synlait™
making more from milk

MAKE MORE FROM MILK

Investment Statement and Prospectus

24 JUNE 2013

–

Initial public offering of ordinary shares in
Synlait Milk Limited

FIRST NZ CAPITAL
Joint Lead Manager and Bookrunner

Goldman Sachs
Joint Lead Manager and Bookrunner

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.[1]

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to http://www.fma.govt.nz

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check –

- the type of adviser you are dealing with:
- the services the adviser can provide you with:
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at http://www.fspr.govt.nz

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

Important notice

This Offer Document relates to an offer of fully paid ordinary shares in Synlait Milk. A description of the Offer is set out under the heading "Details of the Offer" on pages 177 to 183 of this Offer Document.

This Offer Document is a combined investment statement and prospectus for the purposes of the Securities Act and the Securities Regulations and is prepared as at, and dated, 24 June 2013. The information required to be contained in an investment statement is set out above under the heading "Important Information" and under the heading "Answers to Important Questions" in Section 1.4 of this Offer Document.

The purpose of those sections is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for Shares under the Offer. You should note that other important information about the Shares and the Offer is set out in other sections of this Offer Document and in the information available for inspection at the registered office of Synlait Milk at 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

This Offer Document is an important document and should be read carefully. You should read all of this Offer Document and the accompanying information before deciding whether or not to invest in Synlait Milk.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Offer Document or in any other communications from Synlait Milk. Any information or representation in connection with the Offer not contained in the Offer Document may not be relied on as having been authorised by Synlait Milk, its subsidiaries, Selldown Co, the Joint Lead Managers or any of their respective directors, officers or employees.

If you are in any doubt as to any aspect of the Offer, you should consult your financial or legal adviser or an NZX Firm.

You should seek your own taxation advice on the implications for you of an investment in Shares under the Offer.

No guarantee

No person guarantees the Shares offered under this Offer Document, nor warrants or guarantees the future performance of Synlait Milk or any return on the Shares.

Registration

A copy of this Offer Document duly signed by or on behalf of the Directors of Synlait Milk and Selldown Co, and having endorsed or attached thereto copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act are:

- the audit report of Deloitte in respect of certain financial information included in this Offer Document, as set out in this Offer Document;
- the signed consent of Deloitte to the following Deloitte reports being included in this Offer Document:
  - audit report in respect of certain financial information included in the Offer Document;
  - audit report in respect of the financial statements for the year ended 31 July 2012;
  - review report in respect of interim financial information; and
  - investigating accountant's report;
- the signed consent of Babbage Consultants Limited to its engineer's report being included in this Offer Document;
- copies of the material contracts referred to on page 190 of this Offer Document under the heading "Material Contracts"; and
- letters of authority authorising this Offer Document to be signed by an agent on behalf of a Director (if and where required).

[1] This is the wording required by Schedule 13 to the Securities Regulations which contemplates a separate investment statement and prospectus. For the Offer, the two documents have been combined and accordingly the prospectus available on request is identical to this document.

Consideration period

Pursuant to section 43C of the Securities Act, the Registrar of Financial Service Providers will notify the Financial Markets Authority when this Offer Document is registered. The Financial Markets Authority will have an opportunity to consider whether this Offer Document:

- complies with the Securities Act and the Securities Regulations;
- contains any material misdescription or error or any material matter that is not clearly legible; or
- is false or misleading as to a material particular or omits any material particular (whether or not it was so false or misleading, or the omission was material, at the time the Offer Document was registered).

The nature and extent of the consideration (if any) that the Financial Markets Authority gives to the Offer Document is at the Financial Markets Authority's discretion. Nothing in this section or any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider at any time whether this Offer Document complies with the above.

Pursuant to section 43D of the Securities Act, Synlait Milk and Selldown Co cannot accept any Applications, and Shares cannot be allotted to you, during the Financial Markets Authority's "Consideration Period". The Consideration Period commences on the date of registration of this Offer Document and ends at the close of the day that is five working days after that date. The Financial Markets Authority may shorten the Consideration Period or extend it by no more than five additional working days.

NZX listing

Application has been made to NZX for permission to list Synlait Milk, and to quote the Shares on the NZX Main Board. All requirements of NZX relating to that application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document.

NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange registered under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on 23 July 2013 under the stock code "SML". Synlait Milk will bear a "Non Standard" designation on the NZX Main Board to reflect Synlait Milk's governance arrangements, and, in particular, the special rights Bright Dairy will have if it holds on listing between 37% and 50% of the Shares in Synlait Milk. These are summarised in Section 1.3 (Offer at a Glance) and described further in Section 4.2 (Board, Management and Corporate Governance).

Takeovers Code (Synlait Milk Limited) Exemption Notice 2013

At the date of this Offer Document, Bright Dairy holds approximately 51% of the Shares in Synlait Milk. Bright Dairy has obtained an exemption from the Takeovers Code, effective 15 July 2013, so that if, on listing, its shareholding is diluted to less than 41% of the Shares it may, in the following 12 months, purchase Shares on market so that it holds no more than 41% of the Shares in Synlait Milk without having to obtain shareholder approval or make a takeover offer under the Takeovers Code.

Bright Dairy has no obligation to exercise this right and has not made a decision at this time whether or not it will do so. Bright Dairy could also comply with the Takeovers Code at any time by making a partial or full takeover offer under the Takeovers Code.

The exemption is subject to a number of conditions including a condition that Bright Dairy cannot sell or dispose of any Shares during the period of the exemption.

In approving the granting of the exemption to Bright Dairy, the Takeovers Panel does not approve or endorse the terms of the Offer.

Overseas investors

The Offer is being made to members of the public in New Zealand and Institutional Investors in New Zealand, Australia and certain other overseas jurisdictions only (excluding the United States or any US Persons). This Offer Document is intended for use only in connection with the proposed Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been, or will be, taken to register this Offer Document in any jurisdiction other than New Zealand or otherwise permit a public offering of the Shares outside of New Zealand.

No person may offer, sell (including resell), distribute or deliver, or invite any other person to offer, sell (including resell), distribute or deliver, any Shares or distribute any documents (including this Offer Document) in relation to the Shares to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction.

In particular, this Offer Document (including an electronic copy) may not be released in whole or in part, to persons in the United States or any persons who are, or are acting for the benefit of, US Persons. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. The Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold (including resold), distributed or delivered, directly or indirectly, in the United States, or to, or for the account or benefit of, a US Person.

Unless otherwise agreed with Synlait Milk, any person or entity subscribing for Shares under the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such a jurisdiction.

None of Synlait Milk, Selldown Co, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Risk and suitability of an investment in Synlait Milk

This Offer Document does not take into account your investment objectives, financial situation and particular needs. You should read this Offer Document in full before deciding whether to subscribe for Shares under the Offer. In particular, you should consider the nature of the investment in the Shares and the risk factors that could affect Synlait Milk's performance (including those risks set out on pages 22 to 24 of this Offer Document under the heading "What are my risks?" and the risks set out in Section 5), having particular regard to your own personal circumstances. If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or an NZX Firm.

Forward looking statements

This Offer Document contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Synlait Milk and which may cause actual results, performance or achievements of Synlait Milk to differ materially from those expressed or implied by such statements.

Definitions

Capitalised terms used in this Offer Document have the specific meaning given to them in the Glossary on pages 194 to 196 of this Offer Document.

All references to dates and time are to dates and time in New Zealand.

Unless otherwise indicated, any reference to dollars, $, NZ$, NZD or cents refers to New Zealand dollars and cents.

Unless otherwise indicated, any reference to we, our or us is a reference to Synlait Milk.

This Offer Document refers to legislation in force in New Zealand. Copies of any such legislation may be viewed online, free of charge, at www.legislation.govt.nz.

MILK NUTRITION WITH INTEGRITY

It's the synergy of our place, our people, our processes and our customers that drives our success. It's in every Synlait Milk product.

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synlait

SECTION 1

WELCOME & ANSWERS TO IMPORTANT QUESTIONS

LETTER FROM THE CHAIR

1.1

Graeme Milne

CHAIRMAN

"SYNLAIT'S VISION IS TO BECOME A TRUSTED SUPPLIER OF CHOICE TO SOME OF THE WORLD'S BEST MILK-BASED HEALTH AND NUTRITION COMPANIES."

LETTER FROM THE CHAIR

1.1

Dear Investor

On behalf of the Board of Directors it is my pleasure to invite you to become a Shareholder in Synlait Milk, a growing New Zealand business with a vision to become a trusted supplier of choice to some of the world's best milk-based health and nutrition companies.

Our vision is based on a business model of supplying specialised higher value dairy ingredients to leading milk-based health and nutrition companies internationally. It is not our intention to compete with our customers by developing our own consumer brands, but to add value to their food formulation processes. We advance that by co-locating our technical and marketing teams in our facilities to maximise their understanding of our capabilities and how they can add value to customers' needs. Our customers are generally in Asia, but we have also developed significant business in the Middle East, Europe and Africa. Our strategy is B2B (business to business).

In November 2010, a Shanghai-based dairy company, Bright Dairy, invested in Synlait Milk, acquiring a 51% shareholding. The funds raised enabled us to enter the infant formula and added value nutritionals market. Bright Dairy is a long established company in China and has provided Synlait Milk with valuable strategic insight into that important market. Bright Dairy also became an early customer for our fully-formulated infant formula. This important strategic relationship will be retained through this Offer as Bright Dairy will continue to hold their investment.

We are an innovative milk processing and marketing company based in the heart of Canterbury, an area known for farming excellence and strong milk production growth. In FY2013F we will produce approximately 91,000 MT of Ingredients (including whole milk powder, skim milk powder, and anhydrous milk fat) and Infant Formula and Nutritional products. You can find out more about our prospective financial information in Section 6.2 (Prospective Financial Information).

Over the past six years, we have commissioned a modern milk powder dryer (Dryer 1), a small special milks dryer, an anhydrous milk fat plant and more recently, a large and sophisticated Infant Formula and Nutritionals dryer (Dryer 2) with associated equipment.

To continue our growth, we have identified a number of further Growth Initiatives which we wish to pursue in the near term. This Offer will raise $75 million in new capital which will be applied to retire debt and will allow us to access further debt finance, to be used to support the construction of a new lactoferrin extraction and purification facility, an on-site blending and consumer packaging plant, a new dry store, a quality testing laboratory, a butter plant, and the largest project, a new spray dryer (Dryer 3).

While we are confident about our business strategy and our ability to add value, the international dairy market is characterised by not only growth, but volatility. Underlying prices move rapidly in response to both supply and demand factors. As an exporting company virtually none of our sales are made in New Zealand dollars and so we are exposed to foreign exchange rate risk. These and other factors mean that despite risk management strategies, returns from this investment will vary. I therefore encourage you to read this Offer Document in its entirety and carefully consider the risks which are more fully described in Section 5 before making your investment decisions.

Our Board and management are proud of what we have achieved since our inception. We have gathered a skilled and inspired team around us who are strongly motivated to achieve the aspirations outlined in the following pages. We invite you to join us as a Shareholder and participate in the next stage of development of an innovative and growing New Zealand dairy business.

We look forward to welcoming you as a Shareholder of Synlait Milk.

Yours sincerely

Graeme Milne
Chairman
SYNLAIT MILK LIMITED

LETTER FROM THE MANAGING DIRECTOR

1.2

John Penno

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

"SYNLAIT MILK IS A FAST GROWING DAIRY MANUFACTURER FOCUSED ON SUPPLYING HIGHER VALUE DAIRY PRODUCTS TO LEADING INGREDIENTS AND MILK-BASED HEALTH AND NUTRITION COMPANIES."

LETTER FROM THE MANAGING DIRECTOR

1.2

Dear Investor

Synlait Milk is a fast growing dairy manufacturer focused on supplying higher value dairy products to leading ingredients and milk-based health and nutrition companies.

Over the past six years we have established the company through creating relationships with customers and suppliers, building a world-class manufacturing site and developing a high performing management team and operating system. In this short period of time, the business has grown quickly and is expecting to achieve revenues of more than $400 million in the current financial year.

Infant Formula and Nutritional products are an important part of our business and strategy. While we are developing our Infant Formula and Nutritional customers in a number of markets, we believe the ongoing improvements in the regulations in China designed to improve quality and drive consolidation in that market, are beneficial to our strategy and our key Chinese customers.

Our customers include those that hold leading positions in consumer dairy products and who typically have established brands, recognised for their quality and integrity with their own retail distribution channels. These customers have come to value our commitment to quality and excellence and have demonstrated a willingness to recognise this through superior product pricing.

We have built relationships with some of Canterbury's best farmers. The majority of these farmers provide us with a level of security of raw milk supply by contracting with us to provide no less than 24 months' notice of termination effective 31 May in their final year. Our growing reputation in the region means that our operation will be running at capacity in the coming Season with more farmers wanting to supply us with milk than we can accept without expanding our manufacturing facilities.

Our manufacturing site at Dunsandel, Canterbury currently has the capacity to process approximately 550 million litres of milk into approximately 95,000 MT of products each year. These products include high specification milk powders, infant formula products and AMF.

We have put together a high performing management team and our more than 150 employees are engaged and focused on executing our business plan. The team provides considerable dairy and infant formula industry experience, including staff who have spent time with infant formula brand companies that we consider to be world leading.

We have constructed operating systems focused on providing our customers with accurate and efficient service from order to delivery, based on end-to-end business processes. These systems have been built to provide a strong foundation for the future development of the business.

After working hard to establish Synlait Milk over the past six years, we expect to achieve a return on capital employed of 12.8%[2] in FY2013F, in only our first full year of infant formula production and despite continuing to invest heavily in people, processes and plant as we focus on capitalising on the opportunities in front of us. You can find out more about our prospective financial information in Section 6.2 (Prospective Financial Information).

Our strategy is to take the platform we have built, and progressively transition our customer base and product mix to maximise the returns achieved from each Value Added product group, and the sales volume of the highest value products we produce. This strategy is supported by a range of management and investment initiatives including:

- our Lead With Pride™ milk supply certification program;
- investment in lactoferrin production to provide this as both an ingredient into our own production, and as an important ingredient to some of our key infant formula customers;
- developing a blending and consumer packaging plant to provide our customers with improved operational efficiency and quality outcomes;
- constructing a new spray dryer capable of producing our full range of powder products to enable continued volume growth and year round production of infant formula products; and
- constructing a butter plant to enable us to take advantage of any product mix differentials and over time continue to develop our Value Added strategy for our cream products.

These management and investment initiatives are expected to be completed by mid 2015 with the full financial benefits expected to be reflected from our 2017 financial results and subsequent years. Through all this we are committed to building and maintaining a strong financial position so that we are positioned to continue to strongly grow the business.

This Offer Document sets out detailed information about the company and our plans. I invite you to carefully read this document as you consider making an investment and joining with us as we seek to make more from milk.

Yours sincerely

John Penno
Managing Director &
Chief Executive Officer
SYNLAIT MILK LIMITED

[2] Return on Capital Employed comprises EBIT / Average (total equity + net debt). FY2013F net debt is adjusted for abnormal movements in the Working Capital Facility and Trade Finance Facility which aggregate to $38.8 million. For further details please see the paragraph entitled "Working Capital" in Section 6.2 (Prospective Financial Information).

OFFER AT A GLANCE

1.3

The Offer is an offer to subscribe for ordinary shares in Synlait Milk Limited.

Introducing Synlait Milk Limited

Synlait Milk is focused on becoming a trusted supplier of choice to leading milk-based health and nutrition companies.

We collect raw milk from approximately 155 farms in Canterbury, in the South Island of New Zealand, and manufacture two main categories of product:

1. Ingredient products – including:
   a. Milk powders: SMP and WMP sold as finished powders for in-market repackaging into consumer packs (eg SMP for dry-blending into infant formula) and as ingredients into other dairy manufacturing processes (eg SMP designed for use in UHT milk processing plants);
   b. Cream products: AMF manufactured and sold in industrial packs of 210 kilograms or 1,000 kilograms. We are planning to extend our cream products to include Ammix butter; and
2. Infant Formula and Nutritional products – formulated dairy-based nutritional powders sold in either industrial packs as base powders for blending and packaging into consumer packs or sold by us in consumer packs to selected customers. These can contain considerable volumes of ingredients other than raw milk.

Our strategy is B2B (business to business) and our customers are generally located in Asia, the Middle East, Europe and Africa. Our customers can be broadly described as some of the world's leading multinational milk-based health and nutrition companies, and some of the leading locally-owned in-market milk-based health and nutrition companies.

Our processing facilities are designed to allow for flexibility and control of production to meet specific customer requirements and currently include a modern milk powder dryer (Dryer 1), a small milks dryer, an AMF plant and more recently, a large and sophisticated Infant Formula and Nutritionals dryer (Dryer 2) with associated equipment. Our plans outlined in this Offer Document include the construction of a new milk powder dryer (Dryer 3), a new lactoferrin extraction and purification facility, an on-site blending and consumer packaging plant, a new dry store, a quality testing laboratory and a butter plant.

You can find out more information about the industry in which we operate in Section 3, our business activities in Section 4.1 and the risks in section 5.

OFFER AT A GLANCE

1.3

Key Dates

Institutional Offer and Bookbuild process	8 and 9 July 2013
Final Price announced	10 July 2013
Broker Firm Offer Opening Date	10 July 2013
Broker Firm Offer Closing Date	5.00pm, 19 July 2013
Allotment Date	23 July 2013
Quotation and trading of Shares expected to commence on the NZX Main Board	23 July 2013
Expected despatch of holding statements	25 July 2013

These dates are indicative only. You are encouraged to submit your Application as early as possible.
We reserve the right to amend these dates and / or to withdraw the Offer at any time before the Allotment Date.

Structure of the Offer

The Offer includes:

- the Broker Firm Offer, which is available only to New Zealand resident clients of selected NZX Firms who have received a Firm Allocation; and
- the Institutional Offer, which consists of an invitation to bid for Shares made to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions.

There is no general public offer. Therefore, members of the public wishing to subscribe for Shares must do so through an NZX Firm with a Firm Allocation. The minimum application amount is 2,000 Offer Shares (except for employees of Synlait Milk for which a minimum application amount of 800 Offer Shares applies).

The gross proceeds of the Offer are expected to be approximately $120 million.[3] The exact value will be known upon completion of the Bookbuild, with $75 million relating to an offer of New Shares in Synlait Milk and the balance relating to an offer of Existing Offer Shares from Selldown Co. The Existing Offer Shares are Shares which will be sold by Synlait Limited and certain existing Synlait Limited shareholders to Selldown Co and offered by Selldown Co under the Offer. This is explained in more detail under the heading "Shareholding Structure" in Section 7.1 (Details of the Offer). The Offer will only proceed if valid Applications having an aggregate value of at least $75 million plus the value of the Existing Offer Shares are received.

Escrow arrangements

Bright Dairy and Synlait Limited shareholders (who do not elect to sell all of their Shares via Selldown Co) will be subject to escrow arrangements with Synlait Milk that are described in more detail in Section 7.1 (Details of the Offer) under the heading "Escrow Arrangements".

Under the escrow arrangements, Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno and the SL Shareholders who do not elect to sell all of their Shares to Selldown Co, cannot, subject to certain exceptions noted in Section 7.1 (Details of the Offer) under the heading "Escrow Arrangements", sell, transfer or otherwise dispose of Shares in Synlait Milk until at least the first day after the date on which Synlait Milk releases to NZX its preliminary announcement of its financial results for FY2014F (being the end of the prospective financial information period).

[3] Based on the midpoint of the Indicative Price Range and the estimated number of Existing Offer Shares to be offered by Selldown Co.

Governance arrangements of Synlait Milk

On listing, Synlait Milk will have non-standard governance arrangements if Bright Dairy holds at least 37% of the Shares in Synlait Milk on listing. These will allow Bright Dairy to consolidate Synlait Milk into its accounts for financial reporting purposes. These arrangements will cease to apply if Bright Dairy's percentage shareholding in Synlait Milk reduces below the percentage held by it on listing or increases above 50%, or if Bright Dairy ceases to be a subsidiary of Bright Dairy & Food Co., Ltd, in which case the ordinary provisions of the Listing Rules will apply. Bright Dairy has advised Synlait Milk that it will only support the listing of Synlait Milk if these arrangements are in place. These special governance arrangements will give Bright Dairy significant influence over the Board. Bright Dairy's interests, as a Shareholder, may not necessarily be aligned to those of minority Shareholders.

Set out below is a summary of the key governance arrangements applying to Synlait Milk, on listing, and subsequently if Bright Dairy's shareholding changes (subject to the Listing Rules not changing in that regard in the meantime):

	Non-standard governance arrangements that apply if Bright Dairy holds at least 37% of the Shares in Synlait Milk on listing	Standard governance arrangements that will apply if Bright Dairy's percentage shareholding in Synlait Milk subsequently reduces below the percentage it holds on listing or increases above 50%, or if it ceases to be a subsidiary of Bright Dairy & Food Co., Ltd
Director Appointment Rights	Bright Dairy has a right to appoint four (4) out of a maximum of eight (8) directors.	No express power to appoint Directors. Bright Dairy will be entitled to vote on the appointment of all Directors like any other Shareholder.
Appointment / Removal of Managing Director	Appointed by the Board but Bright Dairy appointees to the Board will have four (4) out of seven (7) votes on the Board regarding the appointment or removal of a Managing Director (as the Managing Director will be disqualified from voting). Accordingly, Bright Dairy will, in practice, have the ability to control the appointment / removal of the Managing Director. All Directors of Synlait Milk must act in accordance with duties of directors under NZ company law in relation to the appointment / removal of the Managing Director including acting in the best interests of Synlait Milk and acting in good faith. The Managing Director must **not** be a Bright Dairy director.	Appointed by the Board.
Independent Directors	The minimum number of Independent Directors will be three (3). If the minimum number is less than three (3), the Independent Directors in office must, as soon as practical, appoint an additional Independent Director. Such additional Independent Director shall hold office until the next annual meeting of Synlait Milk and be eligible for election at that meeting. At the time of registration of this Offer Document, there are two (2) Directors who will be independent at listing (Graeme Milne and Willem Roest). If a third Independent Director is not appointed to the Board prior to its listing, then the Independent Directors will, following listing, appoint a third Independent Director as soon as practicable. Bright Dairy cannot vote on the appointment and removal of Independent Directors.	The minimum number of Independent Directors shall be two (2), or if there are eight (8) or more Directors, three (3), or one third (rounded down to the nearest whole number of Directors) whichever is greater. Bright Dairy will be entitled to vote on the appointment of all Directors, including Independent Directors.

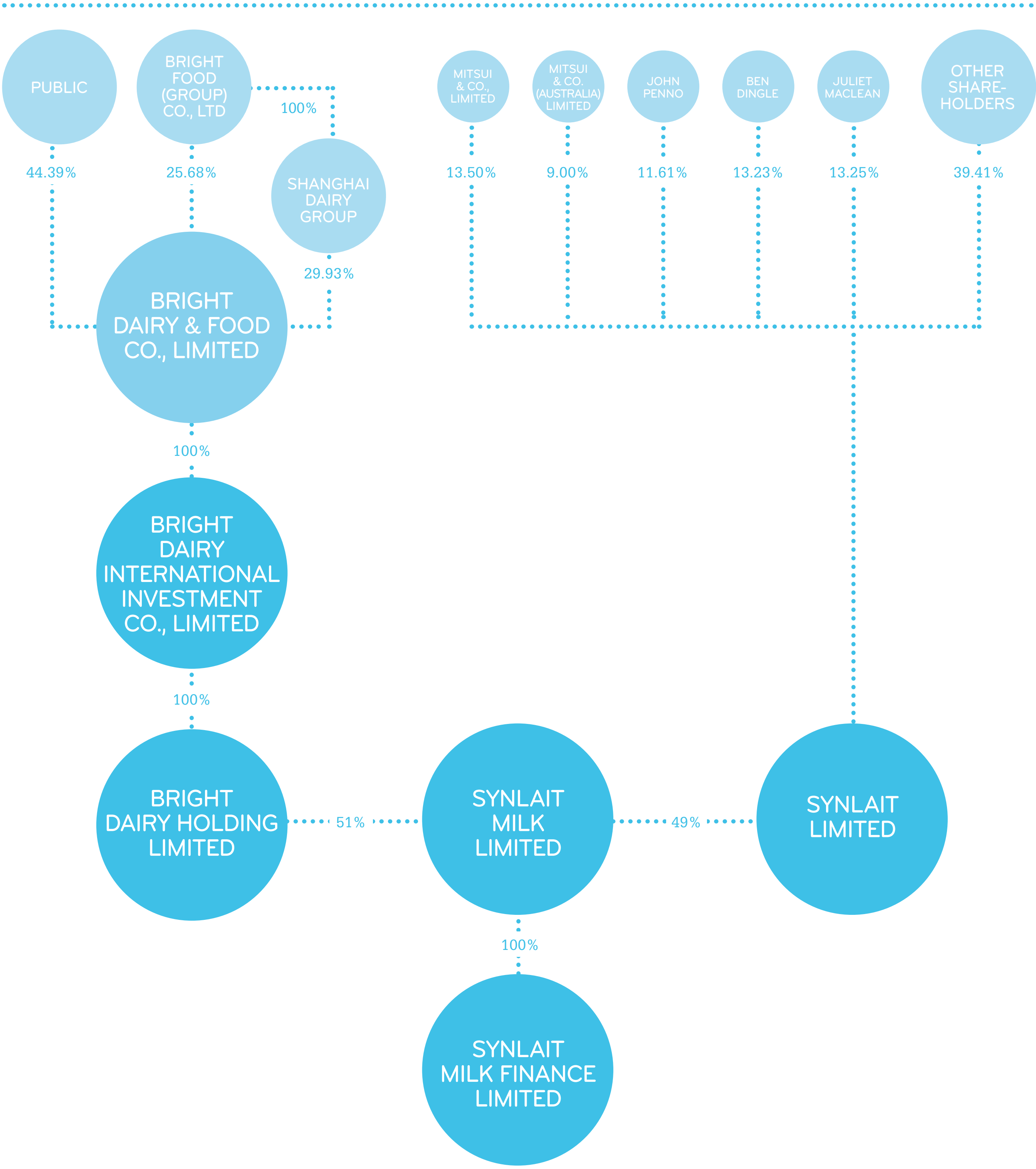
	Non-standard governance arrangements that apply if Bright Dairy holds at least 37% of the Shares in Synlait Milk on listing	Standard governance arrangements that will apply if Bright Dairy's percentage shareholding in Synlait Milk subsequently reduces below the percentage it holds on listing or increases above 50%, or if it ceases to be a subsidiary of Bright Dairy & Food Co., Ltd
Qualification of Directors	One Bright Dairy appointed Director must be ordinarily resident in New Zealand and of such standing and with such commercial and governance experience in New Zealand as is appropriate for a director of a listed company. All Bright Dairy appointed Directors must have appropriate skills and experience to ensure Synlait Milk has a suitable mix of skills and experience on the Board.	A matter for Shareholders on an ordinary resolution.
Alternate Directors	No ability to appoint alternate directors but Bright Dairy appointed Directors may at a Board Meeting exercise the right to vote of an absent Bright Dairy appointed Director.	Any Director may appoint an alternate director with the approval of a majority of the other Directors.
Director Rotation	One Independent Director will retire by rotation and be eligible for re-election at every annual meeting of Synlait Milk. However, if there are only two (2) Independent Directors on listing, and a third Independent Director is appointed prior to Synlait Milk's annual meeting following listing, then that Independent Director and one of the other two (2) Independent Directors will need to retire at the annual meeting but will be eligible for re-election.	One third or, if the nearest multiple is not a multiple of three, then the nearest number, of all Directors, must retire from office at each annual meeting but shall be eligible for re-election.
Chairman of the Board of Directors	Must be an Independent Director.	Will be appointed by the Board. He or she need not be an Independent Director.
Chairman of Audit and Risk Committee	Must be an Independent Director.	Will be appointed by the Board. He or she need not be an Independent Director.
Voting at Directors Meetings	The chairman of the Board will have a casting vote except where two (2) Directors form a quorum, where the chairman shall not have a casting vote. If the number of Independent Directors on listing is two (2) or at any time thereafter is only two (2), then at a meeting of Directors, a Director appointed by Bright Dairy will abstain from voting.	The chairman will **not** have a casting vote.

Who is Bright Dairy?

Bright Dairy invested in Synlait Milk in 2010, taking a 51% shareholding for $82 million. Bright Dairy & Food Co., Ltd is listed on the Shanghai stock exchange with a market capitalisation of approximately $3.5 billion and is part of the Bright Group. The Bright Group is a major food, distribution and retail participant in China and has begun investing internationally with interests including majority shareholding in Weetabix Food Company in the United Kingdom and Manassen Foods in Australia. Synlait Milk has found Bright Dairy a supportive shareholder with valuable insights, particularly in respect of the Asian dairy market.

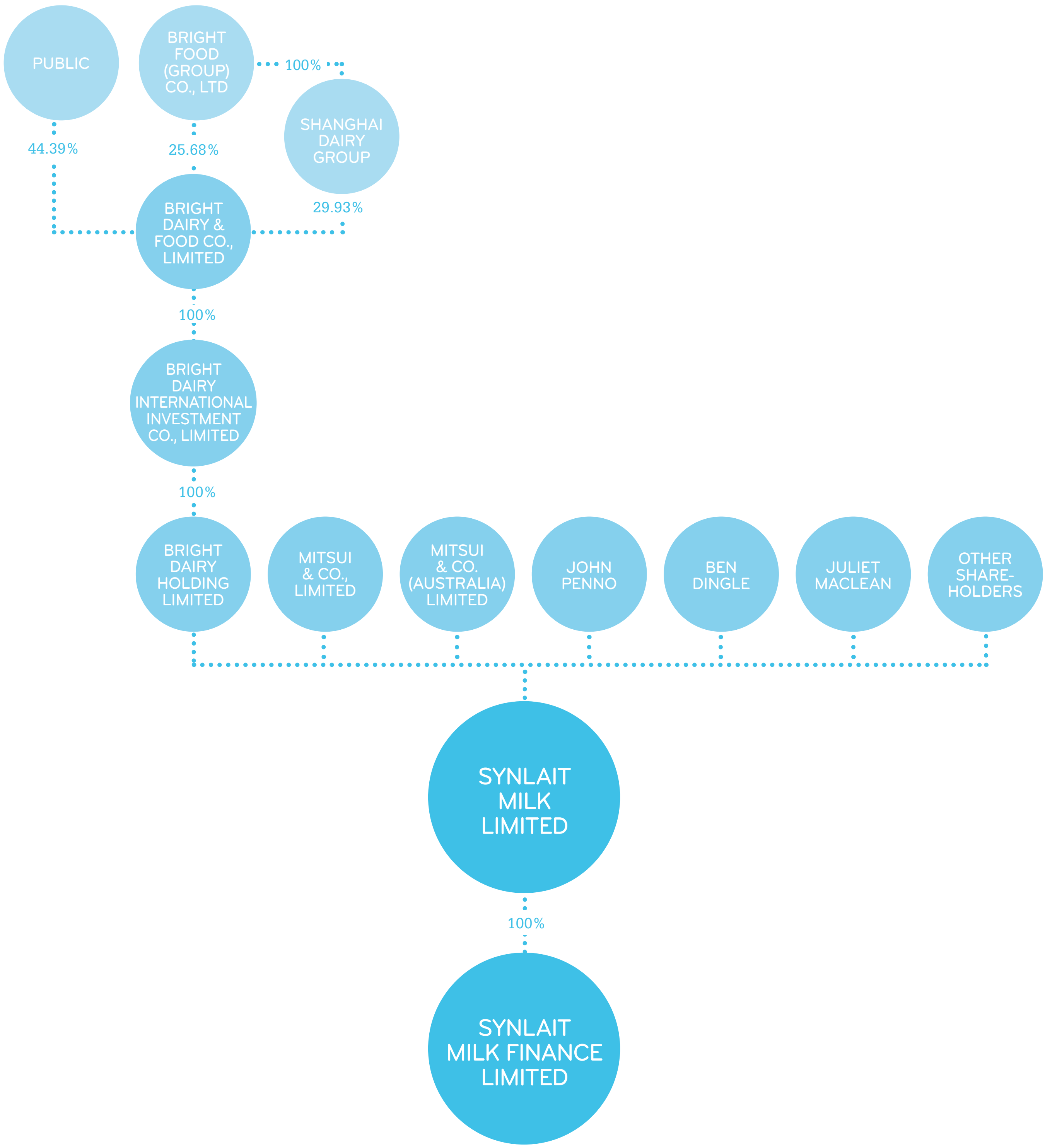
Structure of Synlait Milk prior to the Offer

Set out below is a structure diagram showing the direct and indirect ownership of Synlait Milk at the date of this Offer Document.



Structure of Synlait Milk following completion of the Offer

Set out below is a structure diagram showing the indicative direct and indirect ownership of Synlait Milk after the IPO. Further information is set out on the following page under the heading "Indicative Shareholding Structure on completion of the Offer."



