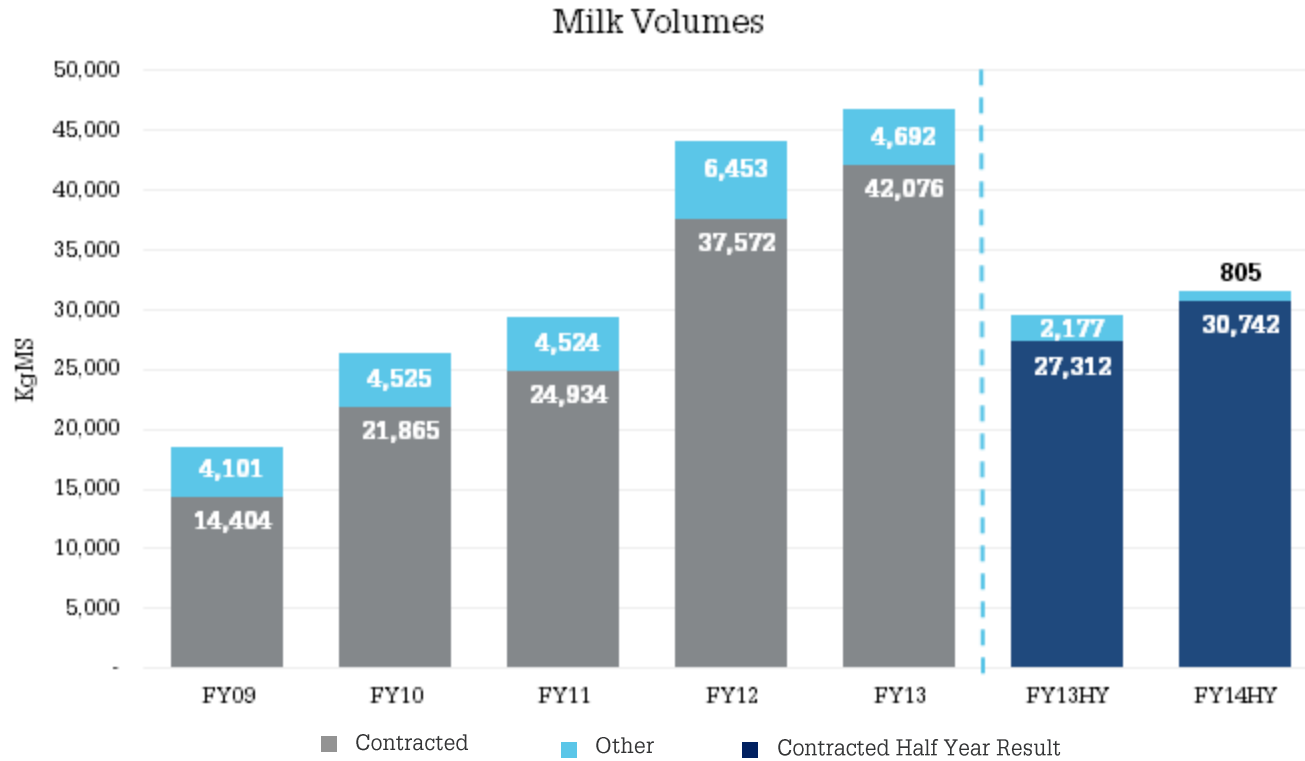
	2014 Interim Unaudited	2013 Interim Unaudited	Change %
Sales Volumes (MT)			
Ingredients	40,503	38,908	4.1%
Nutritionals	3,005	1,586	89.5%
Total	43,508	40,494	7.4%
Production Volumes (MT)			
Ingredients	56,253	52,436	7.3%
Nutritionals	4,726	3,924	20.4%
Total	60,979	56,360	8.2%
Milk Procurement (KgMS)			
Contracted	30,742	27,312	12.6%
Other Supply	805	2,177	(60.0)%
Total	31,547	29,489	7.0%

MILK VOLUMES AND PRICE

- Milk supply up 7.0% to 31,547 KGMS on last year to date.
- Increased contracted milk supply by 12.6% to 30,742 KGMS.
- Have taken some DIRA milk this year, however less than anticipated due to strong contract milk supply growth.
- Record milk price for this season expected.



MILK VOLUMES



BALANCE SHEET AND CASH FLOW

- Net working capital and cash outflow from operations improved from last year principally due to unwind of FY 2013 position.
- Growth in fixed assets and capital expenditure due to investment in growth initiative projects.
- Shareholders funds significantly up due to capital raise and retained profits.



BALANCE SHEET AND CASH FLOWS

	2014 Interim Unaudited	2013 Interim Unaudited	Change %
Net Working Capital	(18,345)	(67,337)	(72.8)%
Fixed Assets	245,002	214,163	14.4%
Net Debt	133,654	116,618	14.6%
Shareholders Fund	176,522	90,989	94.0%
Gearing	43.1%	56.2%	(23.3)%
Operating Cash Flows	(8,270)	(69,322)	(88.1)%
Capital Expenditure	35,467	2,440	1,353.6%

STRATEGIC GROWTH INITIATIVES

- Six growth initiative projects outlined in prospectus totalling in excess of \$235 million spend over three years.
- Lactoferrin plant to be commissioned in March 2014.
- Decided to complete build of all warehouse capacity of an additional 22,500 m², due to be commissioned March 2014.
- Blending and canning facility expected to be commissioned ahead of schedule in June 2014.
- Largest project is build of third dryer due to be commissioned in August 2015 to expand capacity and grow our infant nutritional volumes.

GROWTH INITIATIVE PROJECTS

	Start Date	Commission Date	PFI Commission Date	Total Capex (\$ m)	PFI Total Capex (\$ m)	Comment
Blending & Canning	August 2013	June 2014	August 2014	28.3	27.5	On track to commission ahead of schedule.
Drystore	August 2013	March 2014	January 2014	16.9	11.8	Building all drystore space now (22,500 sqm vs 12,500 sqm), including dryer three drystore.
Lactoferrin	May 2013	March 2014	January 2014	19.2	15.1	Increased scope and cost increases has led to a two month delay.
Quality Lab and Admin	May 2014	February 2015	March 2014	21.0	8.4	Large change in scope and upgrades to both lab and admin buildings.
Dryer Three	April 2014	September 2015	August 2015	135.0	110.0	Increased dryer size to 10.5 MT per/h from 8.5 MT per/h.
Butter	August 2014	May 2015	May 2015	15.0	15.0	Initial planning underway.
Total				235.4	187.8	

FY 2014 OUTLOOK

- Favourable product mix resulting in higher returns from our ingredients business (before tax estimated benefit \$31.0 million).
- New China infant formula regulations having short term impact resulting in:
 - Lower infant nutritional sales, now expected to be similar to those of last year (before tax estimated cost - \$6.8 million).
 - provisioning against infant and nutritional inventories (before tax estimated cost - \$5.8 million).
- Anticipate that our average exchange rate will be less favourable than that applied in the farm gate milk price (before tax estimated cost - \$3.6 million).
- Forecast FY2014 NPAT to be in the range of \$25.0 million to \$30.0 million.

BEYOND FY14 MARKET DEVELOPMENT

- Growing engagement with multinational infant formula companies.
- Expect 30% of production to be sold as infant formula ingredients and finished products in FY2015.
- Targeting 70% of product to be sold to top five customers in FY2015.
- Engaged in Chinese infant formula registration process.
 - Continuing to partner with three infant formula brand owners.
 - Expect Chinese powder business to return as market settles.

THANK YOU

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