Purpose of the Offer

The purpose of the Offer is to:

- achieve a listing on the NZX Main Board;
- raise new capital of $75 million to enable Synlait Milk to repay debt and allow it to fund the Growth Initiatives. It is expected that the Growth Initiatives referred to in this Offer Document will be funded entirely from the New Financing Arrangements and expected operating cash flows. You can find out more information about the New Financing Arrangements in Section 6.9 (Description of Synlait Milk's Financing Arrangements). Other than the new capital raised under this Offer, Synlait Milk does not expect that it will require any additional capital from Shareholders to fund the Growth Initiatives; and
- give the opportunity to existing Synlait Limited shareholders to sell some or all of their Shares under the Offer via Selldown Co (see Section 7.1 (Details of the Offer) for more information). Synlait Limited shareholders have resolved that Synlait Limited will cease to carry on business and have the Shares held by Synlait Limited in Synlait Milk distributed to them as a distribution in specie. The shareholders of Synlait Limited will be given the opportunity to sell via Selldown Co some or all of the Shares to be distributed to them as part of this Offer.

You can find out more information about the purpose of the Offer in Section 7.1 (Details of the Offer).

Indicative Shareholding Structure on completion of the Offer

As a consequence of the above, the shareholding structure of Synlait Milk prior to the Offer, and the indicative shareholding structure on completion of the Offer (following allotment of the Offer Shares) is expected to be as follows (based on the Indicative Price Range and the estimated number of Shares that the Synlait Limited shareholders may elect to sell to Selldown Co):

	Prior to the Offer		Following completion of the Offer	
	Shares (million)	%	Shares (million)	%
Bright Dairy	57,247,647	51.0%	57,247,647	38.5% to 40.7%
Synlait Limited	55,002,640	49.0%	0	0%
SL Shareholders	0	0%	36,002,640	24.2% to 25.6%
New shareholders pursuant to the Offer	–	–	55,585,366 to 47,301,887	37.3% to 33.7%
Total	112,250,287	100%	148,835,653 to 140,552,174	100%

Selected Financial Information

($ m)(Year end 31 July)	FY2009	**FY2010**	FY2011	**FY2012**	FY2013F	**FY2014F**
Revenue	112.2	233.4	298.9	376.8	426.4	524.4
Underlying EBITDA[4]	0.1	11.3	4.2	22.2	36.8	44.0
Underlying EBITDA restated for Farmgate Milk Price foreign exchange rate[5]	(5.4)	2.6	8.0	25.7	39.0	44.0
Underlying EBIT[6]	(3.8)	6.4	(0.6)	13.5	26.9	32.1
Net cash from / (used in) operating activities	(7.2)	17.0	14.5	29.8	(8.3)	85.5
Total assets	152.1	151.0	245.3	280.6	349.5	380.4

You can find out more about the items that have affected our financial performance and which may affect our performance in the future in Section 6 (Financial Information). You can also find an explanation of EBITDA and EBIT, as well as a reconciliation of these, in Section 6.3.

Key Investment Metrics[7]

Indicative Price Range[8]	$2.05	to $2.65
New Shares being offered for subscription by Synlait Milk to raise $75 million	36.6 m	28.3 m
Estimated number of Existing Offer Shares offered for sale by Selldown Co[9]	19.0 m	19.0 m
Indicative Offer size	$114.0 m	$125.4 m
Expected total number of Shares on issue following the Offer	148.8 m	140.6 m
Bright Dairy shareholding immediately after the Offer	38.5%	40.7%
Indicative market capitalisation[10]	$305.1 m	$372.5 m
Pro forma net debt[11]	$70.4 m	$70.4 m
Indicative enterprise value (EV)[12]	$375.5 m	$ 442.8 m
Implied EV / FY2014F Underlying EBITDA[13]	8.5 x	10.1 x

[4] Underlying (non-GAAP) earnings before interest, tax, depreciation and amortisation excludes non-recurring items as described on page 131 in Section 6.3.

[5] Underlying EBITDA restated for Farmgate Milk Price foreign exchange rate, as described on page 132 in Section 6.3.

[6] Underlying (non-GAAP) earnings before interest, and tax excludes non-recurring items as described on page 131 in Section 6.3.

[7] The information in this table has been prepared on the basis of the estimates and assumptions referred to below and in the metrics stated. The ratios provided have been calculated with reference to Synlait Milk's prospective financial information included in Section 6.2, which should be read in conjunction with the assumptions and sensitivity analysis included in that section and the risks described in Section 5. The prospective financial information is also subject to the Investigating Accountant's Report in Section 6.8.

[8] The Final Price may be within, above or below the Indicative Price Range. The range provided to the parties participating in the Bookbuild will be updated at the time of the Bookbuild and may differ from the Indicative Price Range.

[9] Indicative only. The actual number of Existing Offer Shares may be above or below this number and will only be known at the time of the Bookbuild after binding sale agreements have been received by Selldown Co from the Selling Shareholders as described further in Section 7.1 (Details of the Offer).

[10] Calculated based on the expected number of Shares on issue following the Offer and the Indicative Price Range.

[11] Estimated as at 31 July 2013. Pro forma net debt is adjusted for abnormal movements in the Working Capital Facility and Trade Finance Facility which aggregate to $38.8m. For further details please see the paragraph entitled "Working Capital" in Section 6.2 (Prospective Financial Information).

[12] Calculated as indicative market capitalised plus pro forma net debt as at 31 July 2013.

[13] Calculated as EV divided by Underlying EBITDA for the respective forecast financial year.

Capitalised terms used in this section have the specific meaning given to them in the Glossary on pages 194 to 196 of this Offer Document.

WHAT SORT OF INVESTMENT IS THIS?

The Shares

This Offer Document relates to an initial public offering of approximately 47.3 million to 55.6 million ordinary shares in the capital of Synlait Milk (**Shares**). The exact number of Shares and the pricing is dependent on both the Bookbuild and the level of sales of Shares by Selling Shareholders. These factors are described further in Section 7.1 (Details of the Offer). The Shares to be offered will comprise:

- 28.3 million to 36.6 million Shares (based on the Indicative Price Range) to be issued by Synlait Milk on the Allotment Date (**New Shares**); and
- approximately 19 million Shares currently held by Synlait Limited which are estimated to be acquired by Selldown Co as described further in Section 7.1 (Details of the Offer) (although the actual number of Shares acquired by Selldown Co that will form part of the Offer could be higher or lower than this) (**Existing Offer Shares**),

(the New Shares and the Existing Offer Shares together being the **Offer Shares**).

Approximately 93.3 million Shares in Synlait Milk are expected to be retained by Bright Dairy and the SL Shareholders following completion of the Offer (based on the Indicative Price Range and the Selling Shareholders selling down their shareholdings as set out in the Section 7.1 (Details of the Offer). Neither Bright Dairy nor the SL Shareholders guarantee, nor undertake any liability in respect of, the Offer Shares.

The terms of the New Shares will be identical to the terms of the existing Shares and the New Shares will rank equally with each other and with all existing Shares. Each Share (whether a New Share or an existing Share) gives the holder the rights conferred upon a Shareholder by the Companies Act and the Constitution, including the right to attend and vote at a meeting of Shareholders and the right to receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Synlait Milk in respect of that Share.

Shares are transferable in accordance with the Constitution and applicable laws, although Bright Dairy and SL Shareholders who do not sell all of their Shares under the Offer will be subject to an escrow arrangement with Synlait Milk restricting the sale, transfer or other disposal of their Shares until at least the first day after the date on which we release to NZX our preliminary announcement of our financial results for FY2014F (being the end of the prospective financial information period). These escrow arrangements are subject to an exception that each SL Shareholder (other than Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno and, for the avoidance of doubt, Bright Dairy) can sell at any time prior to the expiry of this escrow period up to an aggregate number of Shares equal to $300,000 based on the Final Price. Based on the midpoint of the Indicative Price Range, it is estimated that the escrow arrangements will apply to approximately 61% of the total number of Shares on listing, though this will depend on the Final Price, the number of SL Shareholders that sell Shares to Selldown Co, and the number of Shares they sell.

We have applied to NZX for permission to have the Shares quoted on the NZX Main Board, as described further in Section 7.1 (Details of the Offer). We will bear a "Non Standard" designation on the NZX Main Board to reflect our governance arrangements, as described below.

The Offer

The Offer comprises the Broker Firm Offer and the Institutional Offer. No general public offer will be made.

The Broker Firm Offer is available only to New Zealand resident clients of NZX Firms who receive a Firm Allocation. You can contact an NZX Firm to determine whether you may be offered Shares by them under the Broker Firm Offer.

The Institutional Offer is an invitation to bid for Shares made to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions.

The allocation of Offer Shares between the Broker Firm Offer and the Institutional Offer will be determined by Synlait Milk in consultation with the Joint Lead Managers following completion of the Bookbuild.

You can find out more information about the Offer Shares and the Offer by reading Section 7.1 (Details of the Offer).

WHO IS INVOLVED IN PROVIDING IT FOR ME?

Issuer

Synlait Milk Limited (Synlait Milk) is the issuer of the New Shares. You can contact Synlait Milk at its registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

SML New Zealand Limited (Selldown Co) is the offeror of the Existing Offer Shares. You can contact Selldown Co at its registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

The directors of both Synlait Milk and Selldown Co as at the date of this Offer Document are Graeme Roderick Milne, John William Penno, Ruth Margaret Richardson, Willem Jan Roest, Ke Li, Zongbo Dong and Sihang Yang. On listing, Ruth Margaret Richardson, Ke Li, Zongbo Dong and Sihang Yang will be the Bright Dairy appointed Directors. The directors of Synlait Milk and Selldown Co may be contacted at Synlait Milk's registered office as set out above.

The Directors and registered offices of Synlait Milk and Selldown Co may change from time to time. The names of the current Directors and registered office addresses of Synlait Milk and Selldown Co can be found, free of charge, by searching the public register maintained by the Companies Office of the Ministry of Business, Innovation and Employment on its website www.business.govt.nz/companies.

You can find out more information about the Directors in Section 4.2 (Board, Management and Corporate Governance).

Activities

Synlait Milk was incorporated on 2 March 2005. Synlait Milk's principal activities are purchasing raw milk, processing that milk into a range of milk-based Ingredient and Infant Formula and Nutritional products, and selling those products to customers. We have been conducting these activities since August 2008. You can find out more information about our business activities in Section 4.1 (Business Description).

Selldown Co was incorporated on 14 June 2013 with the principal purpose of acquiring and selling the Existing Offer Shares under the Offer. Other than in connection with preparing for the Offer, Selldown Co has not undertaken any activities since it was established. It is currently intended that Selldown Co will be liquidated after completion of the Offer.

Governance of Synlait Milk

Once it is listed, Synlait Milk's governance arrangements will differ to those that would usually apply to issuers listed on the NZX Main Board. Synlait Milk and Bright Dairy have agreed to certain governance arrangements that will apply to Synlait Milk, if Bright Dairy holds at least 37% of the ordinary Shares of Synlait Milk on listing. These will allow Bright Dairy to consolidate its investment in Synlait Milk for financial reporting purposes under Chinese

GAAP. These arrangements are summarised above in Section 1.3 (Offer at a Glance) and are set out in the Constitution.

If on listing, Bright Dairy's shareholding in Synlait Milk is less than 41%, then, subject to compliance with the Takeovers Code, Bright Dairy may acquire shares on market to increase its shareholding to 41%. Bright Dairy has no obligation to exercise this right and has not made a decision at this time whether or not it will do so. Bright Dairy could also comply with the Takeovers Code at any time and make a partial or full takeover offer under the Takeovers Code. Bright Dairy has obtained an exemption from the Takeovers Panel, effective 15 July 2013, so that if, on listing, its shareholding is less than 41% it may, in the following 12 months, purchase Shares on market so that it holds no more than 41% of the Shares in Synlait Milk without having to make a takeover offer under the Takeovers Code.

If Bright Dairy's percentage shareholding in Synlait Milk is less than 37% on listing, or reduces at any time below the level immediately following listing (other than by reason of being diluted on an issue of Shares to employees or Directors of Synlait Milk) or Bright Dairy ceases to be a subsidiary of Bright Dairy & Food Co., Ltd, then the governance arrangements described above will cease to apply and the Constitution will revert to one typical for listed companies on the NZX Main Board.

If Bright Dairy, pursuant to the Takeovers Code, acquires Shares so that it holds more than 50% of the Shares in Synlait Milk, the above arrangements will no longer apply and the Constitution will automatically revert to one typical for listed companies on the NZX Main Board.

You can find out more information about Synlait Milk's governance arrangements in Section 4.2 (Board, Management and Corporate Governance) and a summary in table format in Section 1.3 (Offer at a Glance).

HOW MUCH DO I PAY?

The price per Offer Share is the Final Price. If you participate in the Offer, you will be required to pay the Final Price per Share, which is payable by you in full to Synlait Milk on application.

An Indicative Price Range of $2.05 to $2.65 per Offer Share has been set by Synlait Milk, however Synlait Milk reserves the right to set the Final Price within, higher or lower than the Indicative Price Range. The range provided to parties participating in the Bookbuild will be updated at the time of the Bookbuild and may differ from the Indicative Price Range. The Joint Lead Managers will carry out a bookbuild process on 8 and 9 July 2013, pursuant to which they will invite Institutional Investors and NZX Firms to submit bids, indicating the number of Offer Shares they wish to apply for at a range of prices. A 'bookbuild' is the term used in initial public offerings to refer to the process of collating demand for shares at various prices from institutional investors who bid for shares on their own account and NZX Firms who bid for shares to allocate to clients. The bookbuild process collates the demand of the parties that want shares, how many shares will be sold and the price parties bid for shares. The information collated in the bookbuild is then used to assist with the determination of the pricing and allocation of shares.

Synlait Milk, in association with the Joint Lead Managers, will set the Final Price following completion of the bookbuild.

In setting the Final Price Synlait Milk and the Joint Lead Managers will take account of:

- the level of demand for Offer Shares in the Institutional Offer and the Broker Firm Offer;
- the level of demand for the Offer Shares at various prices;
- pricing indications from Institutional Investors and NZX Firms;
- Synlait Milk's desire to create an informed and active trading market for the Shares on the NZX Main Board; and
- any other factors that Synlait Milk or the Joint Lead Managers deem relevant.

All Offer Shares allotted under the Offer will be allotted at the Final Price.

The Final Price is expected to be announced and posted on our website www.synlait.com and on www.nzx.com under Synlait Milk's stock code "SML" on 10 July 2013. Further details about the Offer and the Final Price are set out in Section 7.1 (Details of the Offer).

Applications under the Broker Firm Offer must be for a minimum of 2,000 Offer Shares and thereafter in multiples of 100 Offer Shares, except for employees of Synlait Milk whose Applications under the Broker Firm Offer may be for a minimum of 800 Offer Shares and thereafter in multiples of 100 Offer Shares.

If you apply for Offer Shares, your Application must be accompanied by payment in full, as detailed in Section 7.1 (Details of the Offer). No interest will be paid on funds received under the Offer, and no interest will be paid in respect of refunds.

Applications made pursuant to the Broker Firm Offer must be mailed or delivered to the NZX Firm from whom the Firm Allocation was offered in time to allow the NZX Firm to forward your Application to the Share Registrar to arrive no later than 5.00pm on 19 July 2013. Applications made pursuant to the Institutional Offer must be made in accordance with the details provided to the participants in the Institutional Offer.

You can find out more information on how to apply for Offer Shares in Section 7.1 (Details of the Offer).

WHAT ARE THE CHARGES?

You are not required to pay any charges (including fees, brokerage and expenses) to Synlait Milk or Selldown Co or any of their respective associated persons in relation to the Offer other than the Final Price for each Offer Share allotted to you, which will be determined as set out under the heading "How much do I pay?" above.

Shares subsequently purchased or sold on the NZX Main Board are likely to attract normal brokerage fees and charges.

Issue expenses relating to the Offer (including brokerage and commission fees, joint lead management fees, share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage and courier costs) are estimated to amount to approximately $7.2 million, based on the issue of $75 million of New Shares and $45 million[14] of Existing Offer Shares. All fixed costs associated with the Offer will be borne by Synlait Milk, and all brokerage and incentive fees will be paid by Synlait Milk and Selldown Co on the basis that these fees are attributable to the allotment of New Shares and Existing Offer Shares, respectively. Details of the expenses of the Offer are set out under the heading "Preliminary and Issue expenses" in Section 7.3 (Statutory Information).

WHAT RETURNS WILL I GET?

General

Your returns on Shares may be a combination of any capital appreciation on the sale or other disposition of any Shares (although the market price of the Shares may also decline), and dividends and other distributions paid on the Shares.

Key factors that determine the returns are:

- the market price for the Shares;
- the Board's decisions in relation to dividends and other distributions;
- the financial performance of Synlait Milk;
- applicable taxes;

[14] Based on the midpoint of the Indicative Price Range and the estimated number of Existing Offer Shares to be offered by Selldown Co.

- general economic conditions;
- variations in the local and global market for listed securities;
- changes to government policy, legislation or regulation;
- competition in the markets in which we operate;
- our general operational and business risks; and
- the factors discussed below under the heading "What are my risks?" and in Section 5 (Risks).

No amount of returns on Shares are quantifiable or enforceable by you as at the date of this Offer Document.

Taxes are likely to affect your returns on Shares, as are any amounts that Synlait Milk considers it may need to retain for reserves or other retentions.

Nothing in this Offer Document should be construed as a promise of profitability, and none of Synlait Milk, Selldown Co, the Joint Lead Managers or any of their respective directors, officers, employees, consultants, agents, partners or advisers nor any other person gives any guarantee or promise as to the return on capital or the amount of any returns (including dividends and other distributions) in relation to the Shares.

Sale of Shares

You may benefit from an increase in the market price of your Shares if you sell them to a third party. That third party will be liable to you for the purchase price for the sale of any Shares by you to them. However, as noted in the section entitled "What are my risks?" below, for a variety of reasons such as those set out under the heading "General" above, the market price of Shares may also decline, and you may receive less than the Final Price if you sell them to a third party.

There can be no guarantee that an active market for the Shares will develop, or that the market price of the Shares will increase.

Dividends

If you acquire Shares, you may receive dividends paid by Synlait Milk. Synlait Milk has a formal dividend policy which states that the Directors do not intend to declare any dividends in the periods ending 31 July 2013 or 31 July 2014. The policy provides that the Board will regularly review Synlait Milk's dividend policy to determine if payments of dividends are appropriate within a financial period. The policy provides that any decision to pay any dividends will depend, among other things, upon factors such as:

- current and forecast earnings;
- internal capital requirements;
- growth options;
- availability of tax imputation credits; and
- Synlait Milk's debt/equity position.However, Synlait Milk is not obliged to pay dividends and the Directors' ability to declare dividends is subject to the requirements of the Companies Act.

The dates on which, or the frequency with which, returns on Shares will be due and paid are unknown.

No promises or guarantees are made about the level or payment of dividends, the level of imputation of such dividends or the payout ratios as these matters depend on, amongst other things, our future profits and our financial and taxation position at that time.

Synlait Milk is the entity legally liable to pay any dividends declared on the Shares.

Synlait Milk's New Financing Arrangements are expected to come into effect immediately following the IPO. You can read more about these New Financing Arrangements in Section 6.9 (Description of Synlait Milk's Financing Arrangements). Under the New Financing Arrangements, Synlait Milk will not be able to make distributions to Shareholders that exceed NPAT in any financial year. Synlait Milk also will not be able to make distributions to Shareholders where there is an event of default, potential event of default that we are aware of or event of review outstanding.

New Zealand taxes may affect the returns to investors.

You can read about some of the tax implications for investors in Section 7.2 (Taxation).

WHAT ARE MY RISKS?

Your Shares will be fully paid and you will have no liability to make any further payments in respect of your Shares. However, you may not be able to get back any or all of your original investment and you may not receive the returns you expect. This could be because you are unable to sell your Shares for the price you paid for them (or at all) or because dividends or distributions paid on your Shares are less than you expect.

The principal risks that may have an impact on our business or financial results, and which could reduce or eliminate the value of your Shares or the returns on them, are:

Raw Milk Price and Forecasting

Our business is dependent on the milk supplied to us, and the principal risks to us relate to our ability to access raw milk, the reliance on raw milk suppliers, and the price we pay for that milk. Raw milk comprises approximately 70–75% of our cost of sales and the price of that milk is linked to the Farmgate Milk Price which is set, and we set our price, retrospectively after the end of the Season. We agree to pay our suppliers of raw milk not less than 25 cents per kilogram of milksolids less than the Farmgate Milk Price. In practice, we have to date paid our suppliers of raw milk, on average, no less than the Farmgate Milk Price. We forecast to our suppliers of raw milk the amount we expect to pay them at the beginning of the Season and update our forecast throughout the Season. The final amount we pay them is determined after the Season is completed and the Farmgate Milk Price is determined.

Milk Price Forecasting

We do not know the Farmgate Milk Price until this is announced by Fonterra after the end of the relevant Season. To the extent we have not estimated the Farmgate Milk Price accurately or it is different for any reason to that forecasted by us, then the amount we must actually pay our suppliers for raw milk may be different from our estimates and may result in a lower than forecast return for us. We must pay for milk-based on the Farmgate Milk Price in order to allow us to pay our suppliers competitively.

Our Competitiveness Relative to the Farmgate Milk Price

There are a range of factors that may make our earnings lower than that required to pay for milk-based on the Farmgate Milk Price and generate expected Shareholder returns in any given year. Key variables that determine our earnings relative to the assumptions used to calculate the Farmgate Milk Price include the average price received for our products over the year (which comprises both the prices received in each sales period and the pattern of sales over the year relative to movements in market price), our average foreign exchange rate, and the relative returns of our product mix.

Milk Supply Risk

The availability of the raw milk that we rely on for our manufacturing business may reduce for a number of reasons. If we are unable to pay a competitive milk price we may lose supply. Other reasons include biosecurity events such as an outbreak of disease in cows, or agriculture generally, adverse environmental events such as drought, reduction in supply from our contracted farmer suppliers, reduction in the number of our contracted farmer suppliers, and an increase in the number of competitors who we compete with for suppliers.

You can find more information about the raw milk price and forecasting in Section 3 (Overview of the Dairy Industry).

Other Supply Risks

We rely on certain suppliers to supply us with key ingredients and other products and services that are integral to the manufacture of our products. Any increase in supply costs could adversely affect our financial performance. We may not be able to obtain key ingredients to manufacture our products, for reasons such as global shortages. We may also not be able to obtain those key ingredients and other products and services that are integral to the manufacture and sale of our products due to the expiry or termination of our contracts with key suppliers. This could constrain or disrupt our ability to manufacture and sell our products.

Changes to industry in China and new regulations, relating to infant formula

China is an important market for our infant formula products, and at the moment the Chinese Government is making significant changes to the structure and operations of the Chinese infant formula industry. This includes a recent announcement by the Chinese Ministry of Industry and Information Technology regarding a wide range of new and intended regulations relating to the structure and consolidation of the infant formula industry in China, and the local manufacture and import of infant formula products into China. These new regulations will require us to register in China as a supplier of Infant Formula and Nutritional products, mean that certain products currently sold by us to customers in China will no longer be permitted (although we expect to produce alternative products that meet the requirements), and will require products produced by us and sold into China to include labelling in Chinese. These recent changes may disrupt some Infant Formula and Nutritional Products business that we had arranged with customers in China, and could result in less Infant Formula and Nutritional product being sold, although we expect any effect on sales to be only short term.

Product Sales Risk

Our business is dependent on continued sales of our products. The volume of and prices at which we can sell our products can materially affect our financial performance. It is possible that we will not sell the volume of products, or achieve the prices or returns for our products, expected. Global dairy prices underpin many of our product sales prices. Global dairy prices can be volatile. Changes in global dairy prices can adversely affect our financial performance. Product sales can also fall for a number of reasons including a worsening of general economic conditions or demand for dairy products in major world economies, actions which restrict our ability to sell into certain markets, reduced demand for our products from key customers, increased competition, product contamination, product quality, reputational damage impacting on product sales and changes in foreign currency exchange rates in markets where we derive revenue. We sell our products across jurisdictional borders which exposes us to the risk of breaching foreign customs and import duty regulations. This may result in extended legal actions, penalties, trade embargoes and loss of market access. Changes in foreign regulations and overseas political changes or interference can also affect us.The recent changes announced in China described above under "Changes to industry in China and new regulations, relating to infant formula", could impact negatively on our expected sales of Infant Formula and Nutritional products, although we expect any effect on sales to be only short term.

We have three (3) key customers who together account for more than half of our sales revenue. Only one of these customers purchases products from us under a contract that requires them to purchase specific volumes of products from us. A loss of any of these key customers could affect our financial performance. Further, the majority of our Ingredients sales are made on the basis of purchase orders against our standard terms and conditions submitted by customers that we have relationships with, but with whom we do not have ongoing contracts. Most of our expected Infant Formula and Nutritionals sales are expected to be made under purchase orders submitted against term contracts that indicate but do not commit to expected future volumes. If a key customer chooses not to continue to purchase products from us this could have a negative effect on our performance.

Operational Risks

We operate from a single site. Our business is dependent on the continuation of day-to-day operations and any disruptions or other adverse changes could have a negative impact on our business. Our plant may not be able to generate the expected volume and quality of products if there is an interruption to processing or production or closure of our plant for any reason. This could occur for a wide range of reasons. These may include equipment failure, operator error, amendments or termination of our Water Rights Agreement with Synlait Farms, catastrophic events or a major health and safety incident at our plant. Our general business operations could also be impacted for a number of reasons. These may include personnel issues such as the loss of key personnel, adverse publicity to us specifically or the dairy industry generally, a fault to our information technology systems, litigation and disputes, and disruption to our current transport and shipping arrangements, such as earthquake damage to Lyttelton Port of Christchurch, from which almost all of our product is shipped.

Growth Initiative Risks

We may not be able to execute certain Growth Initiatives, for example if we are unable to access debt funding from our banking syndicate on appropriate terms. The success of the Growth Initiatives is in part dependent on our ability to effectively manage and execute the planned construction and commissioning of new facilities. That process includes the requirement for us to obtain appropriate resource and building consents. Once complete and operational those new facilities may not generate the commercial benefits and financial returns expected. Those returns could also be impacted by future changes in both commodity prices and supply costs. Our growth expectations and returns rely in part on expected growth in Infant Formula and Nutritional sales. Product integrity and safety is a key concern for consumers, particularly in one of our key markets, China. Concerns have arisen in Chinese media over the number of products from different sources being exported from New Zealand, and by implication, their integrity and safety. If concerns became more widespread, then this could impact on our expected sales for infant formula products, particularly into China, regardless of the integrity and safety of our own products. The recent changes announced in China and described above under "Changes to industry in China and new regulations, relating to infant formula" could negatively impact on the success of our planned Growth Initiatives, reduce sales and our profitability.

Regulatory Risks

Failure by us, or the failure of our suppliers, distributors, or customers, to comply with applicable regulations and quality assurance guidelines could lead to product seizure or recalls, production shutdowns, production delays and product shortages. Failures of that nature could also result in fines, injunctions, penalties, requirements for remedial works, the total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect. A failure to comply with any of the other extensive regulatory requirements relating to the protection of the environment could also negatively impact on our operations. This includes our obligations in relation to the take and use of water, the discharge of materials into the environment, and compliance with our resource consents.

Changes in the regulatory environment in New Zealand, China and other overseas jurisdictions may adversely affect us. Our operations and business model and those of our suppliers, distributors and customers are reliant on the regulatory environments in which we and they operate. Changes to the law and regulations may adversely affect our sales (including our ability to sell to the intended market or customer), costs, relative position, development initiatives or other aspects of our financial or operational performance. These may include changes to the New Zealand dairy industry regulation or changes in regulations for Infant Formula and Nutritional products (including, for example, those described above under "Changes to industry in China and new regulations, relating to infant formula"). Changes to the statutory and regulatory requirements relating to the protection of the environment could increase our compliance costs or require new approvals to be obtained or materially impact how we operate. For example, the Government is considering its approach to the management of freshwater and in future the agricultural sector may have more obligations under New Zealand's Emissions Trading Scheme. In addition, the Canterbury Regional Council is currently in the process of developing a new Land and Water Plan.

Financial Risks

We have exposure to fluctuations in foreign currency exchange rates. A significant proportion of revenues and expenses are in currencies other than NZD. As a result, certain revenues, expenses and cashflows will be affected by changes in foreign currency exchange rates. At present, the principal currency exposure is the USD. The core objective of the Treasury Management Policy is to reduce our average exchange rate relative to the prevailing market (within the parameters of the policy) and thereby seek consistency with the exchange rate used to determine the Farmgate Milk Price. Our Treasury Management Policy is summarised in Section 4.2 (Board, Management and Corporate Governance) and is used to manage our foreign exchange risk.

An event of default under our banking facilities may increase our financing costs, decrease or result in the unavailability of debt funding, accelerate our obligation to repay all outstanding amounts and result in enforcement of security, all of which could result in our insolvency.

These and other risks are more fully described in Section 5 (Risks). You should carefully consider these risks before making your investment decision.

Consequences of insolvency

Shareholders will not be liable to pay any money to any person in the event of our insolvency.

All of our creditors would rank ahead of claims by Shareholders if we were liquidated. After all such creditors have been paid, the remaining assets, if any, would be available for distribution among Shareholders who would rank equally among themselves. There may not be sufficient surplus assets to enable you to recover all or any of your investment.

CAN THE INVESTMENT BE ALTERED?

Amending the terms of the Offer

The full terms of the Offer are set out in Section 7.1 (Details of the Offer). Those terms and the terms and conditions on which you may apply for Offer Shares may be altered by an amendment to the Offer Document at any time prior to the Allotment Date. Details of any such amendment must be filed with the Registrar of Financial Service Providers.

As at the date of this Offer Document, the Final Price has not been set. The Final Price will be set by Synlait Milk after the Bookbuild process. Synlait Milk has set an Indicative Price Range of $2.05 to $2.65 per Offer Share, however Synlait Milk reserves the right to set the Final Price within, higher or lower than the Indicative Price Range. Once set, the Final Price cannot be altered.

Amending the terms of the Shares

The terms of the Shares are governed by the Constitution, the Companies Act and, after the Allotment Date, the Listing Rules. Synlait Milk may only alter the Constitution by a special resolution of Shareholders (at least 75% of Shareholders entitled to vote and voting on that resolution), or in certain circumstances by court order.

The Companies Act and the Listing Rules restrict Synlait Milk from taking any action which adversely affects the rights of Shares unless that action has been approved by a special resolution of Shareholders whose rights are affected by the action. Under certain circumstances, if your rights are affected under an action approved by a special resolution of Shareholders, you may require Synlait Milk to purchase your Shares.

HOW DO I CASH IN MY INVESTMENT?

Sale of Shares

You may be able to cash in your investment by selling your Shares. The Shares are transferable in accordance with the Constitution, the Listing Rules, applicable laws and regulations and the continuation of an active trading market.

As at the date of this Offer Document, there is no established trading market for the Shares. However, in Synlait Milk's opinion, a market for the Shares is likely to develop.

Application has been made to NZX for permission to list Synlait Milk and to quote the Shares on the NZX Main Board. All of NZX's requirements relating to that application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on 23 July 2013 under the stock code "SML".

To be able to trade Shares on the NZX Main Board you must have an account with an NZX Firm, a CSN and an Authorisation Code (FIN). If you do not have an account with a broker you should be aware that opening an account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN you will be assigned one when you set up an account with an NZX Firm, or you will receive one from the Share Registrar. You will receive your CSN from the Share Registrar by email the Business Day prior to the Allotment Date, if you provide an email address in your Application Form, or when you receive your allotment notice for the Offer (which is expected to be sent on the second day after the Allotment Date). If you do not have a FIN, you will be sent one as a separate communication by the Share Registrar prior to the Allotment Date.

You should not attempt to sell Offer Shares until you know whether, and how many, Offer Shares have been allocated to you. None of Synlait Milk, Selldown Co, the Joint Lead Managers, nor any of their respective officers, employees or advisers accepts any liability or responsibility should you or any person attempt to sell or otherwise deal with Offer Shares before a Security Transaction Statement showing the number of Offer Shares allocated to you (if any) is received by you for those Offer Shares.

If you sell your Shares, you will not need to pay any charges to Synlait Milk. However, if you sell your Shares on the NZX Main Board, you will likely have to pay normal brokerage fees.

Bright Dairy and SL Shareholders who do not sell all of their Shares under the Offer are subject to an escrow arrangement with Synlait Milk restricting the sale, transfer or other disposal of their Shares until at least the first day after the date on which we release to NZX our preliminary announcement of our financial results for FY2014F (being the end of the prospective financial information period). These escrow arrangements are subject to an exception that each SL Shareholder (other than Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno and, for the avoidance of doubt, Bright Dairy) can sell at any time prior to the expiry of this escrow period up to an aggregate number of Shares equal to $300,000 based on the Final Price.

You can find out more information about these escrow arrangements in Section 7.1 (Details of the Offer).

Cancellation

In certain circumstances under the Companies Act, your Shares could be cancelled by Synlait Milk under a reduction of capital, share buyback or other form of capital reconstruction approved by the Board and, where applicable, the Shareholders. Subject to this, neither Synlait Milk, nor any other person has any right to terminate, cancel, surrender or otherwise make or obtain payment of the returns from the Shares, other than as referred to under the heading "What returns will I get?" above.

WHO DO I CONTACT WITH INQUIRIES ABOUT MY INVESTMENT?

If you have any queries about the risk or suitability of an investment in Offer Shares you should consult your financial adviser or an NZX Firm.

If you have any inquiries about the Offer Shares, you should contact the Share Registrar at:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622
Private Bag 92119, Auckland 1142
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz

IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

If you have complaints about the Shares, you should contact the Share Registrar at the address listed under "Who do I contact with inquiries about my investment?" above. There is no trustee, statutory supervisor or industry body to whom you can make complaints about this investment.

There is also no approved dispute resolution scheme to which you can make complaints about this investment.

WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Offer Document and financial statements

Further information about the Offer Shares and Synlait Milk is contained or referred to elsewhere in this Offer Document (including in the financial statements set out in this Offer Document).

You can obtain copies of this Offer Document and the most recent financial statements of Synlait Milk free of charge during normal business hours at Synlait Milk's registered office at 1028 Heslerton Road, RD13, Rakaia, New Zealand or at www.synlait.com.

These documents and certain other documents relating to Synlait Milk are also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment, and are available for public inspection, including on the Companies Office website at www.business.govt.nz/companies.

You can also obtain a copy of Synlait Milk's new Constitution (that will be adopted by Synlait Milk immediately prior to listing) free of charge during normal business hours at Synlait Milk's registered office at 1028 Heslerton Road, RD13, Rakaia, New Zealand or at www.synlait.com.

Annual information

Shareholders of Synlait Milk at the relevant record date will be entitled to receive certain information relating to our ongoing performance in accordance with the Companies Act, the Financial Reporting Act 1993 and the Listing Rules.

We are required to make half-yearly and annual announcements to NZX and such other announcements as are required by the Listing Rules from time to time. You will be able to obtain this information by searching under Synlait Milk's stock code "SML" on NZX's website www.nzx.com.

On request information

If you are a Shareholder, you are entitled to request copies of the following documents:

- our most recent annual report;
- our most recent financial statements required to be registered under the Financial Reporting Act 1993 together with a copy of the auditor's report on those statements;
- this Offer Document (which is an investment statement and a prospectus), and any registered document extending the Offer period;
- a comparison of actual results against the prospective financial information set out in Section 6.2 of this Offer Document once available; and
- any other information that may be requested under regulation 44 of the Securities Regulations.

If you are a Shareholder, this information will be provided to you free of charge if you send a written request to us at our registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

DEMAND IS DRIVEN BY WHAT PEOPLE VALUE, AND WHAT PEOPLE VALUE IS CHANGING...

THE WORLD WANTS MORE FROM MILK

As demand for milk-based nutritional products grows globally, what people want is changing.

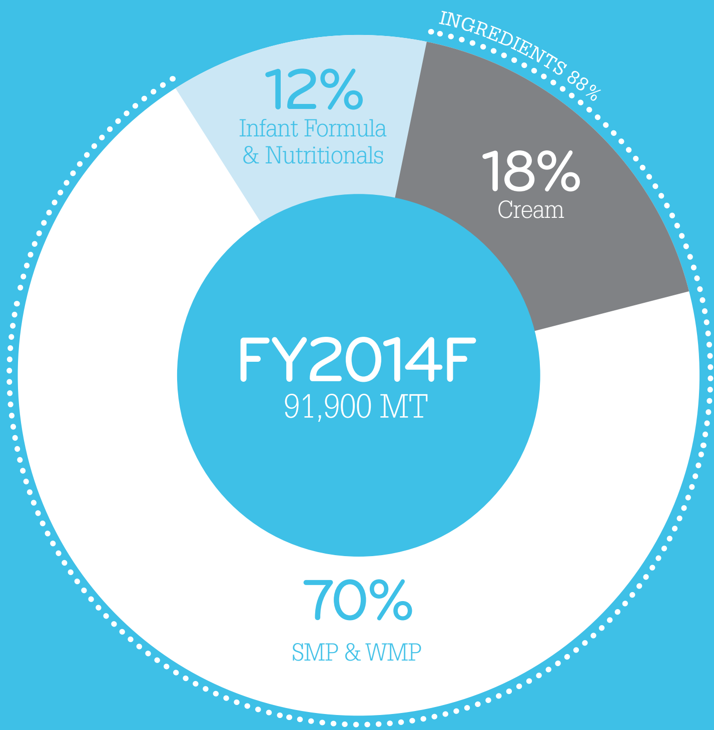
It's important to them that milk comes from an area known for farming excellence; that the processing facilities are world-class.

They want products that live up to their values and Synlait Milk aims to deliver on these.

SECTION 2

INVESTMENT HIGHLIGHTS

WE FOCUS ON VALUE ADDED DAIRY PRODUCTS AND MAKING MORE FROM MILK

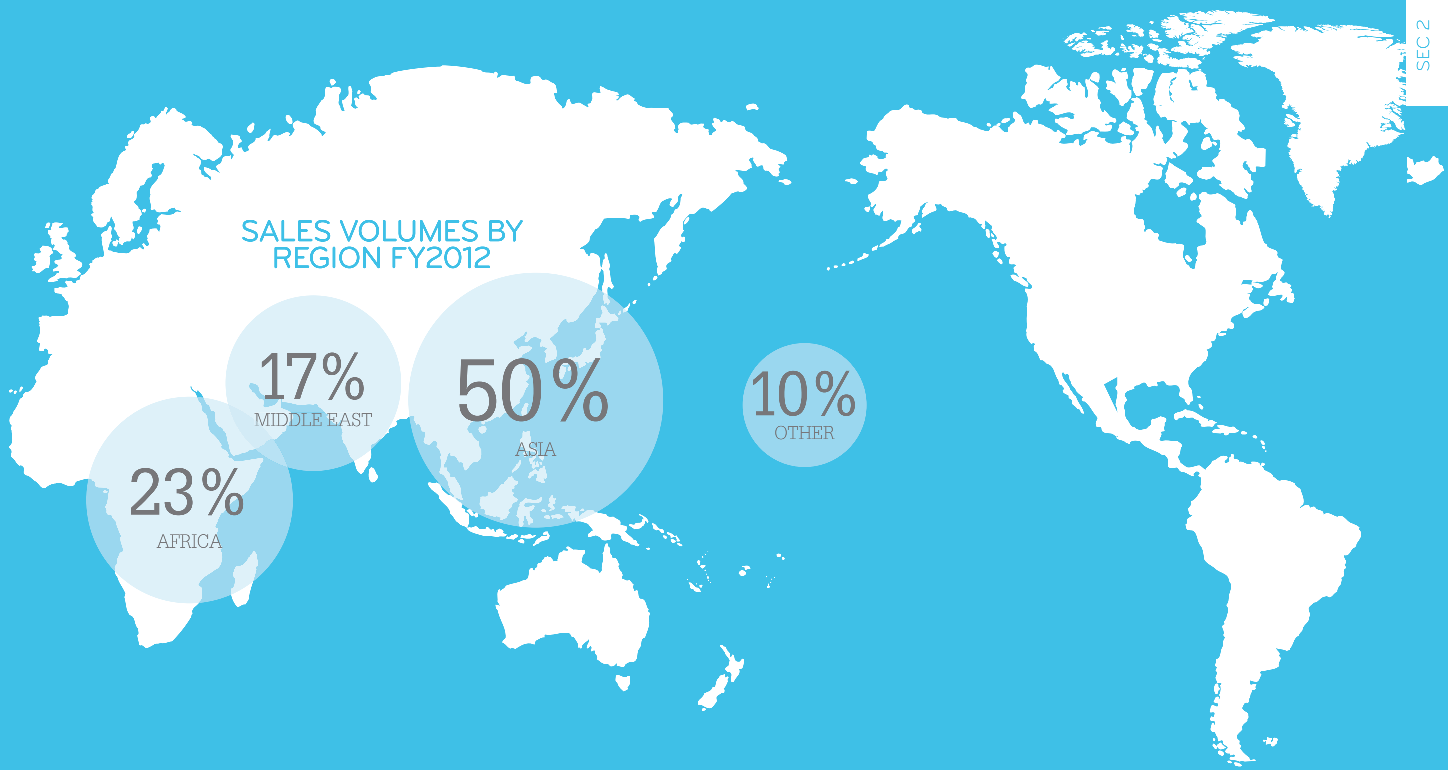


We are investing to grow overall manufacturing capacity

We are investing to grow our Infant Formula and Nutritional product volumes

We aim to increase our sales volumes in the higher Value Added product categories in both Ingredients and Infant Formula and Nutritional products.

We seek to develop long term direct business to business relationships with leading milk-based health and nutrition companies which have well established brands and distribution channels, such as Standard Foods in Taiwan and Bright Dairy in China.



In FY2012, we sold 77,415 MT of our products directly to over 80 customers in more than 50 countries. We have developed a range of customers which provide us a growing portfolio of demand for our high value products.

Our focus is to increase our share of the Infant Formula and Nutritional powders market. We have a number of Growth Initiatives aimed at achieving that. *You can find out more about the Growth Initiatives in Section 4.1 (Business Description).*

You can find out more information in Section 5 (Risks) and Section 6 (Financial Information). You can find out more about our prospective financial information in Section 6.2 (Prospective Financial Information).

WE ARE SITUATED IN THE **FASTEST GROWING MILK SUPPLY REGION** IN NEW ZEALAND

We are located in the fastest growing milk supply region in New Zealand. Canterbury has grown milk production (kg MS) by an average 11% per Season for each of the past 12 Seasons.[15]

In the 2011 / 2012 Season the Canterbury region had the second highest production (kg MS) in New Zealand, after the Waikato region.[16]

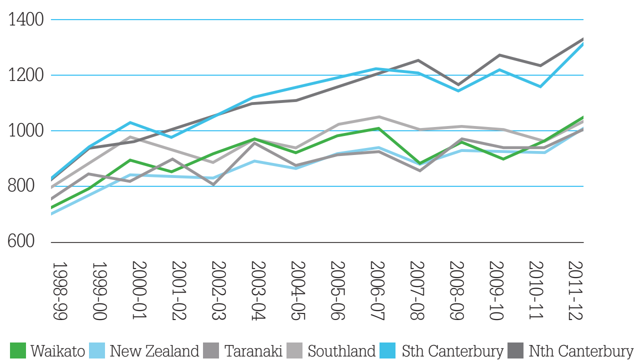
Our experience is that the temperate climate and predominant use of irrigation on supplying farms in the Canterbury region provides us with a consistent supply of raw milk.

11%
Canterbury

We have established a milk supply base of approximately 155 farms and have consistently met our targeted milk volume growth requirements in each year since inception.

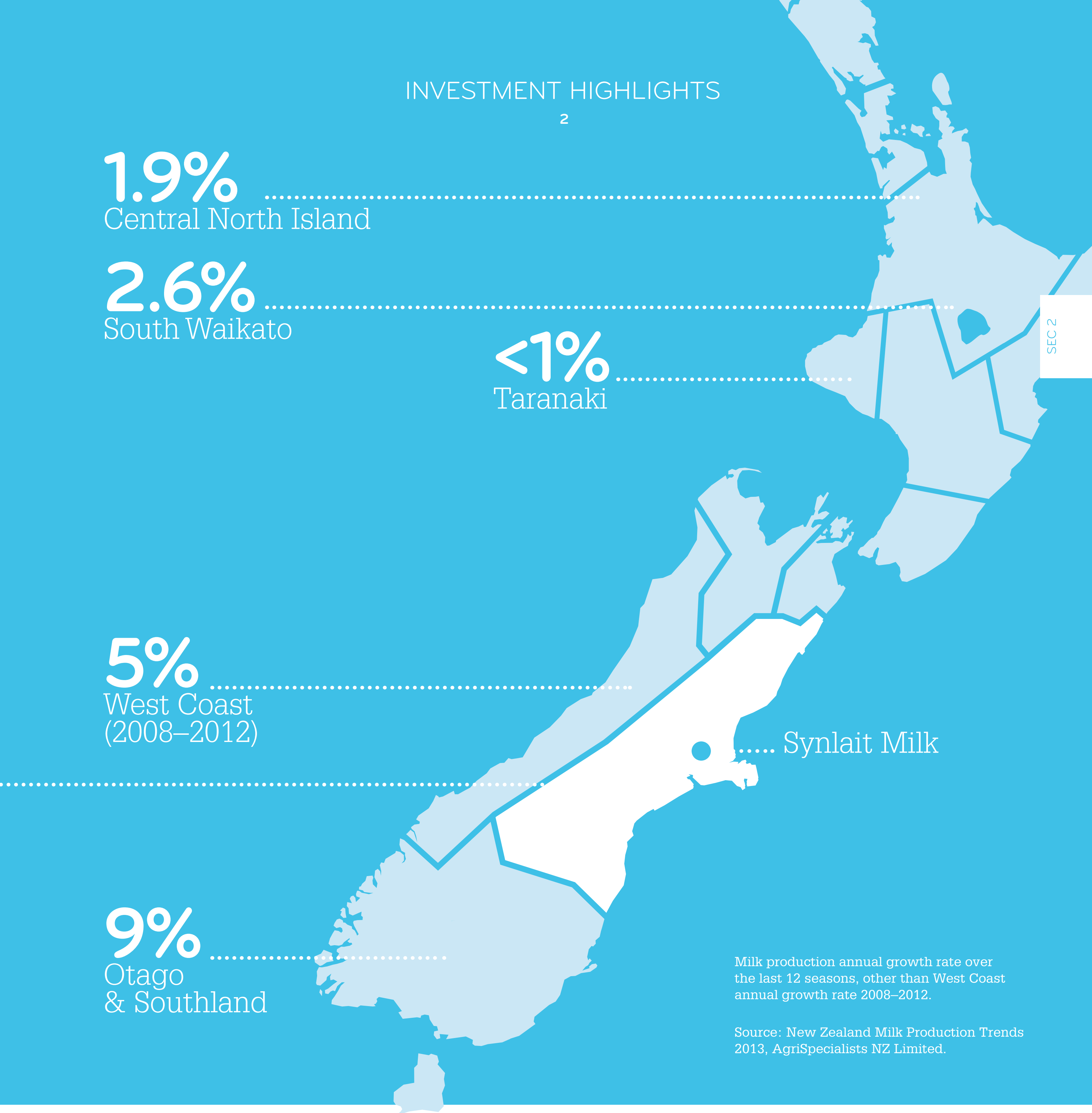
You can find out more information in Section 3 (Overview of the Dairy Industry), Section 4 (About Synlait Milk) and Section 5 (Risks).

Average Kilogram of Milksolids per Effective Hectare



Source: DairyNZ-LIC New Zealand Dairy Statistics.
Regional dairy statistics sections from reports from 1999 to 2012

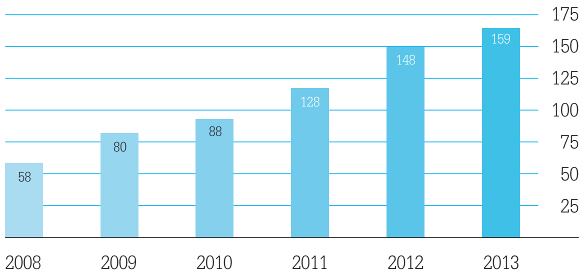
[15] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013, page 17.
[16] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013, page 42; New Zealand Dairy Statistics 2011-2012, page 15.



Milk production annual growth rate over the last 12 seasons, other than West Coast annual growth rate 2008–2012.

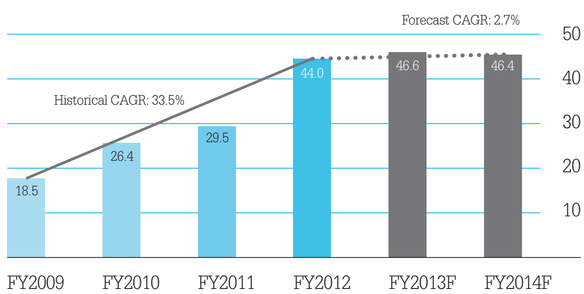
Source: New Zealand Milk Production Trends 2013, AgriSpecialists NZ Limited.

Supplying Farms



As at July 31

Milk Purchases (kg Ms 000s)



OUR **TARGET MARKETS ARE EXHIBITING STRONG UNDERLYING GROWTH** FUNDAMENTALS

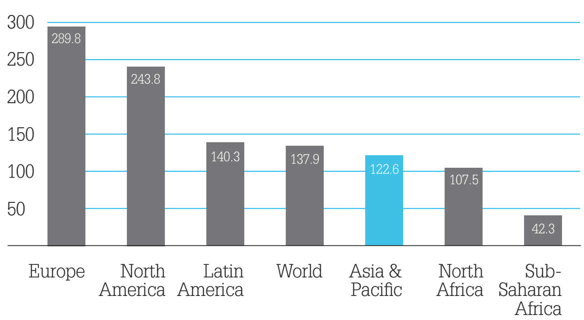
Our target markets are generally countries experiencing high population growth, with rising incomes and a growing appetite for dairy products.

These increases in consumption reflect:

- Changing consumer tastes, particularly in developing countries as lifestyles change and the nutritional benefits of dairy are more widely understood.
- Dramatic increases in population growth, particularly in Asia and Africa, which is increasing demand for infant formula particularly.
- Increases in wealth in developing countries which is making dairy products a more affordable proposition.

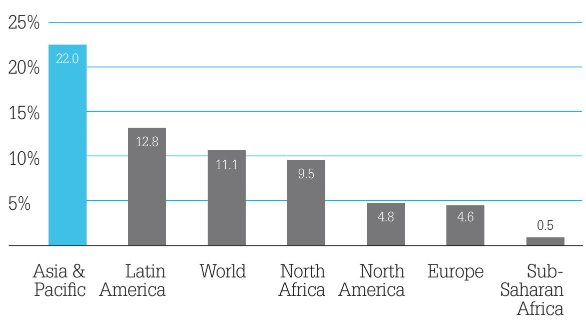
You can find out more information in Section 3 (Overview of the Dairy Industry), Section 4 (About Synlait Milk) and Section 5 (Risks).

Forecast Per Capita Consumption 2021 Level (kg Per Capita, Milk Equivalents)



Source: OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO page 193.

Forecast Growth in Per Capita Consumption (% Change 2009-2011 to 2021 kg Per Capita, Milk Equivalents)



Source: OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO page 193.

SEC 2

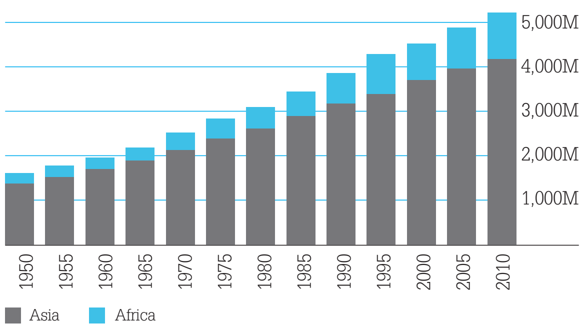
22%
Asia & Pacific – forecast growth per capita consumption, 2009–2011 to 2021

VS

11.1%
World

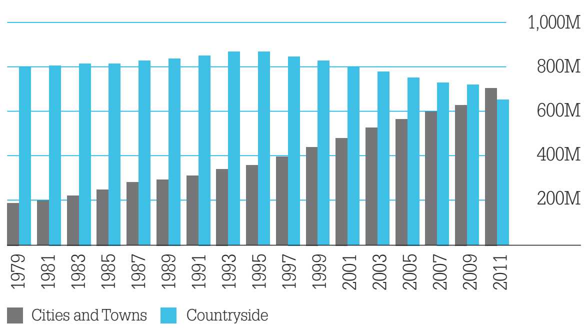
Source: OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO page 193.

Population Growth of Developing Regions (Total Population (millions))



Source: World Bank

Increasing Urbanisation in China (Total Population (millions))



Source: China Statistical Database

WE HAVE GROWN SALES VOLUMES SIGNIFICANTLY AND ARE FORECAST TO CONTINUE **OUR GROWTH** MOMENTUM

91,628MT

FY2013F Production

Our strategy is to take the platform we have built, and progressively transition our customer base and product mix to maximise both the returns and volumes from each Value Added product group through a series of management and investment initiatives (Growth Initiatives).

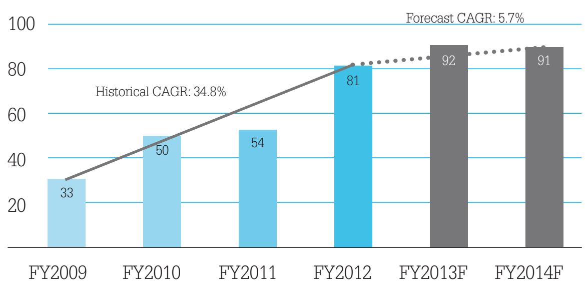
Given our current intended product mix, the current capacity of our manufacturing site is to produce 95,000 MT of products. On completion of the Growth Initiatives our manufacturing site will be capable of producing approximately 140,000 MT of products.

$426M

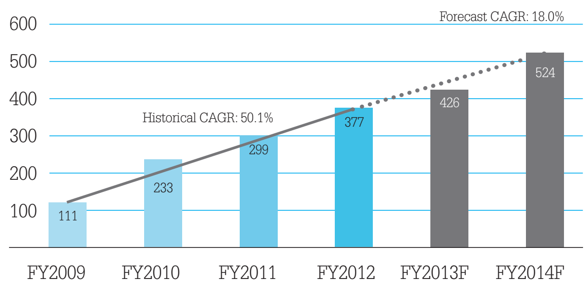
FY2013F Revenue

Revenue is forecast to grow from $112 million in 2009 to $524 million in 2014.

Our Production Volume Growth (MTs 000s)



Our Revenue Growth ($m)



40.9%

UNDERLYING EBITDA CAGR FOR FY2012-FY2014F

Underlying EBITDA[17] cumulative average growth rate between 2012 and 2014 is forecast to be 40.9%.

12.8%

FY2013F ROCE

Return on capital employed[18]

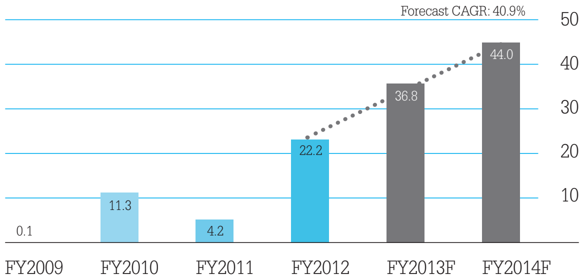
We expect our ROCE to increase as we continue to grow our Infant Formula and Nutritional volumes and head towards full plant capacity.

While we expect to complete our Growth Initiatives by mid 2015, we expect that the full financial benefits will not be reflected in our financial results until FY2017 and beyond.

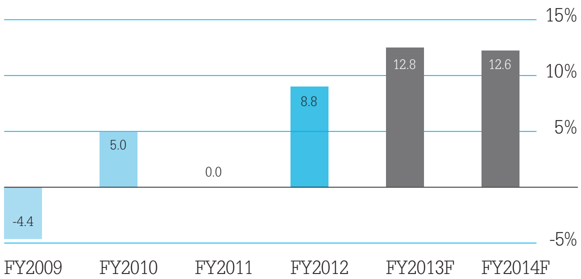
We continue to invest in people and processes to implement and execute our Growth Initiatives.

You can find out more information in Section 4 (About Synlait Milk), Section 5 (Risks) and Section 6 (Financial Information).

Underlying EBITDA ($m)



Return on Capital Employed[18]



[17] FY2012 EBITDA has been restated for a change in accounting policy. Please refer to page 138 (changes in accounting policies) for further detail.

[18] Return on Capital Employed compromises EBIT / Average (total equity + net debt). FY2013F net debt is adjusted for abnormal movements in the Working Capital Facility and Trade Finance Facility which aggregate to $38.8 million. For further details please see the paragraph entitled "Working Capital" in Section 6.2 (Prospective Financial Information).

WE HAVE A **HIGH PERFORMING TEAM** AND A SUPPORTIVE SUBSTANTIVE SHAREHOLDER, BRIGHT DAIRY

BRIGHT DAIRY

Listed on the Shanghai stock exchange with a market capitalisation of approximately

NZ$3.5 BILLION DOLLARS.

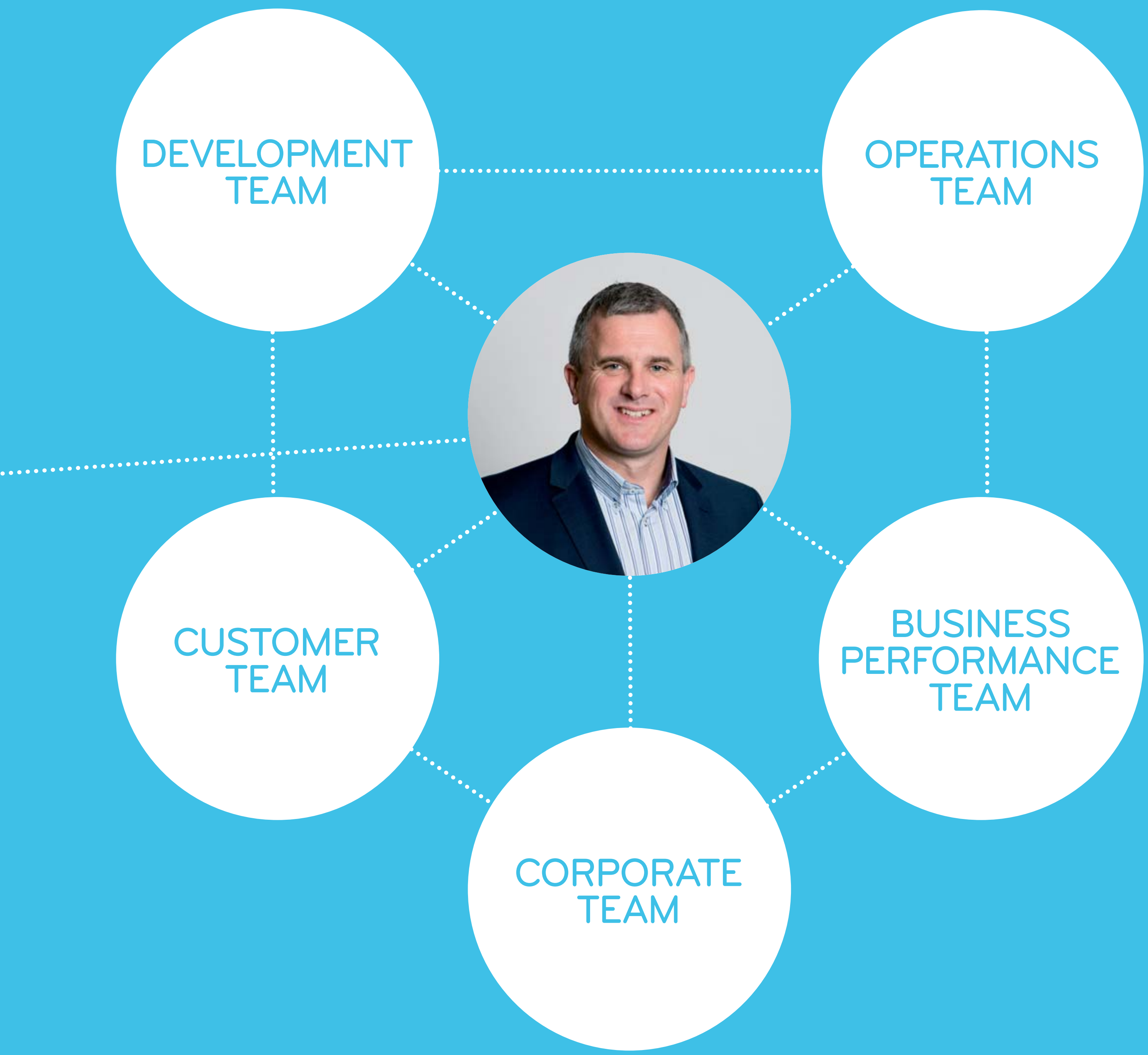
Led by John Penno, co-founder of the Synlait Group, we have a high performing management team with extensive experience in dairy manufacturing, business to business sales, nutritional products and infant formula.

We are focused on best practice staff leadership, high productivity and an engaging workplace for our team of more than 150 employees.

Since its investment in November 2010, Bright Dairy has provided us with valuable strategic insight.

Bright Dairy has a number of well-known dairy brands in the Shanghai market, including a growing infant formula business.

Our strategic relationship with Bright Dairy is expected to continue following the Offer as it retains the Shares it currently holds.



You can find out more information in Section 4.1 (Business Description), Section 4.2 (Board, Management and Corporate Governance), Section 5 (Risks) and Section 7.1 (Details of the Offer).

WE'RE BASED IN CANTERBURY, A HIGHLY PRODUCTIVE DAIRY REGION


240
240

SECTION 3

OVERVIEW OF THE DAIRY INDUSTRY

GLOBAL DEMAND & SUPPLY FOR DAIRY PRODUCTS

Global Demand

The outlook for global dairy consumption is positive. World population growth, rising incomes in developing countries and a growing appetite for dairy products, are key drivers of demand over the next decade.

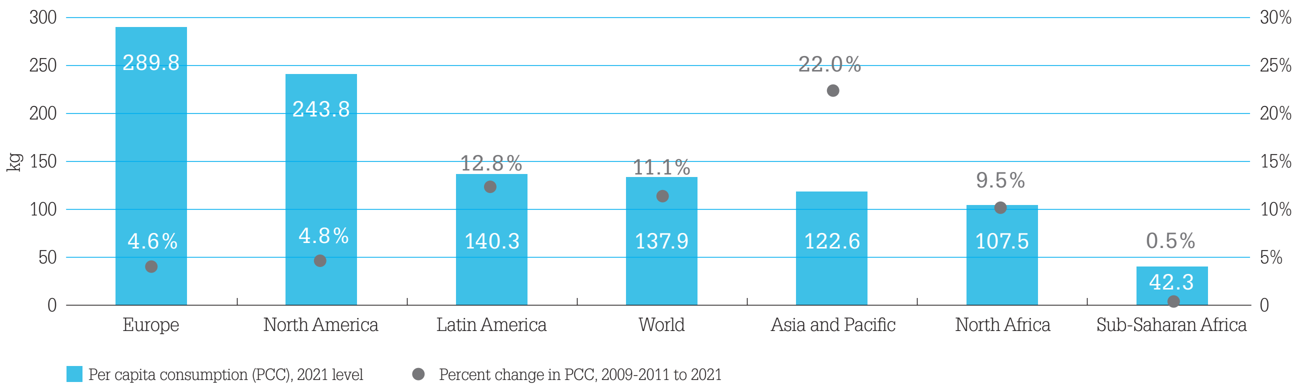
The global dairy industry is estimated to have annual turnover of US$436 billion and rising.[19] By 2021, consumption of milk equivalents is expected to increase by 11% per capita globally. While total dairy consumption in developed countries is expected to remain high, rapid growth is forecast to take place in developing and emerging countries. For example, per capita consumption in Asia and Pacific countries is forecast to increase by 22%.[20]

Liquid milk is the most important global dairy product consumed by volume. In many countries this is supplied from locally produced milk. There are, however, a growing number of countries and regions where local demand growth for liquid milk and fresh dairy products is significantly out-pacing the milk supply growth from local farmers. This is particularly the case in countries in the tropical belt where the climate is not well suited to dairy production, for example, in Asia Pacific, the Middle East and North Africa.

Milk powders for home consumption are typically an important consumer food category in countries without large dairy farming industries. Historically, milk powders formed a large share of dairy nutrition for families for practical reasons such as cost of delivery and a lack of refrigeration in lower income households. However, as incomes have improved, established consumption patterns have held and milk powders remain as an important category, albeit often with increasing functionality such as vitamin and mineral fortification to target specific market segments.

We believe that as household incomes rise in markets, consumption of liquid milks, yoghurts and other ready to consume dairy products begin growing. These products are often supplied by

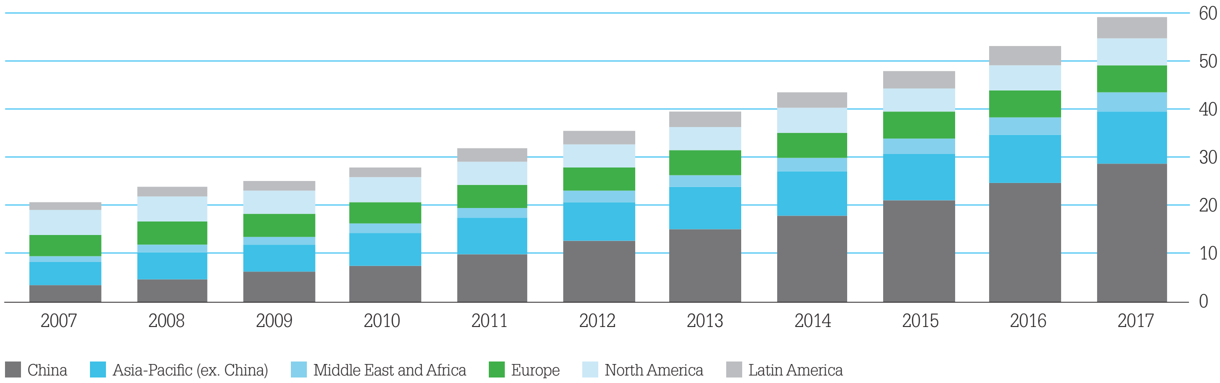
Forecast growth in per capita consumption (in milk equivalent) to 2021



Source: OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021. OECD Publishing and FAO page 193.
Note: Percentages relate to growth in per capita consumption from average 2009–2011 levels to 2021.

[19] Euromonitor International, Retail sales of dairy products in 2012.
[20] OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO, page 193.

Baby Milk Formula Market by Retail Value (US$bn)



Source: Euromonitor International
Data for: Retail value of the baby milk formula market from 2007 to 2017.

companies purchasing milk powders, AMF and other dairy ingredients, for reconstituting into liquid milk to be sold in pasteurised or UHT format, or manufactured into yoghurts and other dairy fresh based products. Many of these companies are locally owned and have developed with the market over many years, establishing strong brand positions and efficient sales channels to their consumer customers.

Changing lifestyles of families in emerging economies are also driving a change in family nutrition. We believe that urbanisation and an increasing number of families that have both parents working in full time professional work is driving large increases in infant formula use as some mothers reduce the period of breast feeding and continue feeding their children formulated milk products until they are 3 to 4 years of age. As incomes increase, families are also increasingly focused on the quality of the food products they purchase.

Product quality and safety are fundamental considerations for consumers when they purchase food products; especially infant products. This is particularly true of China where the industry and consumer trust was rocked by the 2008 melamine scandal. Consumers are now prioritising safety and reputation over price which has resulted in significant demand for foreign infant formula products. The Chinese market alone is estimated to be worth US$15 billion per annum for infant formula and is expected to almost double in the next four years.

Since 2008 there has been an unprecedented period of proliferation of infant formula companies and brands focused on capturing a share of the current and expected growth in China's infant formula market. Recent Government announcements in China suggest they are now focused on rebuilding the credibility of the Chinese infant formula industry. We understand they intend to achieve this by regulating to increase the quality of the products on offer, requiring all overseas suppliers of Infant Formula and Nutritional products to register in China with the relevant authorities, change the nature of products that may be imported into China (including to regulate bulk imports of product for re-packaging in China) and restructure and consolidate the infant formula industry in China around a small number of large enterprises with the capability to manage the quality and risks of these sensitive products.

Recently, the Chinese Ministry of Industry & Information Technology made some important new announcements with respect to new and intended regulations for the infant formula industry. These new regulations are designed to establish best practice processes for both the manufacture of infant formula in China, and the import of ingredients used in manufacture of Infant Formula and Nutritional products and finished consumer packaged Infant Formula and Nutritional products. We believe these regulatory changes will have the effect of both driving smaller and less established infant formula companies out of the Chinese market, and make it more difficult for some large multinationals to operate inside China. Further we expect this to result in demand being driven to the large and established Chinese owned infant formula companies who have Chinese Government support.

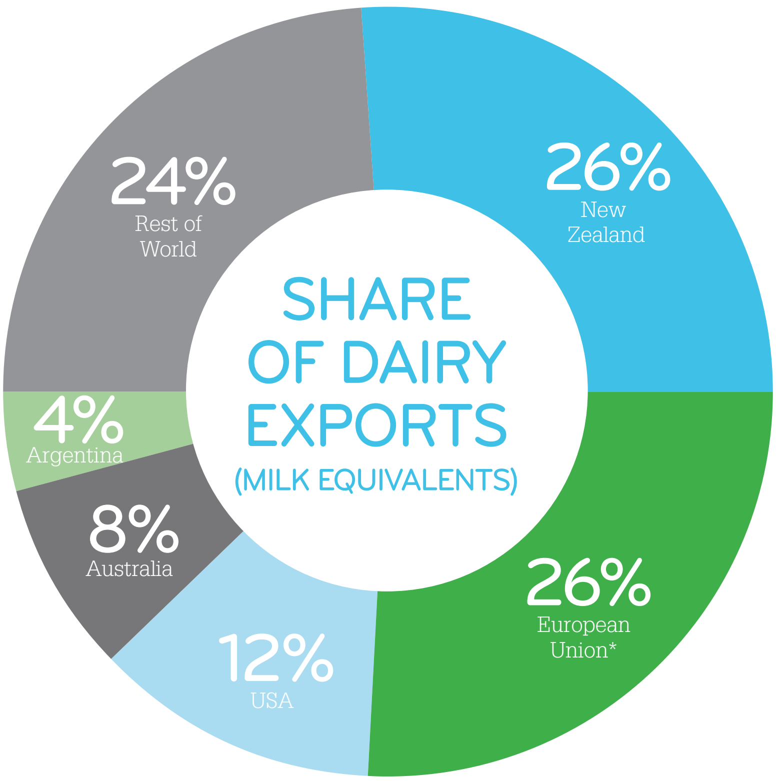
Global Supply

Global milk production is projected to increase over the next nine years by 2% annually, compared with 2.1% annual growth between 2002 and 2011.[21] Given that milk is a highly perishable product, large dairy producing countries and regions such as the European Union, United States, China and India are typically focused on supplying fresh milk, yoghurts and cheese to their domestic markets with surplus milk used to manufacture dairy products including butter, milk powder and casein. In contrast, New Zealand's milk production is predominantly used to manufacture shelf-stable dairy products for export. New Zealand dairy exports accounted for 25% of New Zealand's total export trade in 2012 and 26% of global dairy exports.[22]

Over the past decade, international dairy trade has increased strongly as demand for milk products in emerging markets has far exceeded increases in local milk production. All major global players increased exports. The European Union strengthened its position as the leading cheese exporter. The United States and the European Union boosted SMP exports while New Zealand concentrated mainly on WMP, thus limiting export expansion of other dairy products.

This increase in global trade has coincided with a reduction in government intervention through production and export subsidies in the European Union.

Production volume is highly influenced by weather and the economic environment. New Zealand's climate and pasture-based milk production systems provide a comparative advantage over other countries that rely on intensive grain-fed milk operations. While pasture-based production results in a very seasonal milk supply, milk volumes are generally stable at a comparatively low cost; this is particularly true of New Zealand's Canterbury region where dairy farms are generally irrigated and, as a result, less susceptible to the effects of droughts. This allows New Zealand dairy commodity products to remain competitive internationally. In comparison, we believe that milk production changes in the European Union and the United States are largely



Source: Bulletin of the International Dairy Federation: The World Dairy Situation 2012, page 26.

*European Union is defined as the EU-27 territory and excludes EU-intra trade volume.

[21] OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO, page 188.
[22] Statistics New Zealand. New Zealand in Profile 2013, page 2.

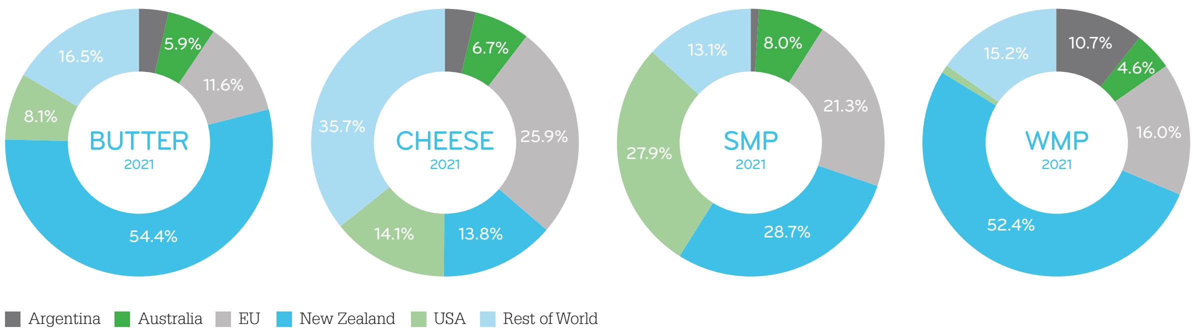
based on the balance of feed costs to milk price and the effects of weather are limited to its impact on feed supply and therefore cost. An example of this was last year's drought in the United States that resulted in significant price increases for feed grain commodities resulting in higher on-farm costs and lower milk yields.

In terms of global dairy supply, small changes in milk production in the United States and the European Union where total milk production is far greater than that of New Zealand, can have a large effect on export volumes available from those regions, and therefore on global supply and demand dynamics.

The combination of growing, but price sensitive demand for dairy commodities, and supply based on economic and weather conditions within the major dairy production countries, has resulted in dairy commodity prices becoming volatile.

Strong growth in exports is expected to continue, particularly for powders. New Zealand is expected to consolidate its strong WMP exporter position to account for more than half of global WMP trade by 2021.[23] This is demonstrated in the diagram below.

Estimated Share of Dairy Exports by Product in 2021



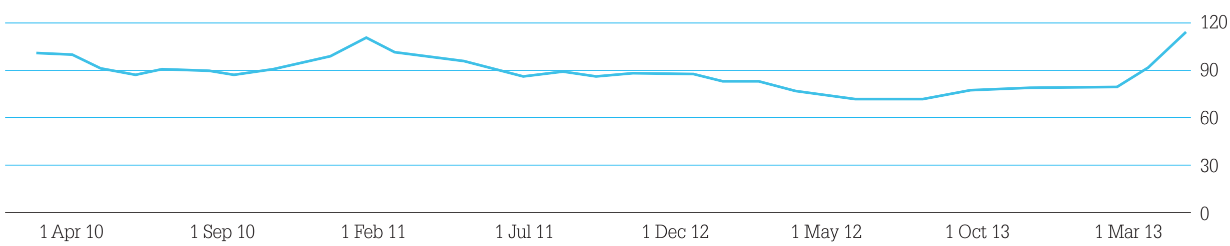
Source: OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO (page 195)

Dairy Trading Platform

In 2008, Fonterra launched an international auction platform which is used to trade international commodity dairy products including milk powders, butter and cheese. The Dairy Trading Platform provides transparent industry based pricing for dairy products traded on its platform and has quickly become a recognised price benchmark and consequently a key reference price for our sales.

Dairy commodity prices on the Dairy Trading Platform have increased significantly in the past year. This is due to high underlying demand for dairy products combined with constrained global supply; in part due to the drought-stricken North Island of New Zealand.

Global Dairy Prices (indexed to 100)



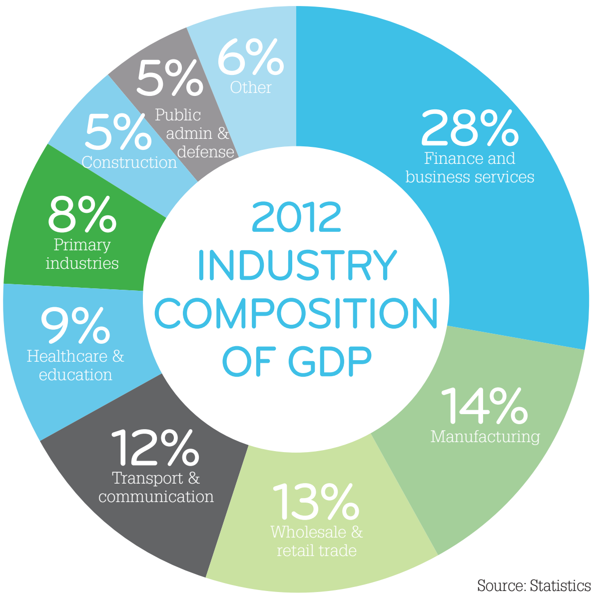
Source: ANZ Commodity Price Index

[23] OECD / FAO (2012), OECD-FAO Agricultural Outlook 2012-2021, OECD Publishing and FAO, page 194-195.

NEW ZEALAND DAIRY INDUSTRY OVERVIEW

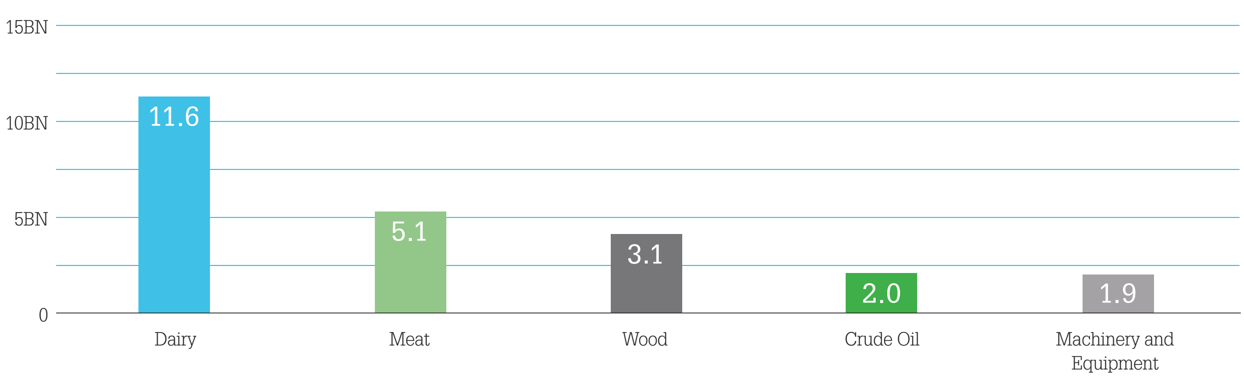
The primary sector plays an important role in New Zealand and contributes significantly to the economy. While the direct value added by the primary sector is only 8% of GDP, primary products account for 56% of exports (dominated by dairy, meat and forestry products).

The New Zealand milk season runs from June to May each year with the peak occurring in October / November, where raw milk production volumes can reach an average of nearly 23 litres of milk per cow per day nationwide.[24]



Source: Statistics New Zealand: Gross Domestic Product by Industry – year ended December

2012 Top 5 Export Commodities (NZ$bn)



Source: Statistics New Zealand. New Zealand in Profile 2013, page 2.

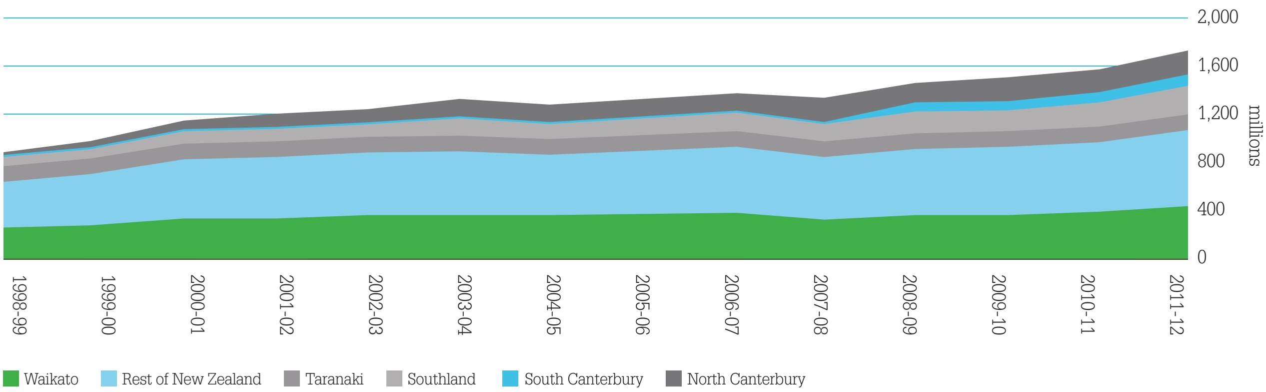
[24] DairyNZ-LIC New Zealand Dairy Statistics Reports, 2011–2012, page 24.

NEW ZEALAND SUPPLY REGIONS

We are located in the Canterbury region of New Zealand's South Island.

In the 2011 / 2012 Season, the Canterbury region had the second highest production (kg MS) in New Zealand after the Waikato region.[25]

New Zealand Milk Production (kg MS)

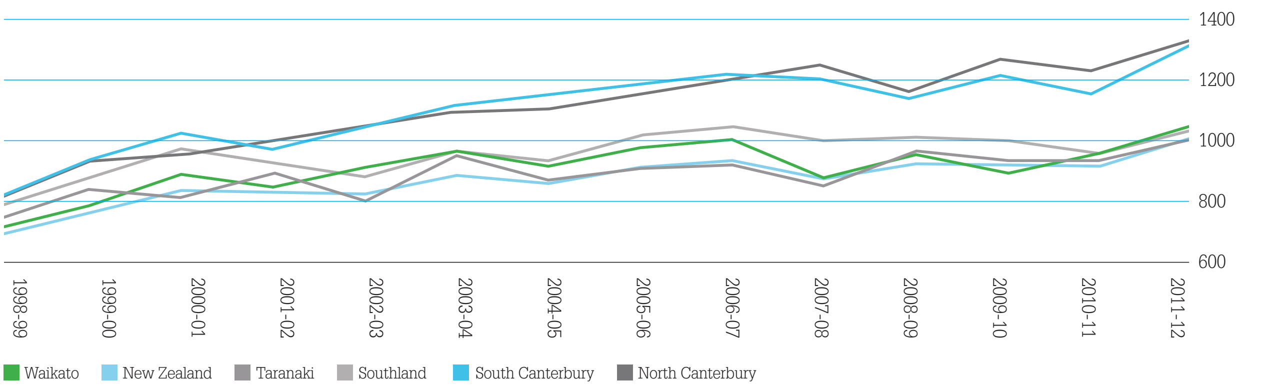


Source: DairyNZ-LIC New Zealand Dairy Statistics, 1999 to 2012
(data taken from "Regional dairy statistics" section of the reports)

Of the milk produced in New Zealand in the 2011 / 2012 Season, dairy farms in the Canterbury region produce the highest average milksolids per hectare.[26]

Moreover, a significant proportion of dairy farms in the region are irrigated, making the region less prone to the effects of droughts.

Average Kilogram of Milksolids per Effective Hectare



Source: DairyNZ-LIC New Zealand Dairy Statistics, 1999 to 2012
(data taken from "Regional dairy statistics" section of the reports)

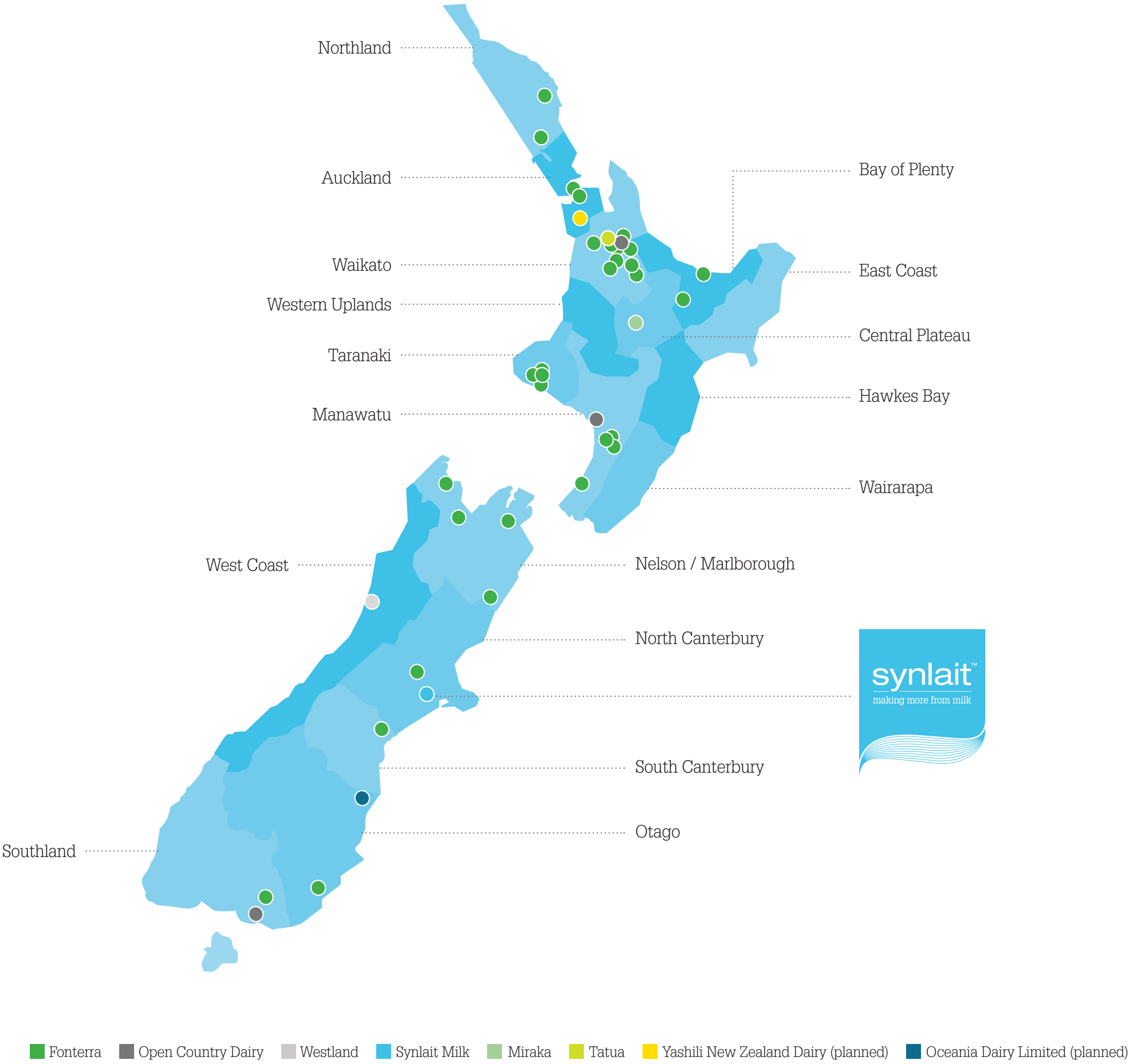
[25] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013; Dairy NZ-LIC New Zealand Dairy Statistics 2011-2012, page 15.
[26] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013; Dairy NZ-LIC New Zealand Dairy Statistics 2011-2012, page 15.

Processors and sites

New Zealand produced approximately 19 billion litres of raw milk in 2012, the overwhelming majority of which is processed into shelf-stable milk products. Fonterra collects approximately 89% of the country's raw milk, with the balance collected by independent processors including Synlait Milk, Miraka, Open Country Dairy, Tatua and Westland.

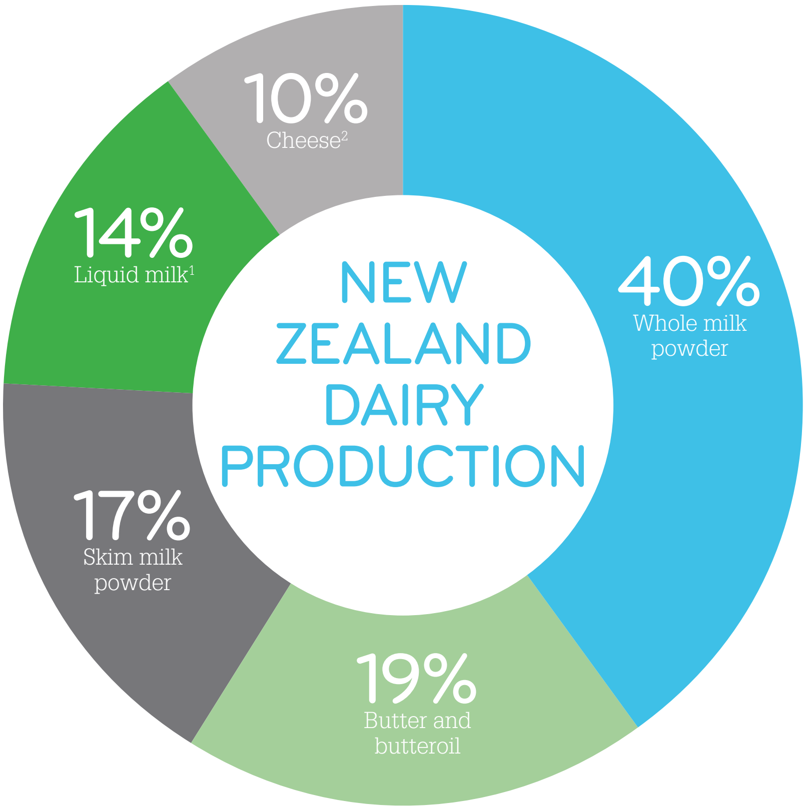
As shown opposite, milk powder (in its various forms) is the most produced dairy commodity in New Zealand. The largest traded products on the Dairy Trading Platform are WMP and SMP which represent over 50% of all dairy products produced in New Zealand. New Zealand dairy products are generally viewed favourably in international markets as being of a high quality.

New Zealand Milk Processed at a Glance



Source: Company websites

NEW ZEALAND DAIRY PRODUCTION



Source: Bulletin of the International Dairy Federation: The World Dairy Situation 2012 Page 184.

[1] Includes fermented milk products, cream and concentrated milk (fluid).

[2] Includes processed cheese.

The Dairy Industry Restructuring Act 2001, the Dairy Industry Restructuring Amendment Act 2012 and industry regulation

Fonterra was formed by the merger of The New Zealand Dairy Board, The New Zealand Co-operative Dairy Company Limited and Kiwi Co-operative Dairies Limited in 2001. The Dairy Industry Restructuring Act 2001 provided for the restructuring and regulation of dairy markets. This Act was amended by the Dairy Industry Restructuring Amendment Act 2012 which, among other matters, sought to improve the transparency and confidence in Fonterra's Farmgate Milk Price setting and enable Fonterra to proceed with its capital restructure known as "Trading Among Farmers".

DIRA also imposes obligations upon Fonterra relating to supply and withdrawal of supply of raw milk by Fonterra shareholding farmers and access to raw milk for independent processors to enable them to compete in dairy markets. The majority of DIRA provisions regulating dairy markets are subject to expiry if independent processors of raw milk collect 20% or more of milksolids on or from dairy farms in either the North or South Islands of New Zealand in a Season. Key aspects of DIRA that currently impact upon Synlait Milk are:

- Open Entry and Exit

Subject to some exceptions, DIRA requires Fonterra to accept applications to supply raw milk or to increase the supply of raw milk by shareholding farmers able to make the required capital contributions. It also provides a process for withdrawal by shareholding farmers who wish to reduce or cease the supply of raw milk. Processes for application and withdrawal are set out in DIRA.

- 20% Rule

Fonterra farmer shareholders are required to supply all raw milk produced by them to Fonterra subject to the "20% rule" contained in DIRA, which allows Fonterra farmer shareholders to supply up to 20% of their weekly production to an independent processor, with their maximum percentage set by their supply to independent processors in October.

- Regulated supply of raw milk to independent processors of raw milk

The Dairy Industry Restructuring (Raw Milk) Regulations 2012 require Fonterra to supply up to 795 million litres of raw milk collected by Fonterra per Season to independent processors of raw milk who request it. This limit is subject to review at least at intervals of every three consecutive Seasons. The regulations also prescribe a process for the request and supply of that milk. Of that volume, Goodman Fielder New Zealand Limited and its interconnected bodies corporate may request up to 250 million litres and each other independent processor of raw milk may request up to 50 million litres of raw milk per Season. A prorated decrease applies if the total volume is oversubscribed. The cap on supply to each independent processor is subject to monthly limits and a limit of 110% of the amount taken in October. The cap is also subject to the "own supply rule" which disentitles independent processors from supply of raw milk from Fonterra in a Season beginning on or after 1 June 2016 if their own supply of raw milk in each of the three consecutive previous Seasons was 30 million litres or more. DIRA permits the total amount of raw milk to be made available to independent processors under the regulations to be increased to five percent of Fonterra's milk collection.

The price an independent processor pays for this milk is also prescribed by regulation. Synlait Milk, as an independent processor which has sourced, and will likely continue to source, more than 30 million litres of raw milk from its own contracted farmers each Season, can agree a price with Fonterra or require the milk to be supplied at the Default Milk Price. The Default Milk Price is the Farmgate Milk Price for that Season plus the reasonable cost of transporting the raw milk to the independent processor.

Prices for winter and organic milk follow a similar calculation with additional costs for those types of milk.

We have historically processed some milk procured under this regime at the Default Milk Price. This has reduced from 22% in our first year to 10% in FY2013F. We anticipate that any raw milk procured in the future under this regime would also be procured at the Default Milk Price. However, we do not anticipate needing to procure milk under this regime beyond 1 June 2016 when our entitlement will cease because of our continued volumes or raw milk collected from our own contracted farmers.

- Milk Price paid to raw milk suppliers

The Dairy Industry Restructuring Amendment Act 2012 embedded Fonterra's then existing milk price governance arrangements in DIRA, required Fonterra to publicly disclose information in relation to its milk price setting, and introduced a milk price monitoring and oversight regime. It sets out guidelines for determining the Farmgate Milk Price, requires Fonterra to establish and maintain a milk price panel to review price setting operations, requires disclosure of the Farmgate Milk Price Manual, and requires annual review and reporting on the Farmgate Milk Price Manual and Farmgate Milk Price by the Commerce Commission. However, Fonterra has calculated the Farmgate Milk Price using the methodology contained in the Farmgate Milk Price Manual since 1 August 2008.

Given Fonterra's significant market presence, the price that we (and the majority of other independent milk processors) pay for milk is typically linked to the Farmgate Milk Price. This is described in detail below.

Farmgate Milk Price

As noted above, the Farmgate Milk Price is calculated in accordance with the Farmgate Milk Price Manual. This sets out the methodology by which the Farmgate Milk Price is calculated. The Farmgate Milk Price Manual is a publically available document produced by Fonterra. The Fonterra Farmgate Milk Price Manual and related information are available online at: http://www.fonterra.com/nz/en/Financial/Milk+Price+Methodology.

The Farmgate Milk Price Manual methodology to derive the Farmgate Milk Price is based on the price a notional efficient producer could afford to pay for milk and still achieve its required rate of return on (and repayment of) capital. The notional producer is assumed to be of similar scale to Fonterra, but produce only commodity whole and skim milk powders and their by-products, operate at a high level of efficiency and sell almost all of its output on the Dairy Trading Platform. The calculation can be broken down into three main components, being: revenue, operating costs and capital recovery. The earnings after taking into account these costs is the amount the notional producer can pay for raw milk, and is usually expressed on a per kilogram of milksolids (**kg MS**) basis.

The Farmgate Milk Price Manual methodology provides that revenues are derived by processing all raw milk that Fonterra collects into a group of commodity specification products – being whole, skim and butter milk powders, and AMF and butter. These products are referred to as the Reference Commodity Products. The prices at which these commodities are sold, largely on the Dairy Trading Platform (as described above), are used to derive the revenue component of the Farmgate Milk Price calculations. Notional revenues are in USD and are converted back to NZD at Fonterra's actual volume weighted average NZD / USD foreign exchange rate in the month in which cash proceeds from sales are received. Operating costs are those costs associated with collecting raw milk from farms, ingredients other than raw milk (including lactose), processing these inputs into the Reference Commodity Products and transporting the products for export, along with general and administrative expenses. For the purpose of the Farmgate Milk Price Manual these costs either reflect Fonterra's actual costs (eg milk collection costs) or the notional costs of a highly efficient producer of Fonterra's scale (eg plant yields, selling and overhead costs per kg MS). Capital recovery is a WACC return on the assumed asset base of the notional producer along with a recovery of depreciation.

The Dairy Industry Restructuring Amendment Act 2012, by amendment to DIRA, and the terms of Fonterra's constitution, require Fonterra to establish and maintain a committee known as the Milk Price Panel which, in each Season, supervises the calculation of the Farmgate Milk Price, advises Fonterra as necessary on the application of the Farmgate Milk Price Manual and recommends the Farmgate Milk Price to Fonterra.

The Commerce Commission is required to review and report each Season on the extent to which the Farmgate Milk Price Manual and the calculation of the Farmgate Milk Price are consistent with the statutory purpose of promoting the setting of a Farmgate Milk Price that incentivises Fonterra to operate efficiently while providing contestability in the market for the purchase of milk from farmers.

The Farmgate Milk Price for each Season is not set until after the end of the Season. Also, the full calculation is not disclosed and there has only been partial disclosure of some key aspects of the calculation (particularly in relation to the notional producer's costs). As a result, for budgeting and forecasting purposes Synlait Milk must estimate the likely Farmgate Milk Price for a Season using models it has developed. There is a risk those models do not accurately replicate the actual calculation of the Farmgate Milk Price. There is also the more general risk to Synlait Milk's profit margins if it cannot successfully match the processing yields, product mix, sales phasing, prices, exchange rates and operating cost performance of the Farmgate Milk Price Manual's notional producer.

WE HAVE A DAIRY FARM ASSURANCE SYSTEM WITH ISO 65 ACCREDITATION


LEAD™
WITH
PRIDE


synlait

SECTION 4

ABOUT SYNLAIT MILK

30% AVERAGE ANNUAL VOLUME PRODUCTION GROWTH OVER THE FOUR FINANCIAL YEARS TO FY2013F

87,790 METRIC TONNES OF INGREDIENT AND INFANT FORMULA AND NUTRITIONAL POWDERS TO BE SOLD IN FY2013F

46.6 MILLION KG MS EXPECTED TO BE PROCESSED IN FY2013F

44% AVERAGE ANNUAL REVENUE GROWTH OVER THE FOUR FINANCIAL YEARS TO FY2013F

APPROX **155** FARMS SUPPLYING US WITH MILK

OVER **80** CUSTOMERS LOCATED IN MORE THAN **50** COUNTRIES

OVER **150** EMPLOYEES

4 CONSECUTIVE YEARS IN THE DELOITTE FAST 50 INDEX FROM 2008-2011[27]

[27] The Deloitte Fast 50 Index is an index prepared by Deloitte in New Zealand. Deloitte prepares this from a combination of its own research, public nominations and businesses that apply to Deloitte to be included. Businesses that enter are ranked by Deloitte according to their percentage revenue growth over a three year period and the 50 businesses with the highest percentage growth make up the Deloitte Fast 50.

OVERVIEW

Synlait Milk is focused on becoming a trusted supplier of choice to some of the world's leading milk-based health and nutrition companies.

We collect milk from approximately 155 farms in Canterbury, in the South Island of New Zealand, which we manufacture into a range of Value Added Ingredient and Infant Formula and Nutritional products.

Our strategy is to systematically increase the return generated in each product category we manufacture. We seek to achieve this by building relationships with leading international and locally owned milk-based health and nutrition companies and manufacturing high specification Ingredient and Infant Formula and Nutritional products to their standards. Our strategy is currently being enhanced by a range of strategic initiatives including:

- our Lead With Pride™ certified best practice dairy farming system; and
- undertaking a range of new Growth Initiatives designed to increase the volume and value of our products.

We have a track record for consistently achieving an increasing proportion of sales in Value Added products. The returns we have achieved for our Ingredients business has consistently outperformed the Dairy Trading Platform benchmark. In FY2013F, our Value Added margin for Ingredients is expected to be greater than US$165 per MT.[28] Our Infant Formula and Nutritional products are achieving gross returns well in excess of those achievable compared to Ingredients. Continuing the growth of our Infant Formula and Nutritionals business is central to our plans.

[28] Measured as the difference between the revenue generated from our equivalent products benchmarked against the weighted average prices at auction date published on the Dairy Trading Platform.

OUR HISTORY

2005

2007

2008

2009

2005
Synlait Milk launched.

2007
Synlait Milk enters an agreement to deliver all milk collected to Westland Milk Products while Dryer 1 is being built.

2008
Dryer 1 is commissioned by Synlait Milk.

AMF plant commissioned.

Synlait Milk was awarded Fastest Growing New Entrant (Canterbury and Upper South Island), Fastest Growing Employer and 3rd Fastest Growing Company in New Zealand in the Deloitte Fast 50.

2009
Special Milks Dryer constructed to provide capability to produce up to 2,000 MT per annum of specialised high value dairy products.

Synlait Milk sought to conduct an initial public offer on the NZX. This did not proceed at the time due to market conditions resulting from the global financial crisis.

Synlait Milk was awarded Fastest Growing Manufacturer (Canterbury and Upper South Island), and 7th Fastest Growing Company in New Zealand in the Deloitte Fast 50. It was also awarded the Canterbury Large Emerging Exporter of the Year in the Air New Zealand Cargo, Canterbury Export Awards.

2010 2011 2012 2013

2010
Bright Dairy invests capital and becomes a 51% Shareholder. Synlait Milk commences construction of Dryer 2, a sophisticated purpose built infant formula facility.

Synlait Milk was awarded the 12th fastest growing company in New Zealand in the Deloitte Fast 50.

2011
Dryer 2 is commissioned. Synlait Milk has the capability to manufacture Infant Formula and Nutritional products to unique customer specifications.

Synlait Milk set a new record for itself by making the Deloitte Fast 50 index for the fourth consecutive year.

2012
Synlait Milk posted a $6.3 million profit after tax for the year ending 31 July 2012.

Synlait Milk scooped the Champion Global Operator (medium / large enterprise) at the Champion Canterbury Awards and the Agri-Business Award in the Sensational Selwyn Awards.

2013
Synlait Milk wins the Supreme Award at the HSBC New Zealand China Trade Association China Business Awards 2013.

Synlait Milk also wins the category award for successful investment with China – inward or outward at the HSBC New Zealand China Trade Association China Business Awards 2013.

OUR STORY

Synlait Milk was launched by Synlait Limited in 2005 after five years of operating Synlait Farms, a corporate dairy farming business in Canterbury. Synlait Farms is today an independent company with some shareholding in common with Synlait Milk. Prior to 28 February 2013, Synlait Farms was a wholly owned subsidiary of Synlait Limited. On 28 February 2013, the shares held by Synlait Limited in Synlait Farms were distributed in specie to Synlait Limited shareholders (a small number of shareholders elected to take cash in lieu of shares). Synlait Limited will, immediately prior to Synlait Milk being listed, distribute its 49% shareholding in Synlait Milk to its shareholders as a distribution in specie, so that they will hold their shares directly in Synlait Milk, like all other Shareholders of Synlait Milk. This is described in more detail in Section 7.1 (Details of the Offer). Synlait Farms currently supplies approximately 11% of the milk processed by Synlait Milk. Synlait Milk and Synlait Farms are parties to certain important contracts. These are described in Section 7.3 (Statutory Information).

Our original vision was that in a deregulated industry, there would be opportunities to produce specialist dairy ingredients for a select range of markets and customers, and opportunities for superior returns would be created by forming close relationships with those customers.

From the outset it was identified that the key platforms to developing these customer relationships would be:

- building a team of experienced and technically competent people;
- a strict commitment to a business to business model to avoid the risk of competition with our customers;
- developing plant, technical expertise and operating systems capable of manufacturing high value Ingredient and Infant Formula and Nutritional products to specific customer requirements; and
- building a reputation for excellence in customer service and product quality.

The initial market development strategy focused us on a limited range of South East Asian countries and China. These markets were selected based on lower sea freight costs, low import tariffs and countries where we believed there was significant economic and market growth.

Leading milk-based health and nutrition companies were identified in each country of interest. Our team began to regularly visit these companies while our processing plant was being planned. It was clear from these initial visits that the best product mix for these markets was SMP and WMP and that our manufacturing plant should be built to enable an early transition to Value Added products as customer relationships developed.

In August 2008, we commissioned Dryer 1, a spray dryer capable of manufacturing a wide range of WMP and SMP products with the ability to facilitate various heat treatments, vitamin and mineral pre-mix additions, agglomeration and instantisation.

The initial plan was to focus on the production of WMP. However, a larger than expected volume of raw milk available for contract and customer demand for SMP products resulted in us investing in an AMF cream processing plant, and a reverse osmosis (RO) plant to pre-concentrate skim milk. These investments enabled 217 million litres of raw milk to be processed into 33,197 MT of product in FY2009.

An ambition to quickly develop a range of low-volume, high-value spray dried products, and the ability to work with customers to develop new products, resulted in the commissioning of our Special Milks Dryer in August 2009. This has been used for manufacture of colostrum powders, some butter milk products, and for product development.

Demand for our products soon outstripped production capacity, enabling a greater focus on maximising returns. This resulted in us increasing our specialisation in milk powders for home consumption, and milk powders for infant formula manufacture where we found manufacturing returns to be the greatest. In addition to developing relationships with the various in-market customers who had been the initial targets, strong relationships also developed with a number of global milk-based health and nutrition companies and a large international dairy trading company.

These customer relationships, and the resulting product mix, helped us to identify the opportunity to begin manufacture of Infant Formula and Nutritional products. Therefore, when Dryer 2 was planned, it was determined that it should be capable of producing, amongst other things, base powders for the manufacture of infant formula.

At a relatively early stage of our development as a company, we sought to conduct an initial public offer on the NZX in 2009 to strengthen our financial position at the time. That was not successful given market conditions resulting from the global financial crisis. Following the unsuccessful initial public offering we sought a cornerstone shareholder who could bring additional capital.

Bright Dairy, listed on the Shanghai Stock Exchange, invested in Synlait Milk in November 2010 acquiring a 51% stake. Bright Dairy sought a strategic investment in an aligned business and a supplier of products for quality infant formula from our part of the world. This provided us with capital required to build Dryer 2, a potential cornerstone customer for fully finished infant formula, and first-hand market knowledge of the Chinese consumer dairy market.

In September 2011, Dryer 2 was commissioned. Dryer 2 is capable of producing fully formulated infant formula base products to the standards expected by leading infant formula brand owners, as well as WMP and SMP.

The same approach used to develop our Ingredients business has been taken in relation to Infant Formula and Nutritional products, identifying the key infant formula customers in China and other countries and working to build relationships with them.

Our infant formula customer base includes Bright Dairy, who own and market the Synlait Milk manufactured Pure Canterbury™ range of infant formula products in Shanghai and adjacent provinces. Bright Dairy recognises the size and potential of the market in China and continues to provide us valuable market insights. Bright Dairy has actively encouraged the development of our direct relationships with our wider customer base in China.

In FY2013F, we expect to process 538 million litres of milk into 80,856 MT of milk powder and AMF and 10,772 MT of Infant Formula and Nutritional products.

We have grown our supply base to approximately 155 farmers contracted to supply milk in the Season commencing 1 June 2013. We are increasingly focused on ensuring that the milk is produced to a standard expected by our most demanding customers, and that our suppliers are located close to our processing facilities to keep transport costs low.

OUR BUSINESS MODEL

We manufacture two main categories of product from raw milk:

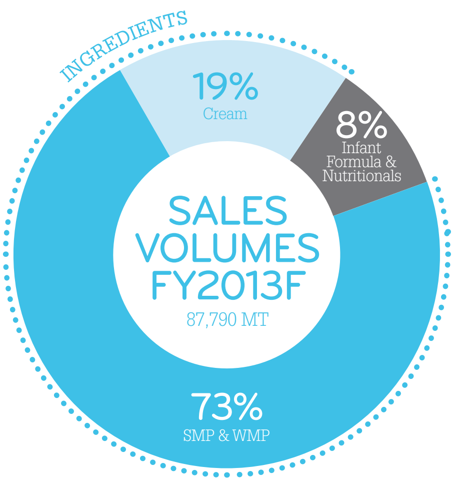
1. **Ingredient products** – including:
   a. **Milk powders:** SMP and WMP sold as finished powders for in-market repackaging into consumer packs and as ingredients into other dairy manufacturing processes (eg SMP designed for use in UHT milk processing plants);
   b. **Cream products:** AMF manufactured and sold in industrial packs of 210 kilograms or 1,000 kilograms. We are planning to extend our cream products to include Ammix butter; and
2. **Infant Formula and Nutritional products** – formulated dairy-based nutritional powders sold in either industrial packs as base powders for blending and packaging into consumer packs or sold by us in consumer packs to selected customers. These can contain considerable volumes of ingredients other than raw milk.

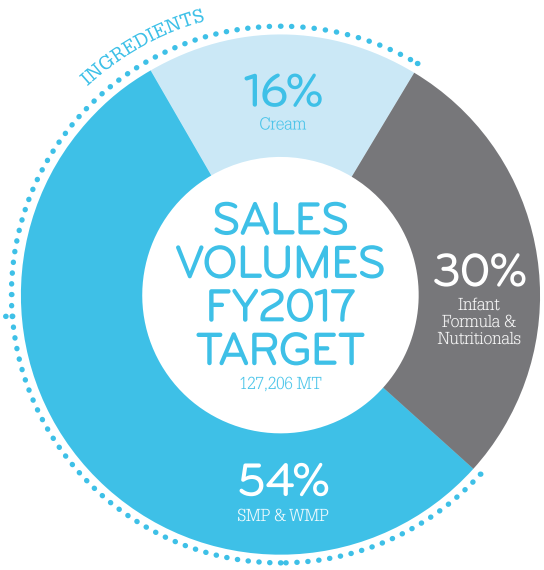
As a relatively small market participant, we seek to maximise returns by:

- manufacturing products where a premium can be secured because of the composition or functionality of the product;
- optimising product mix to take advantage of the value differentials that often exist between WMP, SMP, AMF and butter; and
- optimising product manufacturing schedules over the year to maximise plant utilisation.

We contract with our supplying farmers to purchase raw milk at a price based upon the price paid by Fonterra to its suppliers for raw milk. For more detail about the terms of our contracts with supplying farmers, see page 73. The Farmgate Milk Price is set by Fonterra using the methodology set out in the Farmgate Milk Price Manual. The Farmgate Milk Price is set retrospectively after the conclusion of the Season when the international commodity prices and foreign exchange rate are known.

You can read more about the Farmgate Milk Price Manual in Section 3 (Overview of the Dairy Industry).





As a result of the Growth Initiatives we have targeted production volumes to increase as outlined above. This is on the assumption that the Growth Initiatives are successfully implemented and that we are able to continue to grow our milk supply and access raw materials and ingredients to allow us to manufacture these target volumes.

Nutritional solutions (including canned product)

- Infant formula (Step 1,2 &3) & pregnant mother formula
- Specialty milks

Customer specific milk powders for dry blending and / or consumer packing

- Powders for dry mix infant formula

Milk powder to be recombined for infant formula, Growing Up Milk Powder, UHT and Recombined Evaporated Milk milks

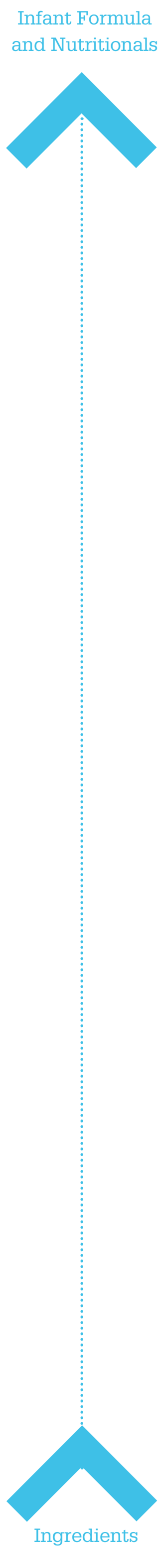
- Specific functional and microbiological requirements (eg low spore for UHT applications)

Milk powder to be recombined for pasteurised and cultured foods

- Normally low heat or medium heat milk powders

Milk powder for bakery & confectionery applications

- General trade specifications



OUR BUSINESS STRUCTURE

Synlait Milk is a customer-centric business.

Synlait Milk is a customer focused organisation and therefore has developed a category management structure around our two main categories – Ingredient products and Infant Formula and Nutritional products. The two general managers that lead these categories are supported by appropriate functional teams, including manufacturing, quality, finance, supply chain, human resources and

CUSTOMER

Our objective is to deliver a comprehensive and rewarding customer experience.

Responsible for:

- Business development
- Relationship management
- Marketing support
- Customer experience
- Sales support

DEVELOPMENT

Our objective is to deliver innovative solutions to create value and drive growth.

Responsible for:

- Existing product development
- New product development
- Delivering on-farm initiatives for additional Value-Added products
- Management of business growth initiatives

OPERATIONS

Our objective is to deliver supply chain integrity with a complete customer focus.

Responsible for:

- Customer integrated technical product support
- On-farm relationship excellence
- Best practice manufacturing
- Best practice food safety and quality compliance
- Supply chain excellence
- Business process and continuous improvement

communications and marketing. We have recently introduced a smaller category focused on our speciality milks, such as lactoferrin.

Key disciplines applied throughout our business are described further below.

BUSINESS PERFORMANCE

Our objective is to deliver a comprehensive commercial, planning, and business intelligence service.

Responsible for:

- Executive financial reporting
- Business performance management
- Commercial support
- Forecasting, budgeting and strategic planning Intelligence
- Competitor benchmarking

CORPORATE

Our objective is to deliver a high performing, highly engaged workforce.

Responsible for:

- Corporate affairs and communications
- Human resources and safety management
- Finance and treasury management
- Brand positioning
- Investor relations
- Information technology support
- Legal, company secretariat, board services
- Risk assurance
- Regulatory and policy

Managing Market Volatility

We manage price volatility in product pricing and the foreign exchange market to optimise financial outcomes.

Price volatility is an important feature of the international dairy commodity markets. We seek to manage the risk created by price volatility by having a predetermined sales pattern that seeks to replicate the sales pattern of the wider market.

Given the majority of our business is undertaken in USD, we carefully manage our repatriation of funds to optimise our financial returns. We operate to a strict foreign exchange policy set by our Board.

The net result of our hedging policy has resulted in the average annual foreign exchange rates shown in Section 6.3.

CUSTOMERS

In FY2012, we sold 77,415 MT of our products to over 80 customers in more than 50 countries. We have attracted a range of customers which provide us a growing portfolio of demand for our products. We are the first choice supplier to a number of our customers, who generally only purchase elsewhere when their product mix choice is not available because of seasonality of supply or product mix optimisation.

We continue to focus on developing direct relationships with our target customers. These customers can be broadly described as some of the world's leading multinational milk-based health and nutrition companies, and some of the leading locally-owned in-market milk-based health and nutrition companies. Typically, our customers hold leading positions in their chosen consumer markets with established brands and strong retail distribution channels. Examples of these customers include:

Synlait Milk and A2 Corporation Limited (**A2C**) have worked together for the last 20 months to develop an a2TM brand infant formula. A2C is a differentiated dairy company listed in the NZX 50.

A2C General Manager – International Operations Simon Hennessy says "Synlait Milk is a key partner for A2C. We have a common desire in a highly competitive market to provide the best nutritional products applying modern technology with on-farm innovation. Synlait Milk provides A2C with a totally integrated supply solution."

Standard Foods Corporation is a major Taiwanese food company primarily engaged in the production, distribution and sale of nutritional products, edible oils, dairy products and beverages.

The company produces a variety of nutritional milk powder products under the Quaker brand, from baby and toddler food products through to its market leading range of adult nutritional milk powders.

We have been supplying a range of powder products to Standard Foods since 2010. Standard Foods Director of Purchasing James Wong says "Synlait Milk is an important supply partner for Standard Foods and we are pleased that Synlait Milk continues to invest in the technical support required to produce products to our exacting specifications."

In addition to our customers with their own brands and retail distribution channels, we have developed a strong relationship with Hoogwegt Groep BV (**Hoogwegt**), a Netherlands based specialist dairy trader. Hoogwegt trades over 1.5 million MT of dairy product each year through their global network.

Synlait Milk has an agreement with Hoogwegt for the supply of an agreed percentage of our annual Ingredient production volume that is sold at a price premium to Reference Commodity Products. In addition, Hoogwegt contract to purchase additional product from us from time to time as product availability and pricing allows. Hoogwegt sell our product to regions and customers that are not directly targeted by us, providing access to a wide range of customers.

Additionally, Hoogwegt is a key supplier of ingredients for Synlait Milk's Infant Formula and Nutritional products.

Hoogwegt also provides Synlait Milk with a world class source of market intelligence, providing a global network well beyond the scale of Synlait Milk.

Our contract with Hoogwegt provides us with product mix flexibility in each sales period.

HOOGWEGT DAIRY

"Synlait Milk is a key supplier from Oceania for Hoogwegt, producing a range of value added dairy ingredients on a consistent basis from their state of the art facilities to our global customer base."

Founded in the Netherlands in 1965, the Hoogwegt Group has operations around the world whose core business is the marketing of dairy products and food ingredients.

At a glance

- Headquartered in Arnhem, the Netherlands
- Offices located in 10 countries on six continents
- Annual sales of more than 2 billion euros

光明乳业
BRIGHT DAIRY

Bright Dairy is a major dairy industry participant in China specialising in the development, production and sales of milk and dairy products, the rearing and fostering of milk cows and bulls, logistic distribution and the development, production and sales of health and nutrition products (including infant formula). Bright Dairy has a number of well-known dairy brands in the Shanghai market, including a growing infant formula business, and is listed on the Shanghai Stock Exchange with a market capitalisation of approximately NZ$3.5 billion dollars.

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

Bright Dairy own and market the Pure Canterbury™ range of infant formula products in Shanghai and adjacent provinces which Synlait Milk manufactures.

Bright Dairy provides us with valuable strategic insight (particularly in respect of the Asian dairy market) and actively encourages and supports the development of our direct relationships with our wider customer base in China.

"Synlait Milk is not only a significant investment for Bright Dairy, but also the only supplier of our first high-end infant formula product. Synlait Milk is important to the development of Bright Dairy's whole infant formula business. With the excellent quality product provided by Synlait Milk, together with the developed marketing and distribution business of Bright Dairy, we are confident that our product will position us well in the high-end infant formula market." Wenxin Luo, General Manager for Infant Powder, Bright Dairy

Our total quality focus

We strive towards positioning ourselves at the premium end of dairy manufacturing. We are taking a whole-of-business approach to managing quality including:

- actively managing raw milk quality through our Lead With Pride™ farm certification system;
- systematically adopting best practice manufacturing food quality and safety systems to recognised infant formula standards;
- managing the customer experience from order to delivery through the development of an end-to-end Enterprise Resource Planning system which sits at the core of all business activity; and
- building plant and equipment to best practice standards. For example, we built our infant formula manufacturing facility to the standard expected by some of the world's leading infant formula brand owners.

As part of our Growth Initiatives, we are planning to invest in developing a product quality testing laboratory on site. This will facilitate an extension to the range of final products that are undertaken during manufacturing runs to increase manufacturing accuracy and reduce the amount of out-of-specification product produced. It will also bring essential skill sets into our business.

Building a high performing team

We have been successful in assembling a high performing management team with extensive experience in the disciplines required to achieve excellence in dairy manufacturing and business to business sales and marketing. The majority of our senior management team have brought to Synlait Milk significant international experience, including exposure to businesses in the nutritional powders category.

We put considerable effort into recruiting, developing and retaining the staff required to execute our business plan with excellence. We currently have more than 150 employees. We focus on best practice staff leadership, development and engagement strategies that work to deliver high productivity, strong partnerships and best-in-class potential for our people as well as creating a higher performance and engaging workplace.

We are largely non-unionised with just five union members on staff as at 1 June 2013.

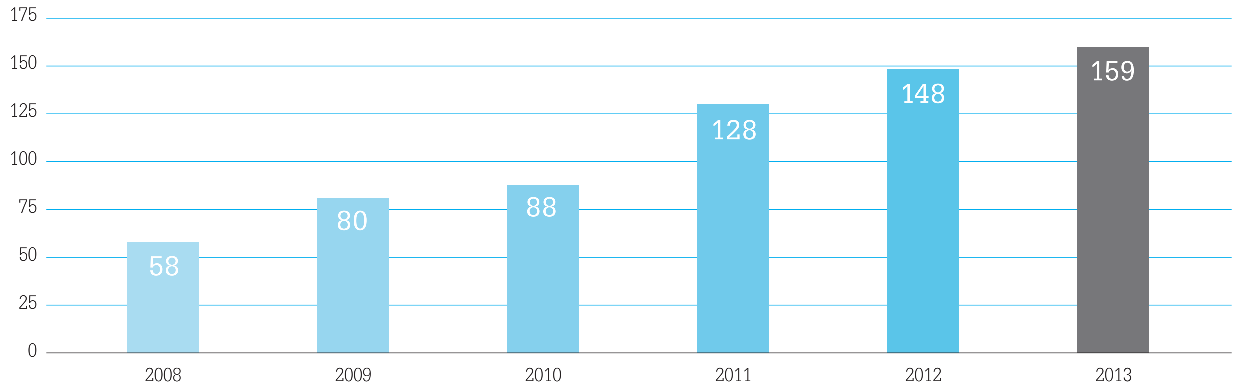
Production and process

The Canterbury region where we operate is one of New Zealand's most productive pastoral dairying locations. In the 2011 / 2012 Season, it produced the highest average kilogram of milksolids per effective hectare in New Zealand.[29]

The Canterbury region is New Zealand's fastest growing milk supply region, with annual milk production (kg MS) growing by an average of 11% per annum for each of the past 12 Seasons.[30] In the 2011 / 2012 Season, the Canterbury region had the second highest production (kg MS) in New Zealand, after the Waikato region.

Our experience is that the temperate climate and predominant use of irrigation on supplying farms in

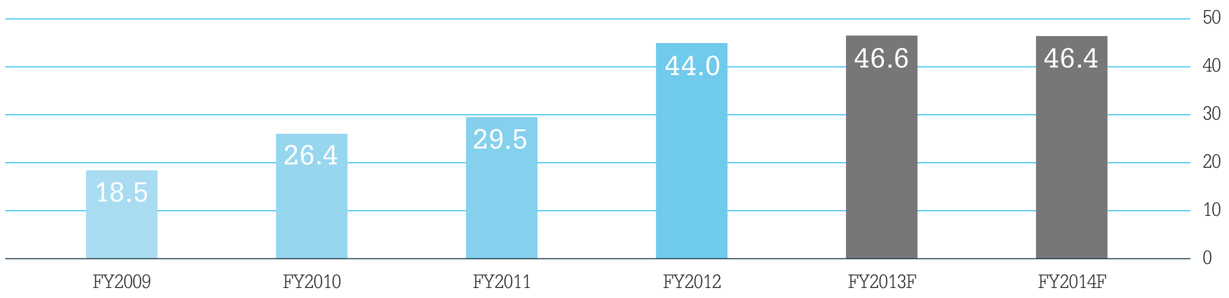
Supplying Farms



As at July 31

[29] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013, page 42; New Zealand Dairy Statistics 2011-2012, page 15.
[30] New Zealand Milk Production Trends, AgriSpecialists NZ Ltd, January 2013, page 17.

Milk Purchases (Kg MS 000s)



the Canterbury region provides us with a consistent supply of raw milk. Also, in our experience, the detailed composition of the milk is less variable than milk produced on farms where we believe the composition of the pasture varies to a greater extent as climatic conditions change both during and between the production seasons. This enables better plant utilisation and provides raw milk more suitable for the production of nutritional powders.

We have established a milk supply base with approximately 155 farms. We have consistently met our targeted milk volume growth requirements in every year since inception.

We aim to procure milk from farmers within an 80 kilometre radius of our processing facilities. The close proximity of most of our milk supply limits the distance travelled to collect milk, which significantly reduces transportation costs. In addition, we charge suppliers for any milk transport required north of the Ashley River (approximately 80 kilometres from our site) and South of Timaru (approximately 120 kilometres from our site).

The majority of our seasonal milk supply contracts with contracted farmers are on standard terms and include the following:

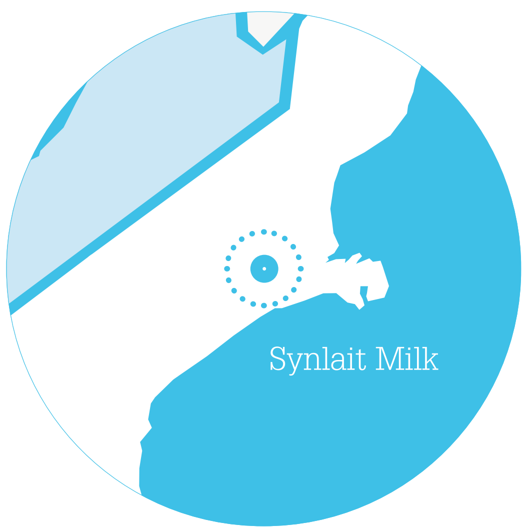
- terminate effective 31 May in the year falling not less than 24 months after notice of termination by either party;
- a payment formula based on the composition of raw milk supplied, specifically designed to attract high yielding milk;
- guaranteed annual payout no less than $0.25 per kg MS below the Farmgate Milk Price; and
- no share ownership required.

In addition, we also contract small volumes of winter milk (approximately 45,000 litres per day).

Contingency plans for unexpected processing facility downtime are crucial to all milk processors. We have milk contingency arrangements in place with another independent milk processor.

You can find more information on key operational and financial metrics in Section 6 ("Financial Information").

Core milk supply area



LEAD WITH PRIDE

LEAD WITH FORESIGHT
ENVIRONMENT

CARE
ANIMAL HEALTH AND WELFARE

GREATNESS
MILK QUALITY

INTEGRITY
SOCIAL RESPONSIBILITY

Our "Lead With Pride™" Certified Best Practice Dairy Farming

In April 2013, we launched our internationally accredited ISO 65 dairy farm assurance system called Lead With Pride™. Lead With Pride™ recognises and financially rewards milk suppliers that are certified as achieving dairy farming excellence by AsureQuality under our Lead With Pride™ system.

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

We believe that Lead With Pride™ will enable us to demonstrate to our customers our industry leadership in incentivising food safety and sustainability initiatives intended to enhance the integrity, safety and quality of milk produced on certified dairy farms. We believe this will set Synlait Milk apart. Our customers can in turn identify their products as using milk certified under Lead With Pride™.

The first Synlait Milk supplier to achieve certification under Lead With Pride™ was announced at the official launch in April 2013.

Levels of Synlait Milk's Lead With Pride™ Certification

Good Practice Gold (Non-Certified)	This is the standard that is currently being met by all of our milk suppliers. There is no Lead With Pride™ certification or premium payment paid for milk at this level.
Best Practice Gold Plus	Gold Plus has additional standards above "Gold" that must be met. These requirements cover our four pillars. Suppliers are independently audited by AsureQuality to become certified and premium payments of up to $0.06 per kg MS are currently paid for their milk.
Leading Practice Gold Elite	When Gold Plus certification has been maintained for a minimum of 12 months, and additional requirements are met in all our four pillars, then Gold Elite certification can be obtained. Suppliers are independently audited by AsureQuality to become certified and premium payments of up to $0.12 per kg MS are currently paid for their milk.

OUR FACILITIES

In FY2013F we expect to process approximately 46 million kg MS. Our processing facilities are designed to allow for flexibility and control of production to meet specific customer requirements.

The key components of our facilities are:

a. Dryer 1, a GEA 8.1 MT per hour dryer – commissioned in 2008

b. Dryer 2, a Tetra Magna 10.5 MT per hour dryer, equipped with complete wet-mix capability to produce high quality nutritional powder products – commissioned in September 2011

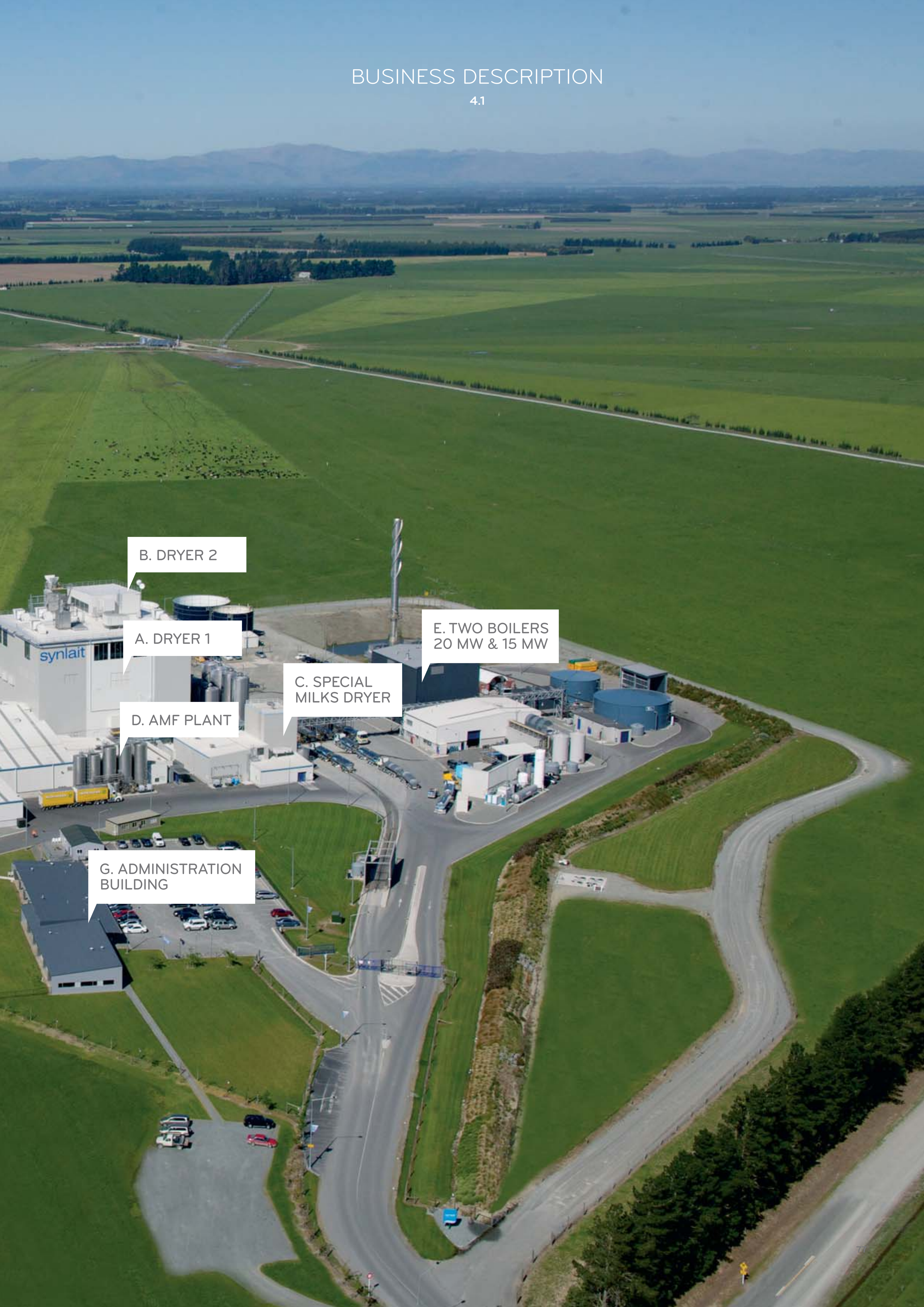
c. Special Milks Dryer, a GEA 300 kilogram per hour special milks dryer – capable of producing a range of high value products

d. A Tetra 7 MT per hour AMF plant

e. Two coal-fired boilers – 20 MW and 15 MW

f. 13,000m^2 of dry store space on site

g. Administration building


B. DRYER 2
A. DRYER 1
E. TWO BOILERS
20 MW & 15 MW
C. SPECIAL
MILKS DRYER
D. AMF PLANT
G. ADMINISTRATION
BUILDING
synlait

OUR SUPPLY CHAIN

Milk Collection

We collect milk from our contracted farmers 7 days a week between August and May each Season. At peak (generally in late October) we have a fleet of 18 tankers on the roads of Canterbury delivering milk to our processing facilities.

The scheduling and operation of the tanker fleet is a turnkey service provided by Hilton Haulage Limited under contract to Synlait Milk. Hilton Haulage Limited has provided these services to Synlait Milk since the inception of the business and the two companies have developed a strong relationship over this period.

Logistics Services

The role of the supply chain team ends when we deliver product to our customers in one of over 50 countries worldwide. We have 13,000m^2 of warehousing on-site where product is stored until required for shipment. We also have leased warehousing facilities in greater Christchurch where product is moved for packing into shipping containers for export out of Lyttelton Port of Christchurch. We have relationships with the major shipping lines servicing New Zealand so that we can be confident of meeting the delivery requirements of our customers.

STRATEGY AND DEVELOPMENT PLAN

Our vision is to become a supplier of choice to some of the world's leading milk-based health and nutrition companies. In doing so we seek to progressively transition our customers and product portfolio to enable on-going increases in scale and returns in each of our product categories. We have a series of strategic initiatives designed to drive growth in volume and value in our products.

Ingredient products

Our Lead With Pride™ certified milk supply system ties into a number of programs operated by our key customers and is designed to continue to position us at the premium end of dairy ingredient manufacturers.

Our technical sales team continues to work at developing enduring relationships with existing and new target customers.

Significant effort is being applied to developing our capability in high specification SMP, including heat stable and low spore products.

As part of our Growth Initiatives, Dryer 3, a new 5–10 MT per hour spray dryer capable of WMP, SMP and formulated powders is planned for commissioning in August 2015. Dryer 3 will meet our growing demand for high specification SMP and WMP products, mitigating the need to reduce these volumes as the higher value Infant Formula and Nutritional powder volumes develop, consuming manufacturing capacity.

Infant Formula and Nutritional products

Lactoferrin is a minor ingredient used in some infant formula blends, including many of the formulations that we currently manufacture for our customers. We have committed to manufacturing lactoferrin in spray dried form. Lactoferrin produces relatively high returns and any volumes not utilised in our infant formula blends will be sold as an ingredient.

The development of a blending and consumer packaging plant as part of our Growth Initiatives targets customers who wish to secure a trusted source of products made and packaged in New Zealand. In keeping with our overall approach we are looking to differentiate ourselves with the quality of our offering and by having a facility that we consider will meet the standards expected by world leading infant formula brand owners. Being completely integrated into our existing site, this facility is expected to bring cost and efficiency advantages.

To optimise plant utilisation, we currently manufacture formulated dairy powders in the shoulders of the milk Season, and manufacture SMP and WMP through the peak of the Season in October until mid-December. Formulated nutritional dairy powders are the highest value product we manufacture in our spray drying plant (Dryer 2) but require greater plant utilisation. The expected volume growth of this category will consume an increasing amount of our existing processing capacity. We expect that our existing plant will operate near capacity in the FY2014F Season. Total site production is expected to decrease in FY2015F ahead of the planned new spray dryer (Dryer 3) becoming available in FY2016F, due to our expected growth of formulated Infant Formula and Nutritional powder production. Dryer 3 will enable formulated dairy powders to be produced year round.

At present, we lease off-site warehousing for storing ingredient and finished products ahead of shipping. Developing a new dry store on site will enable us to provide customers an integrated supply chain with all ingredient products being devanned and stored on-site and finished product being packed into containers for delivery to customers from our site. In addition to the increased quality offering to customers, the efficiency savings will reduce our supply chain costs.

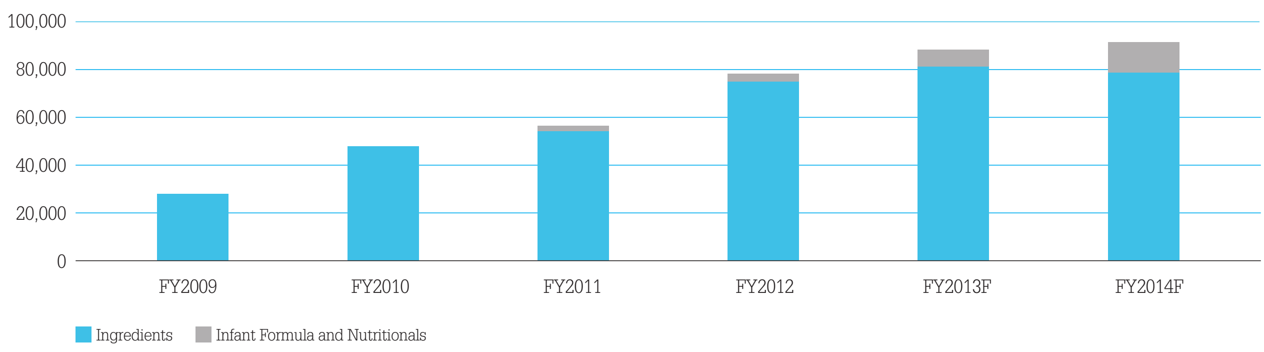
Cream products

We have historically treated cream as a by-product, focusing our technical and marketing efforts on developing our Value Added Ingredients and Infant Formula and Nutritionals business. With the production of increasing volumes of Value Added SMP and Infant Formula and Nutritional powders, we consider that it is time to begin systematically adding value to the cream we produce.

Ammix butter is a modern manufacturing process that produces butter by adding cream into an AMF stream before mixing, cooling and packaging. The process can also be used to manufacture butter vegetable oil blends. The product suits our business to business model with the finished product being targeted for repackaging into consumer products for table spreads, and used in industrial butter applications such as bakery. Development of Ammix butter will enable:

- arbitrage between sales of AMF and butter as return differentials often exist and vary within and between years;
- closer alignment of our base product mix with that of the Farmgate Milk Price Manual model that currently assumes butter comprising 8.5% of the Reference Commodity Products portfolio; and
- the development of a Value Added butter strategy based on butter and oil blends for customer specific applications.

Sales Volumes (MT)



OUR GROWTH INITIATIVES

We intend to fund the Growth Initiatives through a combination of the funds received under the New Financing Arrangements and expected operating cash flows. You can read more about the New Financing Arrangements in Section 6.9 (Description of Synlait Milk's Financing Arrangements). We expect that the New Financing Arrangements will come into effect immediately after the IPO occurs.

1. Lactoferrin Extraction and Purification Facility

Current status:	An amendment to the resource consent is currently being sought Under construction
Expected capacity:	23 MT per annum
Expected total cost:	$15.1 million
Construction start date:	May 2013
Expected commissioning date:	January 2014

The current market value of lactoferrin as at June 2013 is approximately $700,000 per MT. Plant operating costs are expected to be approximately $1.8 million per annum.

We expect to sell approximately 2 MT of lactoferrin in FY2014F, increasing to 16 MT within approximately four years' time. Based on the current market value of lactoferrin and the Lactoferrin Extraction and Purification Facility operating at 16 MT per annum, each MT of lactoferrin sold would contribute approximately $0.5 million to gross returns.

2. Blending and Consumer Packaging Plant

Current status:	Resource consent granted
Expected capacity:	17,500 MT pa
Expected total cost:	$27.5 million
Construction start date:	August 2013
Expected commissioning date:	August 2014

In FY2012, 135 MT of Infant Formula and Nutritional product was canned by third party providers. In FY2013F, this is forecast to grow to 1,100 MT which will be canned by third party providers. By 2017, we expect approximately 9,000 MT of our Infant Formula and Nutritional products will be canned on-site. On-site canning is expected to facilitate the growth in canned volumes and reduce operating costs by approximately $300 – $400 per MT.

3. 10,000m² Dry Store

Current status:	Resource consent granted
Expected capacity:	10,000m²
Expected total cost:	$11.8 million
Construction start date:	August 2013
Expected commissioning date:	January 2014

Utilising our own on-site dry store is estimated to reduce operating expenses (excluding depreciation) by approximately $2.8 million per annum after 2 years of operation.

4. Quality Testing Laboratory

Current status:	Planning
Expected total cost:	$3.9 million
Construction start date:	August 2013
Expected commissioning date:	March 2014

We expect our in-house laboratory to reduce quality testing costs by approximately $6.1 million per annum after 4 years of operation.

5. Dryer 3

Current status:	Planning
Expected capacity:	5–6 MT per hour (Infant Formula) / 8–10 MT per hour (Ingredients)
Expected total cost:	$110 million
Construction start date:	April 2014
Expected commissioning date:	August 2015

Dryer 3 will expand our current manufacturing capacity from approximately 95,000[1] to approximately 140,000[1] MT per annum, and will facilitate sales growth in volumes of both Ingredients and Infant Formula and Nutritionals. As part of this project, a further dry store of 10,000m² will also be built. In FY2016 we expect to produce approximately 85,000 MT of Ingredients and approximately 28,000 MT of Infant Formula and Nutritionals, and in FY2017 we expect to produce approximately 90,000 MT of Ingredients and 38,000 MT of Infant Formula and Nutritionals. Further details on the returns currently earned on our products can be found in Section 6 (Financial Information).

[1] Based on projected infant formula and Ingredients product mix.

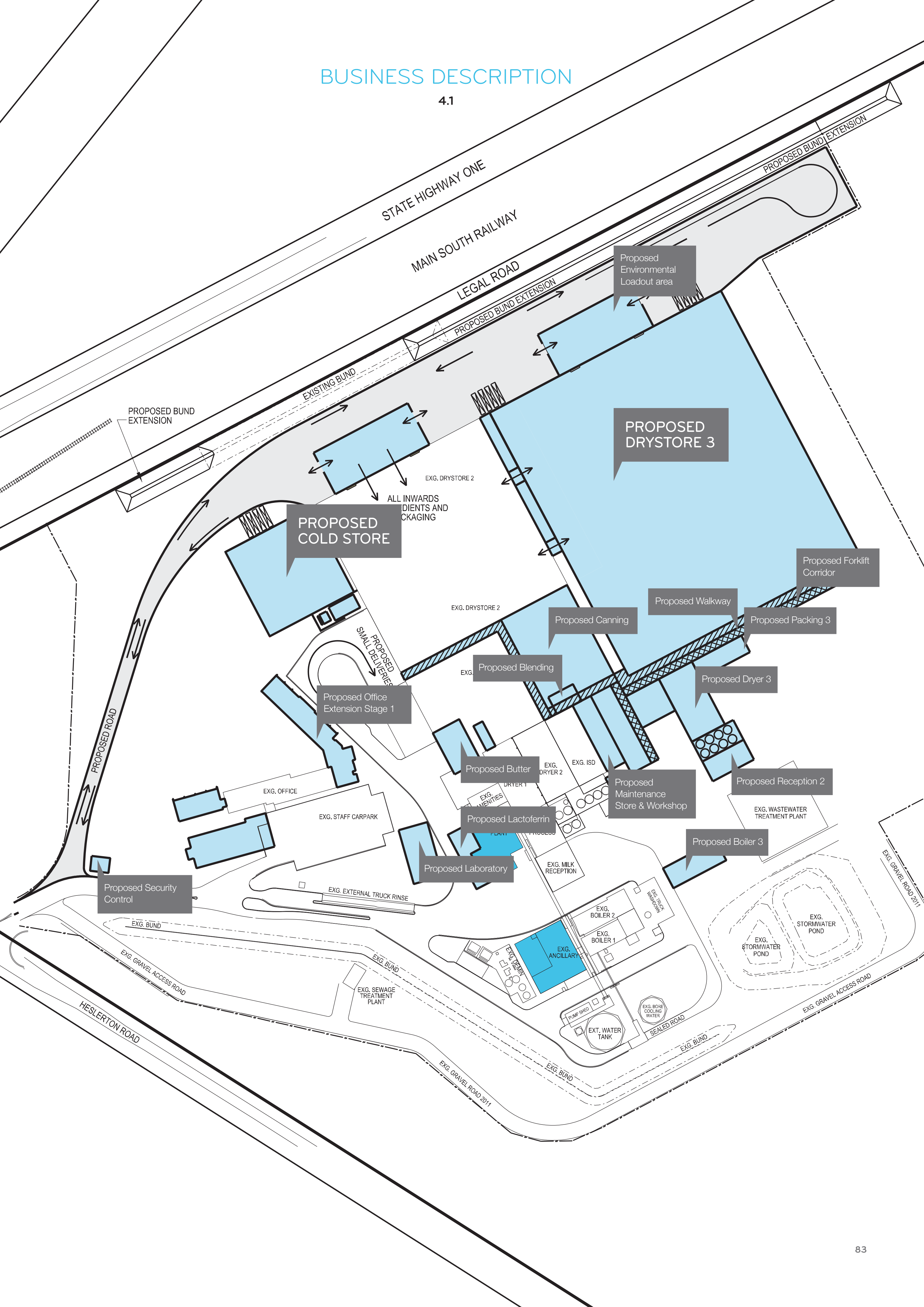
6. Ammix Butter Plant

Current status:	Resource consent granted
Expected capacity:	7 MT per hour (25,000 MT pa or 40,000 MT pa with external cream source)
Expected total cost:	$15 million
Construction start date:	August 2014
Expected commissioning date	May 2015

Relative returns between Butter and AMF vary with market prices.

From FY2010 to FY2012 the relative returns from butter have outperformed AMF by 5.9% on a fat equivalent basis which represents an opportunity cost of 1.8 million per annum EBITDA.

Because butter comprises 8.5% of the reference commodity products that are used to determine the Farmgate Milk Price, having butter as part of the Synlait Milk product mix is expected to reduce between year volatility in gross profit.


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

SENIOR MANAGEMENT TEAM

Matthew Foster
General Manager Supply Chain

Matthew joined Synlait Milk in February 2012 and is responsible for managing and developing Synlait Milk's supply chain activities from farmer to customer.

He brings a wealth of supply chain management and dairy industry experience to Synlait Milk after a 20 year career with the New Zealand Dairy Board and Fonterra where he held senior management positions in the United Kingdom, Australia, Japan, the Americas and New Zealand. Before joining Synlait Milk, Matthew was CEO at NZL Group and prior to that General Manager Commercial for Tasman Orient Line.

Matthew is a member of the New Zealand Institute of Chartered Accountants and holds a Bachelor of Management Studies from the University of Waikato.

Tony McKenna
General Manager Nutritionals

Tony joined Synlait Milk in August 2009 with the objective of developing Synlait Milk's nutritional powder and special milks business portfolio with a particular focus on infant formula.

Tony has significant experience in R&D management, product development, new business development, dairy ingredient sales, and general management. Prior to joining Synlait Milk, Tony held positions including CEO of LactoPharma, Technical Manager of Fonterra's Bioactives and Health global portfolio, Senior Researcher and R&D Portfolio Manager for the New Zealand Dairy Research Institute and GM Technical and Nutritionals at Tatura Milk (Australia). While at Tatura, Tony developed and implemented its infant formula growth strategy into Australasia and Asia.

Tony was formerly a director of Dairy Innovation Australia, Dairy Technical Services and the Australian Co-Operative Research Centre for Innovative Dairy Products. Tony holds a PhD in Food Technology and a Diploma in Management.

Natalie Lombe
General Manager
Human Resources

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

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

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

Michael Wan
Marketing and
Communications Manager

Michael joined Synlait Milk in August 2011 and brings significant strategic and operational experience having spent the previous 10 years in marketing and management roles across a broad range of industries operating in both the public and private sectors.

Michael is responsible for providing strategic leadership for all areas of Synlait Milk's marketing and communications, including brand development and management, advertising, media and PR, marketing collateral, events, sponsorship and corporate citizenship.

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

Mike Lee
General Manager
Ingredient Sales

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

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

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

Nigel Greenwood
Chief Financial Officer

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

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

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

Neil Betteridge
General Manager Manufacturing

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

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

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

Michael Stein
General Manager Quality

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

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

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

THE BOARD

The Board of Directors of Synlait Milk is responsible for setting the strategic objectives of Synlait Milk and the policy framework within which business is conducted. The Board is also responsible for monitoring the performance of Synlait Milk and the enhancement of Shareholder value. Following completion of the Offer and quotation of the Shares, the Board will comprise Graeme Milne, John Penno, Ruth Richardson, Willem Roest, Ke Li, Zongbo Dong and Sihang Yang. The Directors have an appropriate range of proficiencies, industry experience and strong governance. The Directors noted as "Independent" below will be the Independent Directors at the time of listing.

Zongbo Dong
Bright Dairy appointed Director

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

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

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

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

Ke Li
Bright Dairy appointed Director

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

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

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

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

Graeme Roderick Milne
Chairman (Independent)

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

Graeme's first role as a CEO was for Bay Milk Products in 1992. Later he was CEO of the New Zealand Dairy Group prior to the formation of Fonterra, and thereafter held various interim roles as CEO of Richmond Limited and Bonlac Limited in Australia.

Graeme is now a farmer and company director in a range of sectors. Graeme's other Chairmanships are currently Waikato District Health Board, Terracare Fertilisers Limited, New Zealand Pharmaceuticals Limited, Johnes Disease Research Limited and the Rural Broadband Initiative National Advisory Committee. Graeme is also currently a director of SML New Zealand Limited, Synlait Milk Finance Limited, FMG Insurance Limited (Farmers Mutual Group), Genesis Power Limited, The New Zealand Institute for Rare Disease Research Limited, NZP Holdings Limited and Alliance Group Limited. In the past five years Graeme has also been a director of Synlait Limited, Encoate Holdings Limited, Icepak Group Limited, Horizon Energy Distribution Limited, Satara Co-operative Limited and Foremost Fertilisers Limited.

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

Willem (Bill) Jan Roest
Non-Executive Director (Independent), Chair of the Audit and Risk Committee

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

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

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

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

John William Penno
Managing Director (Non-Independent)

You can find John's biography above under "Senior Management Team".

Ruth Margaret Richardson
Bright Dairy appointed Director, Chair of the Remuneration and Governance Committee

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

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

Ruth's previous directorships include Dairy Brands, the Reserve Bank of New Zealand and Wrightson Limited. In the past five years Ruth has also been a director of Oyster Bay Marlborough Vineyards Limited, IMP Diversified Income Fund Limited and Synlait Farms Limited. On 25 May 2008, while Ruth was a director of IMP Diversified Income Fund Limited, that company entered into a moratorium with debenture holders. The moratorium effectively ended on 22 October 2010 and Ruth ceased to be a director on 17 December 2010. Ruth was a director from April 2005 to June 2006 of a company, then called Canterbury Limited (which changed its name in 2009 to CL Realisation Limited). That company was placed in receivership in August 2009, 3 years after Ruth left the board.

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

Sihang Yang
Bright Dairy appointed Director

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

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

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

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

GOVERNANCE

Once it is listed, Synlait Milk's governance arrangements will differ to those that would usually apply to issuers listed on the NZX Main Board, and Synlait Milk has sought and been granted waivers from NZX in relation to these arrangements. Bright Dairy Holding Limited (which is a wholly owned subsidiary of Bright Dairy & Food Co., Ltd) currently holds 51% of the Shares in Synlait Milk, and Bright Dairy & Food Co., Ltd consolidates its investment in Synlait Milk for financial reporting purposes under Chinese GAAP.

Bright Dairy has approved Synlait Milk proceeding with the Offer but only on the basis that Bright Dairy & Food Co., Ltd is able to continue to consolidate its investment in Synlait Milk for financial reporting purposes under Chinese GAAP. Synlait Milk and Bright Dairy have therefore agreed certain governance arrangements that will apply to Synlait Milk so long as it holds at least 37% of the Shares on listing and no more than 50% of the Shares. Bright Dairy's auditors have confirmed these will allow Bright Dairy & Food Co., Ltd to consolidate its investment. These arrangements are set out in the Constitution and are described in more detail in Section 1.3 (Offer at a Glance).

BOARD COMMITTEES

The Board of Synlait Milk has the responsibility of ensuring Synlait Milk is properly managed to protect and enhance Shareholders' interests. The Directors take this responsibility seriously and, to this end, the Board has established a Board Charter prescribing the Board Code of Ethics encompassing conflict of interest, corporate information and property, compliances with laws, regulations and policies and Directors' obligations. The Board has undertaken to regularly review the corporate governance policies to ensure that Synlait Milk's responsibilities and obligations are met.

The Board has a formally constituted Audit and Risk Committee and Remuneration and Governance Committee of Directors.

Audit and Risk Committee

The Audit and Risk Committee is responsible to achieve the following objectives:

- to ensure that the interests of Shareholders are properly protected in relation to financial reporting and internal control;
- to provide the Board with an independent assessment of Synlait Milk's financial position and accounting affairs, with the objective of providing further assurance of the quality and reliability of the financial information used by the Board and contained in the documents and announcements approved by the Board for issue on behalf of Synlait Milk; and
- to keep under review the effectiveness of Synlait Milk's procedures for the identification, assessment and reporting of material risks.

The Chair of the Audit and Risk Committee is currently Willem Roest.

Remuneration and Governance Committee

The Remuneration and Governance Committee is required to, among other things, establish a clear framework for oversight and management of Synlait Milk's operations and for defining the respective roles and responsibilities of the Board and management.

The Chair of the Remuneration and Governance Committee is currently Ruth Richardson.

Other Board Committees

The Board intends to constitute additional committees of Directors as required following listing.

TREASURY MANAGEMENT POLICY

Synlait Milk has a Board-approved Treasury Management Policy within which all foreign exchange, debt, interest rate and related activities are conducted in relation to its dairy product exporting, ingredient importing and debt financing activities. The Treasury Management Policy provides a framework for the identification, measurement, control, management and reporting of all financial risks related to external foreign exchange and interest rate movements, with the aim of ensuring that Synlait Milk achieves its financial objectives as stipulated by the Board. Adherence to the policy is mandatory for all our personnel. The key objectives of the policy are to:

- reduce our average exchange rate relative to the prevailing market (within the parameters of the policy) and thereby seek consistency with the exchange rate used to determine the Farmgate Milk Price;
- protect NPBT per budgets and multi-year business plans to deliver to Shareholders "return on funds invested";
- reduce the volatility of NPBT (inter-month and inter-year) within pre-agreed bands;
- reduce, spread and smooth foreign exchange / interest rate impacts on NPBT results;
- enhance financial performance during periods of favourable foreign exchange movements; and
- reduce unexpected movements in financial performance resulting from adverse foreign exchange movements.

Management and Board reporting on foreign exchange, interest rate management and debt management activities is based on regular communication. This includes daily reports managed by the financial controller, weekly reports to the senior management team and chief executive officer, and reports to all Board meetings.

SALES POLICY

Synlait Milk has a Board-approved Sales Policy which sets out the basis on which all sales of product are made. We seek to systematically sell products into the market with the aim of achieving an industry standard pattern of sales through the year and no less than the prevailing market price at the time for the commodity products sold.
The policy requires:

- a monthly sales pattern to be established;
- weekly sales volume targets by product;
- pricing to be agreed by reference to benchmark sales prices for products;
- pricing is set and compared in USD on a Free On Board basis;
- pricing and volumes of sales outside pre agreed parameters require approval of the CEO, and in certain cases the chairman of Synlait Milk;
- weekly reporting of sales volumes and prices; and
- regular reporting to the Board.

DIRECTORS' INTERESTS

The Directors' fees for the non-Executive Directors of Synlait Milk have been fixed initially at a maximum of $436,500 per annum. Individual Directors' fees vary between $55,000 and $96,500 per annum depending on the duties of the Director. The Directors are also entitled to be paid for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with Synlait Milk business. Fees will be reviewed each year. At the date of this Offer Document, Directors hold the following interests in Shares, and will receive the following annual directors' fees:

	Annual Directors' Fees	Beneficial Interest		Non-Beneficial Interest
		Direct	Indirect[5]	
Graeme Milne[1, 2]	$96,500	Nil	0.03%	Nil
John Penno	$0	Nil	5.69%	Nil
Ruth Richardson[3]	$60,000	Nil	0.02%	Nil
Willem Roest[1,4]	$60,000	Nil	Nil	Nil
Ke Li	$55,000	Nil	Nil	Nil
Zongbo Dong	$55,000	Nil	Nil	Nil
Sihang Yang	$55,000	Nil	Nil	Nil

The Directors who will be Independent Directors at the time of listing have indicated they intend to apply for an aggregate of $100,000 of Offer Shares.

[1] Independent Director at the time of listing
[2] Chairman of Synlait Milk
[3] Chair of Remuneration and Governance Committee
[4] Chair of Audit and Risk Committee
[5] The indirect interest is based on the percentage of shares in Synlait Limited owned by each party, multiplied by Synlait Limited's percentage ownership of Synlait Milk

ENGINEER'S REPORT

To:
Synlait Milk Limited
1028 Heslerton Road
RD13, Rakaia
New Zealand

24 June 2013

Attn: Nigel Greenwood

Engineer's Report regarding Synlait Milk Limited Assets and Proposed Capital Projects – Dunsandel, Canterbury.

This letter has been prepared at the request of Synlait Milk Limited (Synlait Milk) for inclusion in a combined registered prospectus and investment statement.

Babbage Consultants Limited (Babbage) is a provider of engineering, project management and consultancy services. Specifically Babbage has been involved in the project management, design and delivery of the majority of milk powder drying plants constructed in New Zealand over the last 25 years.

Babbage has worked with Synlait Milk on the majority of their projects since 2006 concerning the construction of their processing facilities at Dunsandel. Babbage involvement with Synlait Milk has included provision of the project management services for Dryer 1, AMF, Dryer 2, Dry Stores 1 and 2, Boilers 1 and 2 and the majority of ancillary works supporting the site. Furthermore, Babbage is currently engaged by Synlait Milk to provide concept development works ahead of the proposed Stage 3 expansion.

In May 2013 Babbage was engaged by Synlait Milk to conduct an engineer's review of Synlait Milk's assets and proposed capital projects described below and provide a written response on its findings.

Details of the qualifications of the team who undertook this review are set out later in this letter.

Scope of Review Undertaken

The scope of the Babbage review was:

- A review of the condition of the assets located at Synlait Milk's production facility, in Dunsandel, Canterbury, New Zealand, and
- A review and assessment of asset management plans and operation and maintenance plans as to their appropriateness and consistency with what would be expected of a prudent owner of a dairy product manufacturing facility in New Zealand, and
- A review and assessment of the proposed Dry-blending and consumer packaging plant, Dry Store expansion and Dryer 3 capital projects with respect to scope, budget, program and Synlait Milk's ability to execute the projects successfully.

Major Assets Reviewed

Asset	Supplier / Manufacturer
STAGE 1 EXPANSION – Commissioned 2008	
Dryer 1	GEA
Dry store 1	Ebert Construction
Special Milks Dryer (SMD)	GEA(1)
AMF	Tetra Pak
Boiler 1	RCR Energy Systems
Waste Treatment Systems – on site	Various
Utilities – Stage 1	Various
STAGE 2 EXPANSION – Commissioned 2011	
Boiler 2	RCR Energy Systems
Utilities – Stage 2	Various
Dryer 2	Tetra Pak
Dry store 2	Ebert Construction

Note 1: The SMD mechanical dryer components were manufactured circa 1986. The remainder of the plant including wet processing, evaporator, packing, electrical and automation and building were purchased new and commissioned in 2008.

In accordance with the Babbage scope of work a number of matters were excluded from the review. In broad terms Babbage did not review and does not make any representation regarding:

- Legal, regulatory, insurance, commercial, financial or environmental issues
- Synlait Milk's access to milk and other raw material inputs
- The likelihood of occurrence of any earthquake or other natural disaster
- Issues relating to dairy industry constraints
- Dairy industry markets both domestic and global

Babbage Opinion regarding Asset Condition and Management

On the basis of our review and the assumptions, qualifications and limitations set out in this letter, Babbage offers the following opinions:

Condition of Plant and Equipment Assets

- The site was constructed in two major stages. Stage 1 was commissioned in 2008 and Stage 2 was commissioned in 2011. The assets of both stages appear well maintained and in good operational condition.
- Operating and maintenance practices are consistent with prudent industry practices in the New Zealand dairy industry.
- Synlait Milk maintenance records indicate that the assets are well maintained and are supported by planned maintenance shutdowns and schedules.
- The assets are expected to have a useful life beyond 25 years from date of commissioning subject to Synlait Milk continuing to operate and maintain the assets consistent with its existing operating and maintenance procedures.

Condition of Civil and Building Assets

- The majority of buildings on site that are constructed from precast concrete panels or that have concrete floors suffered some damage in the Canterbury earthquakes.
- The damage was in the form of cracking to both wall panels and floors however structural inspections concluded that the damage did not affect the structural integrity of the buildings.
- Such cracks critical to the hygienic integrity of the building or process have subsequently been repaired.
- Aside from the earthquake effects, the building elements on site are well maintained and consistent with the condition of similar facilities in New Zealand of the same age.

Asset Maintenance Programs

Synlait Milk has comprehensive scheduled and preventative maintenance systems coupled with an annual shutdown period – these are consistent with the activities of what we would consider a prudent asset owner of similar type facilities in New Zealand would conduct.

Synlait Milk holds key spare parts on site typical to those normally held by similar sized dairy companies in New Zealand.

Experience of Operator and Maintenance Personnel

Synlait Milk's operating and maintenance staff appear qualified and competent and demonstrate the capability to operate and maintain the assets on site. Operating and maintenance practices on site are consistent with prudent industry practices in New Zealand. Operational and management staff consistently demonstrates a focus to improve and optimise the performance of the assets and manufacturing processes.

Proposed Capital Projects

Synlait Milk have requested that Babbage provide advice on the following projects:

1. Dry-blending and consumer packaging plant:
   - Capacity to blend up to 6,000kg per hour of finished powder product in 127mm cans.
   - Ability to package into both 99mm and 127mm cans ready for retail point of sale.
   - The proposed construction time frame is August 2013 to August 2014.
2. Dry store expansion:
   - Storage area of 22,500m^2.
   - Two environmental load out areas and associated hardstand area for container storage.
   - The proposed construction time frame is August 2013 to April 2014.
3. Dryer 3:
   - Capacity to manufacture up to 5,000kg per hour of finished Infant Formula powder into 25kg bags.
   - Steam boiler and other necessary services generation equipment to support Dryer 3 operation.
   - Cross utilisation of existing Dryer 2 equipment and functionality where possible to gain capital and operational efficiencies.
   - The proposed construction time frame is March 2014 to August 2015.

Babbage Opinion regarding Proposed Capital Projects

Babbage believes that the proposed construction time frames for each of the three projects is adequate to successfully deliver the respective projects.

The combined budget for the three projects is $149.2m. Babbage believes that this budget is adequate to successfully deliver the projects.

Synlait Milk have undertaken and successfully delivered projects of similar size and scope before. Babbage believes that Synlait Milk, in conjunction with assistance from external parties, is well placed to successfully deliver the proposed capital projects.

Review Team

Mr Grant O'Conner	Babbage Consultants Ltd, BSc, BE
Mr Murray Harding	Babbage Consultants Ltd, BSc, BE, MIPENZ
Dr Victor Lam	Babbage Consultants Ltd, CPEng, MIPENZ, IntPE(NZ), PhD, ME, BE
Mr Paul Duder	Babbage Consultants Ltd, NZCE, BE

Assumptions and Qualifications

The following is a list of principal assumptions made by Babbage in preparing this letter:

- While additional information relevant to Synlait Milk assets and/or manufacturing practices may be known to individuals within Babbage such knowledge has not been used in the review and preparation of this letter.
- Babbage has based its review on interviews and responses from Synlait Milk staff and visual inspections of the assets. No performance or specific testing was undertaken of any specific asset or its components as part of this review.
- Babbage did not audit or verify the accuracy of any responses or information presented by Synlait Milk staff.
- A review of the budgets is based upon the scope of the project's as advised by Synlait Milk.

This letter sets out Babbage's opinion on the matters addressed based on Babbage review of the Synlait Milk assets and no statement should be construed as a statement of fact by Babbage. Draft versions of this letter were provided to Synlait Milk together with a request to confirm that there are no material omissions or errors in the letter. Confirmation has been provided to and relied upon by Babbage.

Babbage makes no recommendation or comment on and gives no guarantee with respect to any aspect of the combined prospectus and investment statement in which this letter is incorporated.

Yours sincerely,

Grant O'Connor
Babbage Consultants Limited – Principal

WE PROCESSED 498 MILLION LITRES OF MILK INTO 81,398 MT OF POWDER PRODUCTS IN 2012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SECTION 5

RISKS

An investment in Shares involves various risks. These risks may adversely affect your returns (if any) from your investment or may mean you may not be able to get back some or all of your original investment.

There are a number of factors, both specific to us and of a general nature, which may affect our future operating performance and financial position and the value of the Shares. A number of these risk factors are described below. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, may in the future become important factors that affect us. You should note that these risk factors may not be exhaustive, and should consider these in conjunction with other information disclosed in this Offer Document. In addition, descriptions of the risks and uncertainties necessarily include forward looking statements. Such forward looking statements involve matters which have not yet occurred or may not occur.

Actual events may be materially different from those described below and may therefore affect us in a different way. Changes in variables affecting risk factors may offset each other or may be cumulative. If any of the following events actually occur, our business, financial condition or results of operations could be negatively impacted to a significant degree. In that event, the trading price of the Shares could decline and you may not be able to get back some or all of your original investment or you may not receive the returns you expect.

You should specifically consider the factors in this section in order to appreciate fully the risks associated with an investment in Shares. You should carefully consider these factors in light of your personal circumstances and seek professional advice from your financial adviser or NZX Firm before deciding whether to invest.

PRINCIPAL RISKS FOR SHAREHOLDERS

Your principal risk is that you may not be able to get back your original investment or you may not receive the returns you expect. This could happen for a number of reasons including that:

- the price at which the Shares trade may be lower than the price you paid for them;
- you may be unable to sell your Shares because a market for them does not develop, becomes illiquid or ceases to exist;
- our operational and financial performance is worse than expected; or
- we become insolvent and are placed in receivership, liquidation or voluntary administration.

The Shares will be fully paid ordinary shares and Shareholders will have no liability to make any further payment in respect of their Shares. In the event of our insolvency, Shareholders would not receive any payment in respect of their Shares until we had paid all our creditors, both secured and unsecured, including the costs of liquidation or receivership. Any funds remaining after the payment of our debts in full would be distributed to Shareholders in proportion to their respective shareholdings. As a result, Shareholders may receive less than the amount initially invested by them or none at all.

SYNLAIT MILK SPECIFIC RISKS

We operate in a dynamic business environment that includes risk. Many of the risks below are based on factors outside Synlait Milk's control. Our future operating performance and financial position and the value of your Shares could be adversely affected by a range of factors, including those set out below.

Milk Supply and Cost Risks

Our business is dependent on the milk supplied to us, and the principal risks to us relate to our ability to access raw milk, the reliance on raw milk suppliers, and the price we pay for that milk.

Raw milk price and forecasting: Raw milk comprises approximately 70–75% of our cost of sales and the price of that milk is linked to the Farmgate Milk Price. We do not know the Farmgate Milk Price until this is announced by Fonterra after the end of the relevant Season. To the extent we have not estimated the Farmgate Milk Price accurately or it is different for any reason to that forecasted by us, then the amount we must actually pay our suppliers for raw milk may be different from our estimates and may result in a lower than forecast return for us. We must pay for milk based on the Farmgate Milk Price in order to allow us to pay our suppliers competitively. There are a range of factors that may make our earnings lower than that required to pay for milk based on the Farmgate Milk Price and generate expected Shareholder returns in any given year, including:

- our ability to ensure that our overall performance in our business is sufficient to pay for milk based on the Farmgate Milk Price while also achieving expected Shareholder returns, ie that our processing margin, being the difference between the revenues received by us and our costs (one of the largest components of which is the cost of milk), is maintained at adequate levels, notwithstanding the volatility of global dairy commodity prices;
- our ability to achieve premium pricing for our products. Compared to our own cost structure, the notional producer model used in setting the Farmgate Milk Price enjoys scale and cost per kg MS advantages. Therefore, our ability to earn appropriate margins relies on us achieving premium pricing for our products relative to the prices for commodity products obtained in the fortnightly Dairy Trading Platform auctions that are used in setting the Farmgate Milk Price;
- the continued operation of our production facilities and availability of product for sale. Should our production facilities be out of operation for a long period of time this will impact on our ability to manufacture products for sale;
- any difference in our sales pattern over the course of the year relative to the sales pattern used to calculate the Farmgate Milk Price. Should our sales pattern differ significantly from that used to calculate the Farmgate Milk Price, in a volatile market our average USD revenue from product sold may be less than that calculated by the model under which the Farmgate Milk Price is determined;
- differences in product mix between us and those applied in the Farmgate Milk Price Manual. The Farmgate Milk Price Manual may apply a more favourable product mix assumption which we cannot match because of process equipment, customer or plant utilisation constraints. In addition, we do not currently manufacture butter, which is one of the commodities included in the Reference Commodity Products. Therefore there is a risk that the product mix applied by the Farmgate Milk Price Manual to calculate the Farmgate Milk Price could outperform our actual product mix in any given year;
- differences in foreign exchange hedging positions and policies between us and that applied in the Farmgate Milk Price Manual used to calculate the Farmgate Milk Price. The Farmgate Milk Price Manual applies Fonterra's actual annual average NZD:USD foreign exchange rate for the year when determining the NZD value of revenue. Should our actual annual average foreign exchange rate be higher than that applied in calculating the Farmgate Milk Price then this will negatively impact our NZD revenue per kg MS;
- our closing level of inventory at the end of each Season. Should we have a disproportionally high level of inventory on hand at the end of the Season, this will impact on our returns generated during the year;
- any other factor which may increase the Farmgate Milk Price, including, but not limited to, the manufacturing yield applied and the cost of capital applied;

- any increase in the Farmgate Milk Price due to a change in the methodology applied by Fonterra in its calculation, including as a result of changes to the Farmgate Milk Price Manual;
- any decision by the board of Fonterra to set the Farmgate Milk Price higher than that determined in accordance with the Farmgate Milk Price Manual. To do so, not less than 75% of the board of directors of Fonterra must approve this, including at least a majority of its independent directors. If this occurred, this could impact negatively on our returns; and
- negative changes in our operating cost levels, efficiency and throughput and the success of our value add and sales strategies.

Many of the other risks disclosed in this section of the Offer Document may also cause an adverse mismatch between our performance and the price we are contracted to pay for our milk supply in any given Season and such adverse mismatch could impact negatively upon our financial performance.

You can find out more about the Farmgate Milk Price and forecasting in Section 3 (Overview of the Dairy Industry).

Competition for milk supply: We rely on supply of raw milk from our contracted farmer suppliers. Existing processors of raw milk compete with us for farmer suppliers. Competition would be intensified if a new or existing processor of raw milk increases the price that they are prepared to pay for supply of raw milk and / or if they establish a processing plant within the geographical area within which we collect raw milk. In each of those cases, our costs could be increased if we offer higher prices to retain our suppliers and / or reduce our raw milk supply if our contracted farmer suppliers choose to supply those processors or plants instead of us. In addition, Fonterra has traditionally paid its suppliers of milk the same price for milk throughout New Zealand. However, regional pricing has been used, and our competitors could choose to price regionally at any time, including by offering higher pricing in the local market where we compete for raw milk. Any of these matters could negatively impact our financial performance.

Reliance on raw milk suppliers: We rely upon agreements and commercial arrangements with raw milk suppliers in the Canterbury region to secure milk supply. A summary of the key terms of our standard milk supply agreement is set out on page 73. Production and the volume of raw milk available for processing could also be adversely affected by the termination of one or more agreements or commercial arrangements, their non-renewal on expiry, or the unsatisfactory performance of contracted milk suppliers. Our ability to retain (and to attract) raw milk suppliers is also subject to, among other things, those suppliers maintaining confidence in us and our ongoing ability to pay a competitive price for the milk supplied. If our current milk supply agreements do not continue beyond their current terms, there is no certainty that we would be able to find suitable replacement third party suppliers on the same contract terms to provide the necessary raw milk, or that we will be able to source milk supply in the future. This may result in us incurring additional costs and could adversely affect our financial performance.

Agricultural business: As an agricultural based business, we could be adversely affected by biosecurity events like a serious outbreak of disease in cows (for example, foot and mouth disease), on farm contamination of milk (see below) or changes in laws, regulations or standards (such as the implementation of more stringent farming requirements) which impact on the volume of milk supplied to us. These factors could disrupt our business and cause reputational harm, in terms of perceived safety and quality of product, and reliability of supply. Reputational harm would impact on our ability to make future sales of products at favourable prices and therefore would impact our returns. These risks may also have an adverse effect on our ability to obtain sufficient supplies of raw milk within the required time period and / or at reasonable prices, which may consequently have an adverse effect on our business and financial performance.

Adverse environmental events: Our business could be adversely affected by environmental factors such as climate change (for example, drought). Growing concerns over the effects of climate change could lead to stricter regulation of our access to water or changes in laws, regulations or standards relating to discharges to land and water. Many climate change models predict an increase in extreme weather events and changes in weather patterns and temperatures. These factors could disrupt the business, increase operating costs and cause reputational harm in terms of reliability of supply. Reputational harm would impact on our ability to make future sales of products at favourable prices and therefore would impact our returns. These risks may also have an adverse effect on our ability to obtain sufficient supplies of raw milk within the required time period and / or at reasonable prices, which may consequently have an adverse effect on our business and financial performance.

Milk contamination: Although we have procedures in place to test all milk supplied to us, if we receive contaminated milk from suppliers or if milk becomes contaminated after we have collected it, then there is a risk that this could affect our output and result in product recalls, which could cause serious damage to our reputation and brand, as well as loss of revenue. Under current contractual arrangements, we do not pass liability for consequential loss to suppliers of milk, so if we receive contaminated milk our recourse to suppliers of our milk is limited and could materially affect our financial performance.

Failure to segregate different milk products: We are beginning to process different kinds of milk (**Specialty Milk**) such as A2 milk for A2 Corporation Limited. If we failed to segregate Specialty Milks from other milk processed on site, then we could suffer claims for breach of contract as well as reputational damage. This could impact on our business and financial performance.

Expiry of Subpart 5 of DIRA: Subpart 5 of the Dairy Industry Restructuring Act 2001 (**DIRA**) contains the majority of DIRA's provisions regulating dairy markets and Fonterra's conduct in them. It also contains an expiry or sunset provision that is triggered if independent processors of raw milk collect 20% or more of milksolids on or from dairy farms in either the North or South Islands in a Season. When the sunset provision is triggered a review of Subpart 5 will be initiated. Subpart 5 does not immediately expire, but a process is commenced for determining whether market shares will be reset for the purposes of the provision, or a transition to deregulation will be commenced and ultimately the subpart will cease to apply to the relevant island (or islands). The sunset provision is due for review in 2015 at the latest, and earlier if it is triggered. At present, given volumes currently collected by independent processors, we believe it is unlikely that the sunset clause will be triggered before 2015, or that the review in 2015 will bring about any change if the sunset clause has not been triggered by then. However, expiry of subpart 5 of DIRA would reduce the level of regulatory protection available to independent processors of raw milk such as Synlait Milk, including through the removal of access to up to 50 million litres of raw milk from Fonterra at the default milk price. Expiry of Subpart 5 of DIRA could also increase competition between independent processors of raw milk for milk supply.

Maximum limit on supply of raw milk to Synlait Milk by Fonterra: The Dairy Industry Restructuring (Raw Milk) Regulations 2012 require Fonterra to supply up to 795 million litres of raw milk collected by Fonterra to independent processors of raw milk who request it. This limit is subject to review at least at intervals of every three consecutive Seasons. The regulations also prescribe a process for the request and supply of that milk. Of that volume, Goodman Fielder New Zealand Limited and its interconnected bodies corporate may request up to 250 million litres and each other independent processor of raw milk may request up to 50 million litres of raw milk per Season. A prorated decrease applies if the total volume is oversubscribed. The cap on supply to each independent processor is subject to monthly limits and a limit of 110%

of the amount taken in October. The cap is also subject to the "own supply rule" which disentitles independent processors from supply of raw milk from Fonterra in a Season beginning on or after 1 June 2016 if their own supply of raw milk in of each the three consecutive previous Seasons was 30 million litres or more. Given our historic volumes of raw milk collected from our own contracted farmers, we expect that we will become disentitled to take raw milk from Fonterra under DIRA subject to the "own supply rule" from 1 June 2016. However, we do not anticipate needing to purchase raw milk from Fonterra beyond 1 June 2016 because of our established volume of collections from our own contracted farmers.

Other Supply Risks

We rely on certain suppliers to supply us with key ingredients and other products and services that are integral to the manufacture of our products. Any increase in supply costs could adversely affect our financial performance.

Raw material prices and other costs: We are exposed to movements in the underlying commodity prices for the raw ingredients and other costs for the manufacture of our products, eg whey, lactose, lecithin and vitamins, and costs related to the collection, distribution and manufacture of our products (eg fuel, coal, electricity, freight and other costs). Any increase in raw material and other input costs could materially affect our financial performance.

Infant Formula and Nutritional ingredients supply shortages: We rely significantly on raw materials such as whey protein, vegetable oils and lactose that make up 50-70% of infant formulations for our Infant Formula and Nutritional products. Global shortages of these ingredients would put our entire Infant Formula and Nutritional powder category at risk (and materially affect our financial performance).

Reliance on third party providers: We rely on third parties to provide various goods and services on a day to day basis (eg milk collection, transport of finished goods, plant maintenance, repair and operation). Increases in the cost of these goods and services or failure or delay of one or more of these suppliers to provide these goods and services to the necessary standard could constrain or disrupt reliability of supply and have an adverse effect on business and profitability.

Risk of termination of key contracts: We rely on certain suppliers to supply us with key ingredients and other products and services that are integral to the manufacture of our products, including for the supply of key services such as electricity. If any of our contracts with these suppliers are terminated early, or not renewed on the expiry of their term, then we may not be able to find suitable replacements in a timely manner. That could constrain or disrupt reliability of supply and have an adverse effect on business and profitability.

Product Sales Risks

Our business is dependent on continued sales of our products both locally and overseas. The volume and prices at which we can sell our products can materially affect our financial performance. It is possible that we will not sell the volume of products, or achieve the prices, expected.

Global commodity milk powder prices: We sell our products into a global market which is subject to fluctuations in global dairy commodity prices that underpin many of our product prices. Changes in commodity prices may impact adversely on our future performance. Commodity prices can be volatile, with substantial increases and decreases over a relatively short period. Price volatility (including in the returns we achieve) in our principal products can result in substantial shifts in our financial performance.

International trade in milk powder is heavily influenced by foreign government actions including tariffs, quotas, other non-tariff barriers, subsidies and food-related regulation. A material decrease in the market price for milk powder caused by these factors could materially reduce our revenue and may reduce our profitability.

Global business risks: We sell our products across borders, which exposes us to the risk of breaching foreign customs and import duty regulations. This risk may potentially result in extended legal action, financial penalties, prosecution, temporary trade embargoes and even permanent loss of market access. Changes in foreign customs and import duty regulations can also affect us – for example, heightened regulations may result in limits on the amount we are able to sell to a certain country.

The international market for dairy products is also affected by general economic conditions in the major world economies such as Europe, the United States, China and Japan. For example, a recession or recovery in these economies would be expected to affect world commodity prices, including those for dairy products. As well, the international market for dairy products can be affected by consumption trends. Overseas political changes can also affect our ability to sell into offshore markets, for example sales of our products can be affected by war, political interference, price control or subsidies.

Changes to industry in China and new regulations, relating to infant formula: The Chinese authorities have made a number of announcements and taken a variety of steps regarding the infant formula industry in China and in respect of imported Infant Formula and Nutritional products. Recently, the Chinese Ministry of Industry and Information Technology announced a wide range of new and intended regulations regarding the structure and consolidation of the infant formula industry, and the local manufacture and import of infant formula products into China.

These new regulations will require us to register in China as a supplier of Infant Formula and Nutritional products, mean that certain products currently sold by us to customers in China will no longer be permitted (although we expect to produce alternative products that meet the requirements) and will require products sold by us and sold into China to include labelling in Chinese. These recent changes may disrupt some Infant Formula and Nutritional business that we had arranged with customers in China, and could result in less Infant Formula and Nutritional product being sold, although we expect any effect on sales to be only short term.

Reliance on Ingredient and Infant Formula and Nutritional sales: We are primarily engaged in the production and sale of milk powder, whether in the form of Ingredient products, such as WMP and SMP, or Infant Formula and Nutritional products, such as infant formula. As a result, our business and results of operations rely on, among other things, our ability to maintain and strengthen our market position in the global market for these products. We do not yet have committed sales orders for much of our forecast output of nutritional products. Continued sales are subject to a number of factors, such as our ability to identify and react to changing consumer trends, our competitiveness against other milk powder manufacturers and our ability to improve our brand recognition and customer acceptance.

Reliance on key customers: We have three (3) key customers who together account for more than half of our sales revenue. Only one of these customers purchases products from us under a contract that requires them to purchase specific volumes of products from us. If any of these key customers elected to cease purchasing or distributing our products or ceased to trade (whether voluntarily or as a result of insolvency), this could affect our financial performance. In the case of the insolvency of a key customer this could include us not recovering amounts owed for products supplied to that customer.

Further, the majority of our Ingredients sales are made on the basis of purchase orders against our standard terms and conditions submitted by customers that we have relationships with, but with whom we do not have ongoing contracts. Most of our expected Infant Formula and Nutritionals sales are expected to be made under purchase order submitted against term contracts that indicate but do not commit to expected future volumes. In these cases we rely on the relationships we have developed with these customers and the quality of the products and service we continue to provide to them. However, these customers could elect to cease purchasing products from us on relatively short notice and this could result in loss of revenue and affect our financial performance.

Focus on Asian Market: In FY2012 approximately half of our sales were based in Asia and one third of sales in China. We are expecting significant growth of Infant Formula and Nutritional products to China. Changes in those markets (including as a result of recent changes announced in China and described under "Changes to industry in China and new regulations, relating to infant formula" above) and their expected demand for our products could impact on our expected revenues and returns.

The name 'Synlait' is already trademarked in China: We are aware that another company has registered the name 'Synlait' in China as a trade mark in class 5 for products including medicines, dietetic substances adapted for medical use, rat poison and food for babies. The 'Synlait' trade mark is a material asset of Synlait Milk, however there is a risk that our use of 'Synlait' in China cannot co-exist with the other company's use of 'Synlait' in China in relation to food for babies, so that we could not use the 'Synlait' name in connection with food for babies in China. While we may challenge the other company's right to the 'Synlait' brand, they may also challenge our right to use the 'Synlait' brand. There is also a risk that the Synlait name may be used by this other company (for example, in respect of rat poison) in a way that negatively impacts on our reputation and brand. There are a range of commercial options available to us to address this issue which we are considering. These include using another name or trade mark in China. Given that our focus is to be a supplier of products including Infant Formula and Nutritional products to others and not to have our own consumer brands, this issue is not of the same level of concern to us as it would be if we were a business focussed on our own consumer brands.

Reputational damage impacting on product sales: Any adverse publicity about product contamination, biosecurity risks (such as foot and mouth disease) or similar concerns relating to us or to the New Zealand or global dairy industry as a whole, whether or not legitimate, may discourage consumers from purchasing our products. If consumers lose confidence in our brand or the quality of the products produced by the New Zealand dairy industry, we could experience long term declines in sales and profitability.

Reputational damage caused by other suppliers: If our competitors sell contaminated products (including to customers that we supply) marketed as being from New Zealand or known as being manufactured or sourced from New Zealand and / or have their reputation harmed overseas, overseas markets may form a negative view of all New Zealand milk and milk products, not only those of the relevant competitor. This situation could negatively impact on our reputation and sales and have an adverse effect on our business and financial performance.

Competition for milk powder sales: New or existing dairy producers may compete with us by entering markets in which we operate by selling products at low prices to gain market share. This competitive action may reduce the prices that we are able to charge for our products or reduce the volume of products sold, which could impact negatively upon our financial performance.

Product quality: We make certain products to the specifications of our customers. From time to time, due to human or operational error, orders may not meet the specifications required by those customers and may therefore be rejected by customers. Although it is usually possible to on-sell any bulk milk powder products that do not meet the particular customer's requirements, it will usually be for a lower price. Any ongoing issues with products not meeting required specifications could reduce our revenue and impact negatively upon our reputation and financial performance. There is particular sensitivity by customers in relation to infant formula products, so that if we had a product quality issue with an infant formula product this could seriously affect our growth strategy in relation to these products and our expected financial performance.

We make certain products to the specifications of customers. Customers may seek to assert that a product does not meet the required specifications as an excuse to try to reduce the price, which can affect our financial performance. We retain samples of all products so that we can test, and prove, that each product meets specifications.

Product contamination: As is the case with other manufacturers of consumer-ready food products, we may be subject to product liability claims if our products are found to be unfit for consumption or cause illness. Products may be rendered unfit for human consumption due to contamination of ingredients, whether accidental or not, and illegal tampering. Contamination of our ingredients and products may occur during the transportation, processing, distribution and sales processes due to reasons unknown to us or out of our control. The occurrence of such problems may result in product recalls which could cause serious damage to our reputation and brand, as well as loss of revenue. We cannot ensure that such incidents will not occur.

Foreign exchange risk: We have exposure to fluctuations in foreign currency exchange rates. A significant proportion of our revenues from product sales are in currencies other than NZD. As a result certain revenues will be affected by changes in foreign currency exchange rates. The primary risk here is our ability to closely match the annual average NZD:USD foreign exchange rate as applied to the calculation of the Farmgate Milk Price determined by the Farmgate Milk Price Manual. At present, the principal currency exposure is the USD.

Operational Risks

Due to the nature and complexity of our business we have a number of day-to-day operational risks which may affect us. These include the following:

Single processing site risk: We currently operate one processing site at Dunsandel, Canterbury and could be adversely affected by any interruption in production that could be caused by, but not limited to, equipment failure, failure of information technology systems that control our processing facilities, unforeseen breakdowns, interruption of electricity or coal supply, industrial action, fire, earthquake or other natural disasters.

Operational error: An error made in the operation of our plant or related infrastructure could have a significant adverse effect on us.

Catastrophic events: A catastrophic event such as a major earthquake, volcanic eruption, fire, flood, storm, explosion, epidemic, national emergency, act of terrorism or war or other disaster, could adversely affect or interrupt processing and production at our plant. Any such event could also impact on our ability to collect milk and / or export our products. We are based in the Canterbury region of New Zealand. This region, especially the city of Christchurch, suffered a major earthquake (magnitude 7.1) on 4 September 2010 and a severe aftershock on 22 February 2011 (magnitude 6.3). A series of aftershocks followed for a lengthy period. These earthquakes caused us some disruption at the time and damage to our plant. The impact of the earthquakes on our plant is set out in Babbage Consultants Limited's Engineer's Report in Section 4.3. Further earthquakes of the nature experienced in 2010 and 2011 in Christchurch could cause further damage to our plant and interrupt our operations. If this was to occur we may incur additional costs, loss of productivity and a negative impact on our revenues and earnings.

Insurance: Insured or uninsured catastrophic events such as acts of God, fires, floods, earthquakes, widespread health emergencies, pandemics, epidemics, acts of terrorism, war and strikes could affect the availability of our assets and our ability to sustain operations. Some events of this type and some assets are uninsurable or we have decided not to insure against them. Should damage be sustained as a result of this risk, our business and financial performance may be adversely affected. We have in place insurance policies that cover material damage and business interruption. It is possible that these policies will not provide sufficient cover under situations where a single catastrophic event occurs or multiple catastrophic events occur in succession. We do not have in place insurance policies in relation to credit risk insurance, product recall insurance, key person insurance, computer insurance and natural disaster buydown insurance.

When we undertake our annual renewal of insurance policies we may face higher than expected costs of insurance and it may not be economic to take out insurance at current levels or insurance may not be available at any price. It is expected that this situation would be exacerbated should a significant natural disaster occur in New Zealand.

Water Rights Agreement: We rely on a Water Rights Agreement with Synlait Farms for the water needed for our plant operations and for rights to discharge waste water and waste materials to two of Synlait Farms' farms. Our plant operations rely significantly on the rights given to us under that agreement. We could potentially be subject to material liabilities under the agreement if the exercise of the discharge permits on the relevant farms results in a material reduction in the value of the farms or if we breach the agreement, the conditions of the resource consents, the Resource Management Act 1991 or any other environmental law. However, we also have a first right of refusal and an option to purchase the two relevant farms, which protects against the risk of not being able to discharge water, but would require us to invest significant amounts of capital to purchase the farms. If we do not exercise our first right of refusal, Synlait Farms may sell the land to a third party (in accordance with the process in the agreement) and that third party will no longer be bound by our first right of refusal.

Occupational safety and health risk: A number of aspects of our operations are regulated by New Zealand's Occupational Safety and Health laws. Failure to comply with Occupational Safety and Health regulations could result in penalties including infringement fees, fines and / or awards of reparation, and could also result in accidents, injuries and disruption to operations. A major health and safety incident on site could lead to the temporary closure of our facilities.

Personnel: We have more than 150 employees involved in running our business. With increased growth and development we face increased complexity in governing and operating our business. The risks associated with our Directors and employees include the loss of key personnel, the loss of collective knowledge and experience, the unavailability of specific expertise, industrial action, the risk or pandemic and fraud or theft. Any of these risks could negatively impact on the running of our business.

Intellectual Property: Intellectual property, including patents, trademarks and trade secrets are significant and valuable assets of ours. However, there is no assurance that all of our intellectual property applications will be granted in all countries. A failure to obtain or adequately protect our trademarks, products or processes may diminish our competitiveness, or even result in having our trademarks copied in some countries. Further, while we do not believe that any of our products infringe the intellectual property rights of third parties, any litigation regarding patents or other intellectual property rights could be costly and time-consuming. We may also be subject to significant damages or injunctions against development and sale of certain products.

Technology: We use information technology systems to manage both our milk supply and our product manufacture and distribution, both within New Zealand and globally. A fault in or disruption to our information technology systems could cause disruption to our business due to loss of information and interruption to milk collection and / or manufacturing. In addition, technological advances from time to time may result in our systems, methods or facilities becoming superseded or obsolete. Failure to keep up to date with such changes could result in our competitors having an advantage over us, which could impact negatively upon both our financial performance and our reputation. Any significant upgrade to or replacement of our systems could require considerable capital expenditure, which could affect our financial performance.

Litigation and disputes: We may from time to time be the subject of complaints, litigation, inquiries or audits initiated by customers, competitors, employees, commercial partners, suppliers, landlords, Government agencies, regulators or other third parties, including those in overseas jurisdictions, alleging or investigating matters such as resource use, product quality and supply issues, injury, health, environmental, safety or operational concerns, nuisance, negligence, failure to comply with applicable laws and regulations or failure to comply with contractual obligations. Such matters, even if successfully addressed without direct adverse financial effect, could have an adverse effect on our reputation and divert our financial and management resources from more beneficial uses. If we were found to be liable under any such claims, this could have a material adverse effect on our financial performance. We have introduced a new price formula and distance surcharge to certain suppliers whose contracts were novated to us from Oceania Dairy Limited in 2011. Some of those suppliers have notified us that they regard any imposition of a distance surcharge on them as a breach of contract. We believe in our entitlement to introduce the distance surcharge. However, this may ultimately need to be determined by a Court. In addition, we recently announced the development of our lactoferrin plant. Following our announcement, a competitor expressed concern that Synlait Milk staff members who were previously contracted to, or employed by, our competitor, or who worked for others that licensed that competitor's technology, may be misusing its confidential information about lactoferrin production in the development of our lactoferrin plant. We have assured our competitor that this is not the case and they have acknowledged those assurances. Our competitor has said that it will continue to monitor our plant development for any indication that its confidential information is being employed, but we do not have any reason at this time to expect that a claim may be made against us in relation to this matter. Other than in respect of these matters, we are not aware of any current or pending claims or matters of that nature.

Reliance on port and shipping: Almost all of our product is shipped from Lyttelton Port of Christchurch, and we rely on arrangements with the port and shipping companies for delivery of our product to customers. Difficulties with the port or shipping companies (including industrial or other action affecting the port or shipping) could lead to delays in delivery or loss of product. Earthquakes in the Canterbury region could affect our ability to send shipments from Lyttelton Port of Christchurch and may result in a loss of product. For example there was some disruption to our shipping services following the 2011 earthquake. Depending on the scale and duration of any delays and our ability to have our product shipped from another port or ports, this could lead to delays in delivery and increased transport costs. This could affect our financial performance.

Ability to project results and deliver targets: We are a relatively new, growing business, and, like all new businesses, are subject to the inherent difficulty in projecting volumes and returns in early years. Our success will depend on our ability to sell our products into our target markets and to continue to grow our business at a profit.

Growth Initiative Risks

As detailed in Section 4.1 (Business Description), we are planning certain Growth Initiatives to expand our existing plant. It is possible that the new facilities will not generate the commercial benefits and financial returns expected. In addition to the risks described above, the risks that relate to these Growth Initiatives include:

Construction and commissioning of new facilities: Significant expenditure is required for the proposed construction and commissioning of new facilities with the majority of costs associated with the facilities yet to be incurred. The construction and commissioning of new facilities does carry risk of possible cost over runs, time delays, commissioning and operating problems. An inability to effectively manage and execute the planned construction and commissioning of new facilities could materially adversely affect our financial performance. Failure to achieve certain milestones during the construction and commissioning of new facilities may lead to an event of default under our Financing Arrangements (see below for consequences). It is also possible that the new facilities will not generate the commercial benefits and financial returns expected.

Resource and building consents for new facilities: The construction and commission of the new facilities requires resource and building consents, some of which have not yet been obtained. As with any regulatory requirements, there are risks that these consents may not be granted. The future operation and success of these projects depends on our ability to obtain the required resource consents in a timely manner and to comply with any conditions of those consents.

Uncertainty regarding future prices and costs: As outlined above, we sell our products into a global market which is subject to fluctuations in global dairy commodity prices that underpin many of our product prices. Commodity prices can be volatile, with substantial increases and decreases over a relatively short period. Likewise, we rely on the supply of certain key ingredients to us in order to manufacture our products to specification. Future changes in both commodity prices and supply costs may impact adversely on our future performance. Increased competition through increased supply of Infant Formula and Nutritional products such as infant formula may reduce our ability to achieve forecast returns.

Future growth: We may not be able to achieve the growth we have targeted if we cannot grow our sales volumes as fast as we have forecast. Our success will be dependent on our ability to sell our products into our target markets at the returns we expect. It may be that the expected markets for the products we intend to manufacture will not exist or that we cannot sell the products we intend to manufacture. As noted above under "Litigation and disputes" a competitor has expressed concern that some of our staff members may be misusing its confidential information in the development of our lactoferrin plant. We do not believe that to be the case. If it were and our competitor took action, that could impact on the timing of completion of that project and our expected growth. Our future growth expectations rely on expected growth in Infant Formula and Nutritional sales. Product integrity and safety is a key issue for consumers, particularly in one of our key markets, China. Concerns have arisen in Chinese media over the number of products from different sources being exported from New Zealand and, potentially, their integrity. If that concern became more widespread, it could impact on our expected sales and returns for infant formula products, particularly into China, regardless of the integrity and safety of our own products. The recent changes announced in China and described above under "Changes to the industry in China and new regulations relating to infant formula" (see page 102) could negatively impact on our Infant Formula and Nutritional products business, reduce expected revenues and negatively impact on our expected profit.

Third party providers: The operation of our facilities relies on third party providers. Certain specialised equipment is integral to the operation of our facilities, including the construction and operation of the new facilities. There are a limited number of third party equipment manufacturers and service providers in New Zealand who are available to design and construct new facilities, and there is a risk that we may not be able to obtain appropriate specialist equipment for the new facilities in a timely manner, to the necessary quality or on satisfactory terms.

Availability of funds: There is a risk that we may not be able to access debt funding made available by our banking syndicate on appropriate terms in order to develop our Growth Initiatives. Our Growth Initiatives are planned to be funded in whole or in part by borrowings from our banking syndicate under the New Financing Arrangements that we intend to sign during the Offer period. As indicated in the risk of "Failure to comply with bank facilities" below, if we fail to comply with any of the promises made under our bank facilities and related documents an event of default or event of review would occur. This includes if we fail to meet agreed financial performance ratios. Consequences of an event of default may include increased financing costs, decreased or no availability of debt funding, acceleration of repayment of all outstanding amounts and enforcement of security, all of which could result in our insolvency. If an event of review occurs and a satisfactory solution has not been reached under the New Financing Arrangements, then ANZ on behalf of the banks can, after discussing the issue with Synlait Milk Finance for an agreed period, terminate the facilities on 30 days' notice and require repayment of all the facilities 30 days from when it gives notice. In addition, in relation to borrowings for Dryer 3, we will also need to satisfy the banking syndicate of some additional matters. These will include that we have adequate insurance arrangements, a satisfactory construction contract, have obtained all relevant regulatory approvals to the extent needed, a satisfactory report from the principal contractor and there is projected to be enough money to pay for the construction of Dryer 3 from the amount the banking syndicate has agreed to lend for its construction. Failure to comply with any specific obligations may also result in the relevant borrowings not being available and / or an event of default under the banking facilities.

There is also a risk that our anticipated bank borrowings under the proposed New Financing Arrangements from our banking syndicate are insufficient to develop our Growth Initiatives. We have considered carefully how much bank funding we consider we will need to complete the initiatives. If we are wrong however or there is a significant cost overrun, timing delay or change of specification, there may not be sufficient funds available to complete all of the Growth Initiatives. If the New Financing Arrangements are not concluded or are not available for any reason we would have a significant shortfall in funding for the Growth Initiatives.

You can find more information about our Financing Arrangements in Section 6.9 (Description of Synlait Milk's Financing Arrangements).

Shareholding Risks

Major shareholdings: Following completion of the Offer, it is expected that Bright Dairy will hold approximately 40% (but not less than 37%) of the Shares in Synlait Milk. In addition, Mitsui & Co., Limited and Mitsui & Co. (Australia) Limited will together hold approximately 12.3 million Shares in Synlait Milk following the Offer. John Penno will hold approximately 5.3 million Shares in Synlait Milk. A sale of Bright Dairy's, Mitsui & Co., Limited / Mitsui & Co. (Australia) Limited's, or John Penno's shareholding in the future (post the Escrow Period described in Section 7.1 (Details of the Offer)) could adversely affect the price of Shares. This could also be the case with any other large Shareholder who sold their Shares after the Escrow Period.

Non-standard Constitution on listing: On listing, Synlait Milk will have a non-standard Constitution for a listed company and Bright Dairy will have the constitutional rights described in Section 4.2 (Board, Management and Corporate Governance). As a consequence, while Synlait Milk has a non-standard Constitution, Bright Dairy may have the ability to control the outcome of Board decisions on certain matters. However, all Directors, including those appointed by Bright Dairy, must, under the Companies Act, act in the best interests of Synlait Milk. The interests of Bright Dairy as a Shareholder may not necessarily coincide with those of other Shareholders. However, as a major Shareholder it may be able to block or exercise a large degree of influence over resolutions put to Shareholders (whether that be an ordinary or special resolution).

Shareholder continuity to utilise tax losses: Our ability to use and carry-forward tax losses from FY2011 and FY2012 relies upon maintaining at least 49% continuity of the ultimate Synlait Milk Shareholders from the time the tax losses arose until the time the tax losses are utilised, subject to concessional treatment for shareholdings of less than 10%. Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno have entered into an escrow arrangement with Synlait Milk (as detailed in Section 7.1 (Details of the Offer)), in which they have committed to maintaining their respective shareholdings in Synlait Milk for the Escrow Period, thus reducing the risk of the past tax losses being unavailable to offset against future taxable income. The prospective financial information set out in Section 6.2 forecasts that of the $17.7 million of tax losses brought forward to FY2013F, tax losses of only $0.9 million will be unutilised at the end of the prospective financial information period. Although neither is anticipated, a sale of Bright Dairy by its parent group or a sale / takeover of the listed Bright Dairy & Food Co., Ltd in China itself may still result in a breach in the Shareholder continuity.

Regulatory Risks

Regulation in New Zealand, China and overseas: We are subject to the risk that changes to laws and regulations (including New Zealand dairy industry regulation, quotas, duties or taxes, and new or changed environmental regulation) may adversely affect our sales, costs, relative position, development initiatives or other aspects of our financial or operational performance or force other undesired changes to our business model or the business model of our suppliers, distributors or customers. Failure by us, or the failure of our suppliers, distributors, or customers, to comply with applicable regulations and quality assurance guidelines could lead to product seizure or recalls, production shutdowns, production delays and product shortages. Changes in regulations for Infant Formula and Nutritional products in New Zealand, China and other overseas markets could create significant risk that we may produce products which could not be sold to the intended market or customer or make our competitive position more difficult. The recent changes announced in China and described above under "Changes to the industry in China and new regulations relating to infant formula" (see page 102) could negatively impact on our sales of Infant Formula and Nutritional products and, as a result, reduce our revenues and profitability. Failure to comply with applicable legislation or regulation can also result in fines, injunctions, penalties, requirements for remedial works, the total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect.

Resource consents: Our operations are subject to resource consents and regulations relating to the take and use of water, the discharge of materials into the environment, the handling, treatment and disposal of waste materials and hazardous substances and the remediation of soil and groundwater contamination. Each resource consent approval is issued for a specified term and is subject to conditions that must be complied with and which may be periodically reviewed. Consents that expire may not be renewed, or may be renewed on terms that are less favourable to us. Any changes to resource consents that arise out of the review process could restrict our current operations, or new consented operating conditions may be commercially unfavourable. There is also a risk that we may breach the conditions of our consents or not hold all required consents for our activities. The consequences of such breaches or failure to hold consents can include abatement notices by the relevant authority or enforcement orders by the Environment Court requiring that the non-compliant or non-consented activities cease, remedial work be undertaken or compensation be paid. Breaches of relevant consents or enforcement orders may also result in us being prosecuted. A successful prosecution could result in fines being payable by us and / or changes to consent terms. We are not currently aware of any material enforcement or compliance issues relating to the business, however, failure to comply with conditions of the resource consents or regulatory requirements could have serious consequences, including criminal as well as civil and administrative penalties. As a result, we may incur material costs to comply with such environmental rules and regulations relating to resource consents.

Environmental regulation: Our operations are subject to extensive statutory and regulatory requirements relating to the protection of the environment. Over time these requirements can change. For example, the Government is considering its approach to the management of freshwater and in future the agricultural sector may have more obligations under New Zealand's Emissions Trading Scheme (see below). These changes could increase our compliance costs or require that new approvals be obtained or materially impact how we operate. In addition, the Canterbury Regional Council is currently in the process of developing a new Land and Water Plan. The rules in the Plan have legal effect from 11 August 2012. The proposed plan provisions will be relevant to any future applications for consent. The changes may also increase our compliance costs or may require that new approvals be obtained. The water, fuel and coal we use for our plant operations are scarce resources. We may face increasing competition from other users of those resources which might cause a shortfall in the quantity or quality of the resources available or an increase in our costs of obtaining those resources.

Greenhouse gas emissions: Agricultural activity produces significant greenhouse gas emissions. Internationally (under the Kyoto Protocol) and domestically (under the Climate Change Response Act 2002 and its emissions trading scheme (**NZETS**)) charges, taxes or other imposts are being introduced in relation to greenhouse gas emissions. As a processor of milk, we are required to be a participant in the NZETS and are required to report about our emissions annually. For the time being, reporting of emissions will continue at the processor level. However, the Government has indicated that it intends to change the reporting obligation to be at a farm level as soon as practicable. The Government's next intended review of the NZETS will occur in 2015. However, at present there is no legislated date for when dairy processors must pay for emissions under the NZETS. The Government has decided that now is not the time to introduce such obligations for the agricultural sector. It has signalled that biological emissions from agriculture will only incur surrender obligations if:

- there are technologies available to reduce these emissions; and
- New Zealand's international competitors are taking sufficient action on their emissions.

Farmers already face costs under the NZETS due to the inclusion of stationary energy, liquid fuels and industrial processes. From 2010 the fuel and energy sectors have been mandatory participants in the NZETS. We are affected by inflationary input costs for fuel and energy from price increases resulting from the introduction of the NZETS. Because the increase in costs to us are expected to be equal to or less than the costs to other dairy processors, they will be passed on by us to farmers in the form of a reduced milksolids payout that is expected to occur across the industry. This includes charges relating to farm working expenses from petrol, diesel and electricity, as well as the transport and processing of farm products.

The key risk to us imposed by the NZETS is that in future we may have to pay for our greenhouse gas emissions and may face related compliance and administration costs, which we may not be able to pass on to our customers.

Financial Risks

Foreign currency: We have exposure to fluctuations in foreign currency exchange rates. A significant proportion of revenues and expenses are in currencies other than NZD. As a result, certain revenues, expenses and cashflows will be affected by changes in foreign currency exchange rates. At present, the principal currency exposure is the USD. The core objective of the Treasury Management Policy is to reduce our average exchange rate relative to the prevailing market (within the parameters of the policy) and thereby seek consistency with the exchange rate used to determine the Farmgate Milk Price. Our Treasury Management Policy is described in Section 4.2 (Board, Management and Corporate Governance).

Failure to comply with bank facilities: A decline in earnings or asset values could cause us to not comply with our financial covenants with our banking syndicate. A financial covenant is an agreement with our banks to maintain certain financial and other ratios in carrying out our operations. Our bank facilities and related documents include a significant number of representations and promises by both ourselves and, when we enter into the New Financing Arrangements, Synlait Milk Finance, which will require careful monitoring to ensure compliance. Non compliance with any promise (financial or otherwise) would result in an event of default or event of review occurring. Consequences of an event of default may include increased financing costs, decreased or no availability of debt funding, acceleration of repayment of all outstanding amounts and enforcement of security, all of which could result in our insolvency. Events of review have similar consequences if a satisfactory solution cannot be reached after discussing the issue with the banking syndicate for an agreed period.

Interest rates: Interest rate risk is the risk of being exposed to fluctuations in the underlying BKBM rates applied by the Bank. We are exposed to interest rate risk primarily through cash balances, bank overdrafts and borrowings. Interest rate risk is managed through the application of the Board approved Treasury Management Policy and reporting to the Board on the adherence to this policy. Increases in interest rates could materially affect our financial performance.

Refinance: Our banking facilities will need to be refinanced when they expire. If they are not refinanced, we may not have access to the necessary funding to continue our operations. Consequences of a failure to obtain adequate funding may result in us defaulting under our loan facilities and enforcement of security interests.

Accounting / Tax: Any changes in accounting or taxation standards or treatment could negatively impact our financial performance. Such risks could include changes in IFRS or other accounting standards or the application of IFRS and other accounting standards may affect our reporting financial statements to the extent that an accounting loss results or the stated financial position is adversely affected. You can find information about our accounting policies and treatment of financial instruments in Section 6.6.

Risks could also include legislative changes, changes in the interpretation or application of taxation law or the unavailability of tax losses and / or imputation credits.

Changes to the income tax or GST positions that we have adopted in previous periods could lead to the reduction of our carried forward tax losses or a tax payment. Under tax legislation generally there is a four year window from the end of the period in which a tax return is filed in which the tax treatment adopted in that return could change.

Mitsui: We have an arrangement in place with Mitsui & Co NZ Limited under which Mitsui & Co NZ Limited acts as our sales agent all over the world (except New Zealand) and also provides a Trade Finance Facility. This is further explained in Section 7.3 (Statutory Information). This agreement is due to expire at the end of July 2015. A failure to extend this agreement beyond this date would expose us to appointing a new sales agent and replacing this facility with another trade finance facility, likely to be at higher interest rates.

GENERAL INVESTMENT RISKS

Economic conditions: Like any other investment, returns from your Shares are influenced by the level of economic activity and uncertainty. For example, a contraction in the global economy may negatively affect our performance by reducing demand for our products or constraining our ability to execute our strategy if sufficient capital is not available due to the unwillingness of investors or lenders to provide funding.

Taxation: Any changes in taxation rates, legislative changes or changes in the interpretation of taxation law could affect both our returns, and the returns you may get from your investment in the Shares. Other changes to taxation laws or policies could also have an impact on your investment or the returns you get from your Shares.

Liquidity: There is currently no public market for the Shares. There can be no guarantee that an active market in the Shares will develop or that the Shares will trade in any such market subsequent to completion of the Offer, at or above the Final Price. The escrow arrangements described in Section 7.1 (Details of the Offer) under the heading "Escrow Arrangements" will also affect the number of Shares that are able to be traded on the NZX Main Board. Under the escrow arrangements, Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno and the SL Shareholders who do not elect to sell all of their Shares to Selldown Co, cannot, subject to certain exceptions noted under the heading "Escrow Arrangements" in Section 7.1 (Details of the Offer), sell, transfer or otherwise dispose of Shares in Synlait Milk until at least the first day after the date on which Synlait Milk releases to NZX its preliminary announcement of its financial results for FY2014F (being the end of the prospective financial information period). Based on the midpoint of the Indicative Price Range, it is estimated that the escrow arrangements will apply to approximately 61% of the total number of Shares on listing, though this will depend on the Final Price, the number of SL Shareholders that sell Shares to Selldown Co, and the number of Shares they sell.

CONSEQUENCES OF INSOLVENCY

Shareholders will not be liable to pay any money to any person in the event of our insolvency.

All of our creditors would rank ahead of claims by Shareholders if we were liquidated. After all such creditors have been paid, the remaining assets, if any, would be available for distribution among Shareholders who would rank equally among themselves. There may not be sufficient surplus assets to enable you to recover all or any of your investment.

WE GREW REVENUE TO $377 MILLION IN FY2012

SECTION 6

FINANCIAL INFORMATION

FINANCIAL INFORMATION

6

This section contains both the historical and prospective financial information for Synlait Milk.

Included within this section is:

6.1 OVERVIEW OF PRO FORMA (NON-GAAP) FINANCIAL INFORMATION

An overview of key historical and prospective operational metrics between the year ended 31 July 2009 (FY2009) and the year ended 31 July 2014 (FY2014F).

An overview of pro forma financial information that summarises key historical and prospective financial information, and includes pro forma adjustments, along with a description of the major factors that affected our profitability between the period ended 31 July 2008 (FY2008) and the year ended 31 July 2012 (FY2012) (Historical Period), including a specific focus on FY2012.

6.2 PROSPECTIVE FINANCIAL INFORMATION

Prospective financial information for the year ending 31 July 2013 (FY2013F) and the year ending 31 July 2014 (FY2014F) comprising:

- prospective consolidated statement of comprehensive income;
- prospective consolidated statement of changes in equity;
- prospective consolidated statement of financial position;
- prospective consolidated statement of cash flows;
- a description of the general and specific assumptions on which the prospective financial information has been prepared; and
- an analysis of the sensitivity of the prospective financial information to changes in key assumptions.

6.3 RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

A reconciliation of pro forma profitability to the financial statements and prospective financial information.

6.4 FIVE YEAR SUMMARY OF HISTORICAL FINANCIAL INFORMATION

A five-year summary of historical financial information for the Historical Period (FY2008 to FY2012), restated comparatives for the year ended 31 July 2012 (FY2012), interim financial information for the six months ended 31 January 2013 (1H2013), changes in accounting policies during the Historical Period and an overview of the historical financial position, including a specific focus on FY2012.

6.5 UNAUDITED INTERIM FINANCIAL STATEMENTS

Interim financial statements for the six months ended 31 January 2013 (1H2013), comparatives for the six months ended 31 January 2012 (1H2012), restated comparatives for the year ended 31 July 2012 (FY2012), including Deloitte's review report.

6.6 AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012

6.7 STATUTORY AUDITOR'S REPORT

6.8 INVESTIGATING ACCOUNTANT'S REPORT

6.9 DESCRIPTION OF SYNLAIT MILK'S FINANCING ARRANGEMENTS

The Financial Information should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Offer Document.

The following non-GAAP financial information represents historical and prospective financial information that has been adjusted for specific items to assist potential investors with comparing our profitability on a consistent basis. It is provided in addition to the prospective financial information set out on pages 117 to 130 and the historical financial information set out on pages 133 to 138.

Historical and prospective financial information has been adjusted to remove one-off or unusual transactions and other pro forma adjustments have been made to assist with comparisons between the historical and prospective financial information. Presented below is selected historical and prospective operational and financial information for FY2009 to FY2014F. This selected information is provided in addition to the financial information disclosure required under the Securities Regulations to help you understand the drivers of our financial performance. Set out on page 131 is a reconciliation of non-GAAP profitability to historical financial information and prospective financial information, with a description of the various adjustments following.

Key Operational Metrics

	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Sales						
Ingredient Products	29,393	51,271	54,648	73,003	80,902	80,435
Infant Formula and Nutritional Products	–	–	238	4,412	6,888	11,465
Total Sales (MT)	**29,393**	**51,271**	**54,886**	**77,415**	**87,790**	**91,900**
Production						
Ingredient Products	33,197	49,729	53,807	76,661	80,856	79,262
Infant Formula and Nutritional Products	–	294	608	4,737	10,772	11,684
Total Production (MT)	**33,197**	**50,023**	**54,415**	**81,398**	**91,628**	**90,946**
Milk Purchases						
Milk purchased from Contracted supply	14,404	21,865	24,934	37,572	42,032	46,400
Milk purchased from Fonterra and other suppliers	4,101	4,525	4,524	6,453	4,617	–
Total Milk Purchases (kg MS in thousands)	**18,505**	**26,390**	**29,458**	**44,025**	**46,649**	**46,400**

Key Financial Metrics

Currency as stated (in thousands)	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Revenue (USD per MT)	**2,321**	**2,882**	**3,848**	**3,644**	**3,786**	**4,438**
Foreign exchange rate (NZD:USD)	**0.63**	**0.64**	**0.73**	**0.78**	**0.81**	**0.80**
Milk Price (kg MS)	**5.03**	**6.21**	**7.66**	**6.14**	**5.80**	**7.03**
Underlying gross profit (in thousands of NZD)	7,642	23,671	21,137	45,954	64,599	76,430
Underlying EBITDA (in thousands of NZD)	102	11,263	4,226	22,165	36,848	43,978
Gross profit per MT (NZD)	260	462	385	594	736	832
EBIT per MT sold (NZD)	(131)	124	(10)	174	306	349
Capital employed[31]	113,031	102,448	170,821	195,307	235,346	272,444
Return on capital employed (pre-tax)[32]	(4.4%)	5.0%	0.0%	8.8%	12.8%	12.6%

Note: There are no key operational and financial metrics for FY2008 reported because Synlait Milk was not processing milk during that period.

[31] The FY2013F amount of $235,346 has been reduced for working capital adjustments of $38.82 million (as further described on page 126).

[32] Return on Capital Employed comprises EBIT / Average (total equity + net debt). FY2013F net debt is adjusted for abnormal movements in the Working Capital Facility and Trade Finance Facility which aggregate to $38.8 million. For further details please see the paragraph entitled "Working Capital" in Section 6.2 (Prospective Financial Information).

Pro forma profitability

The pro forma profitability is presented before interest and income tax due to the different capital structure that will be in place following the Offer.

A reconciliation of pro forma profitability to statutory financial statements and prospective financial information is set out on page 131.

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Revenue	5,000	112,194	233,413	298,892	376,771	426,426	524,447
Cost of sales	(5,795)	(104,552)	(209,742)	(277,755)	(330,817)	(361,827)	(448,017)
Underlying gross profit	**(795)**	**7,642**	**23,671**	**21,137**	**45,954**	**64,599**	**76,430**
Gross profit %	**(16%)**	**7%**	**10%**	**7%**	**12%**	**15%**	**15%**
Other income	–	1,289	1,501	1,273	501	195	30
Sales and distribution expenses	(67)	(9,099)	(13,931)	(15,074)	(21,337)	(23,079)	(24,727)
Administrative and operating expenses	(1,267)	(3,669)	(4,872)	(7,901)	(11,620)	(14,830)	(19,648)
Underlying EBIT	**(2,129)**	**(3,837)**	**6,369**	**(565)**	**13,498**	**26,885**	**32,085**
Depreciation and Amortisation	97	3,939	4,894	4,791	8,667	9,963	11,893
Underlying EBITDA	**(2,032)**	**102**	**11,263**	**4,226**	**22,165**	**36,848**	**43,978**

Note: The pro forma financial information should be read in conjunction with the notes and discussion accompanying this section and the historical financial information set out on pages 133 to 138 and the prospective financial information set out on pages 117 to 130.

Major Factors Affecting Historical Pro Forma Financial Performance

Since inception, our investment in production facilities, growth of contracted milk flow supply and focus on growth of Value Added products has resulted in strong revenue growth. We have achieved growth in sales volumes of 163% between FY2009 and FY2012 with an increase of 501% in underlying gross profit over the same period. There has also been a corresponding increase in our investment in fixed assets from $103.7 million in FY2009 through to $214.1 million in FY2012. However, FY2012 was the first year in which we made a net profit.

Key milestones in our growth include:

- establishment of our processing site in FY2008;
- commissioning of Dryer 1, the Reverse Osmosis Plant and the AMF plant in FY2009, providing a single dryer site with additional flexibility between WMP and SMP to develop a varied portfolio of customers and optimise plant utilisation;
- commissioning the Special Milks Dryer in FY2009 which enabled a move into some high Value Added powders and to accelerate product development;
- introduction of Bright Dairy as a key partner and 51% Shareholder in FY2011, strengthening the company's financial position and providing growth capital;
- commissioning of Dryer 2, our Infant Formula and Nutritional products dryer in FY2012;
- commencement of infant formula production in FY2012;
- growth in contracted milk supply base from 14.4 million kg MS in FY2009 to 37.6 million kg MS in FY2012; and
- continuing to increase premiums over the Dairy Trading Platform, reinforcing our focus on delivering products tailored to customer requirements.

The section below provides a brief summary of the factors that affected our historical performance. The factors described below are a summary only, and do not represent all of the factors that have affected our historical financial performance during the period.

Revenue

Our revenue is generated from selling Ingredient products and Infant Formula and Nutritional products.

Ingredient products

Ingredient products are comprised of WMP, SMP and AMF products and represented 94% of FY2012 sales volumes. Ingredient products have demonstrated strong growth with volumes sold in FY2012 increasing by 34% over FY2011 levels.

We are focused on increasing the volume of Ingredient product powders sold as Value Added products which have been manufactured to meet client-specific requirements. These products represented approximately 38% of Ingredient product powder sales in FY2012, and are forecast to reach approximately 52% of Ingredient product powder sales in FY2013F.

The international market for the dairy products we manufacture is well developed and dynamic with many buyers and sellers. The advent of the Dairy Trading Platform has served to provide greater transparency to market movements for key dairy products from Oceania. Synlait Milk seeks to maximise our sales prices taking into account current market conditions, the outlook for the market and the specific characteristics of the product being sold. We benchmark our sales performance against publicly available market pricing information where our premiums achieved are forecast to increase on average by 30% from FY2012 to FY2013F.

Prices for WMP, SMP and AMF fluctuate on the Dairy Trading Platform creating different levels of return between the product options. By adjusting the product mix we have been able to achieve increased returns by maximising sales volumes of the highest returning products in each financial year.

Infant Formula and Nutritional products

Manufacturing Infant Formula and Nutritional products is one of our core growth strategies. In FY2012 this represented 6% of sales volumes and 8% of underlying gross profit. Infant Formula and Nutritional products comprise infant and adult formulas and high value special milk products such as colostrum and hyper immune powders. The commissioning of Dryer 2 in FY2012 resulted in the sales volume of Infant Formula and Nutritional products increasing from 238 MT in FY2011 to 4,412 MT in FY2012.

Looking forward, Infant Formula and Nutritional products are expected to become a larger proportion of our total sales volumes with Infant Formula and Nutritional products forecast to comprise 13% of sales by volume sold delivering a forecast 25% of our total gross profit in FY2014F. The growth in Infant Formula and Nutritional product sales is outlined further in the prospective financial information in Section 6.2. In addition to Dryer 2, our Infant Formula and Nutritional products strategy is also supported by our Special Milks Dryer. Our Special Milks Dryer, while small, is focused on producing formulated milk products, premium quality colostrum powders, hyper immune powders, A2 milk powders and other specialised high value dairy products. The Special Milks Dryer is currently being upgraded to enable production of spray dried lactoferrin powder. The sales price for each Infant Formula and Nutritional product is based on a contracted cost-plus model agreed with each customer. The cost plus price is based on ingredient pricing, manufacturing cost, packaging price, supply chain costs and a margin.

Cost of milk

The largest component of cost of sales is the raw milk cost. The majority of the raw milk we procure comes from contracted supply. In FY2012 we collected 37.6 million kg MS of contracted milk compared to 24.9 million kg MS in FY2011. In general, we aim to contract large scale farmers as close to our manufacturing site as possible to minimise raw milk transport costs. In FY2014F our total milk purchases are expected to be broadly the same as in FY2013F, with increased production volumes being driven by growth in Infant Formula and Nutritional product manufacture which require a higher proportion of non-raw milk ingredients than Ingredient products.

We determine our Monthly Milk Price and also forecast our Annual Milk Price on a monthly basis using a financial model which we have developed to reflect our estimate of the Farmgate Milk Price.

To provide contracted farmers with regular cash flow throughout the year, we operate a tiered rate payment structure dependent on the quantity of milk actually supplied. The tiered rate structure pays farmers a percentage of our forecast Annual Milk Price on a monthly basis. The percentage of the price paid increases through the year with the final payment being made in October, following the announcement of our final milk price for the last Season.

You can find out more information about our milk contracts on page 73.

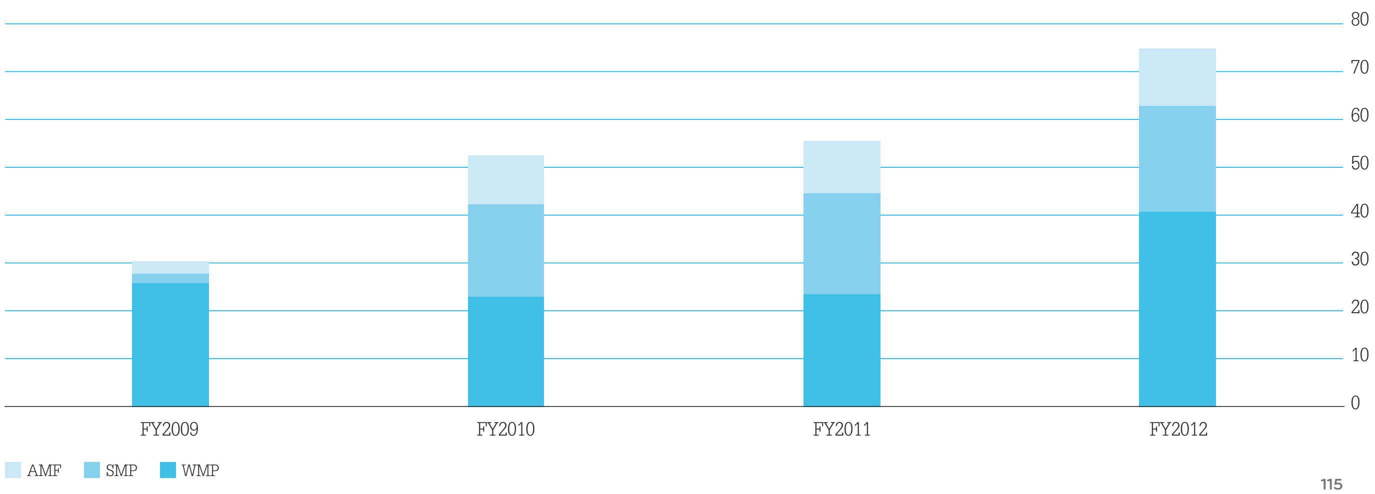
Other ingredients

Other raw materials are required for Value Added Ingredient products and Infant Formula and Nutritional products. Costs of these other ingredients are based on international market prices, with the actual price paid being negotiated directly with suppliers.

Foreign exchange

Our largest foreign currency exposure is to the USD with over 94% of sales based in USD and a considerable portion of our ingredient costs also based in USD. Management of our foreign exchange risk is governed by a Board approved Treasury Management Policy. The Treasury Management Policy requires us to hedge the net foreign exchange exposure (USD based sales

Change in Mix of Products Sold in MT (000s)



less USD based costs) on an 18 month rolling time horizon. In order to do this, we utilise a mix of forward and option contracts.

We also generate revenue and incur costs denominated in other currencies which are hedged against the USD at the time of order to match the USD hedging that is already in place.

The core objective of the Treasury Management Policy is to reduce our average exchange rate relative to the prevailing market (within the parameters of the policy) and thereby seek consistency with the exchange rate used to determine the Farmgate Milk Price.

The following table illustrates that our USD annual average foreign exchange rate can be higher or lower than the foreign exchange rate used to calculate the Farmgate Milk Price.

Tax

We are a New Zealand domiciled tax resident and pay New Zealand income tax on profits derived. We have accumulated tax losses of $17.7 million as at 31 July 2012. Based on the anticipated ownership of Synlait Milk after completion of the Offer we expect to be able to carry forward these losses subject to shareholder continuity requirements.

The tax effects of timing differences are recognised as deferred tax in the statement of financial position.

You can find out more about the taxation assumptions for the prospective financial information period on page 126.

NZD:USD average foreign exchange rate	FY2009	FY2010	FY2011	FY2012
Synlait Milk	0.629	0.640	0.729	0.778
Farmgate Milk Price model	0.666	0.666	0.718	0.771
Difference	0.037	0.026	(0.011)	(0.008)

As is demonstrated in the table, our foreign exchange policy is different to that used to determine the foreign exchange rate used to calculate the Farmgate Milk Price. This can be expected to drive variability in earnings between financial years.

You can find out more information about our Treasury Management Policy in Section 4.2 (Board, Management and Corporate Governance).

This section has been prepared in accordance with Financial Reporting Standard 42 (Prospective Financial Statements) and is also subject to the Securities Regulations which require the following information to be included:

- prospective consolidated statement of comprehensive income;
- prospective consolidated statement of changes in equity;
- prospective consolidated statement of financial position;
- prospective consolidated statement of cash flows;
- a description of the general and specific assumptions on which the prospective financial information has been prepared; and
- an analysis of the sensitivity of the prospective financial information to changes in key assumptions.

The prospective financial information, including the assumptions on which it is based, is the responsibility of the Directors. As a forecast the prospective financial information has been prepared on the basis of assumptions as to future events that the Directors reasonably expect to occur associated with the actions reasonably expected to take place as at the date that this information is prepared.

The prospective financial information is forward-looking, and should be read in conjunction with the assumptions and sensitivities set out below and other information set out in this Offer Document. Because such statements involve risk and uncertainties, actual events may differ materially from those expressed or implied by such forward-looking statements.

This section is intended to assist potential investors in assessing the validity of the assumptions on which the prospective financial information is based and the likelihood of the assumptions actually occurring. It is not intended to be an assertion that the assumptions will in fact occur and potential investors should be aware that events or outcomes may differ in size or timing from those that have been assumed. In assessing the reliability of the prospective financial information potential investors should have regard to all of the information in this Offer Document, including information on the risks set out in Section 5 (Risks).

The prospective financial information has been prepared in accordance with NZ GAAP as it relates to prospective financial statements under NZ IFRS. Synlait Milk's significant accounting policies are detailed on page 122.

The Directors have given due care and attention to the prospective financial information and set out below is a projection of the present belief of the Directors and management of Synlait Milk and is not a representation by the Directors or management or any other person that the results set out below will be achieved.

Prospective financial information for FY2013F has been based on actual results for the 9 months through to and including 30 April 2013. Prospective financial information for FY2014F is prepared totally on a forecast basis. The prospective financial information was prepared and authorised by the Directors as at 21 June 2013 for use in this Offer Document and not for any other purpose, and may not be appropriate for any other purpose. There is no present intention to update this prospective financial information or to publish prospective financial information beyond these periods or in the future. Investors must consider the assumptions on which the prospective financial information has been prepared in order to fully understand the prospective financial information. Synlait Milk will report actual financial results against the prospective financial information in accordance with GAAP in its 31 July 2013 and 31 July 2014 financial statements.

The general and specific assumptions for which the following prospective financial information has been prepared are set out on pages 122 to 130.

Prospective Consolidated Statement of Comprehensive Income

In thousands of NZD	FY2013F	FY2014F
Revenue	426,426	524,447
Cost of sales	(361,827)	(448,017)
Gross profit	**64,599**	**76,430**
Other income	195	30
Sales and distribution expenses	(23,079)	(24,727)
Administrative and operating expenses	(14,230)	(19,648)
EBIT	**27,485**	**32,085**
Depreciation and Amortisation	9,963	11,893
EBITDA	**37,448**	**43,978**
Net financing costs	**(12,431)**	**(4,766)**
Profit before income tax	**15,054**	**27,319**
Total income tax expense	(4,215)	(7,649)
Net profit for the period	**10,839**	**19,670**
Items that may be reclassified subsequently to profit and loss		
Effective portion of changes in fair value of cash flow hedges	(2,350)	1,400
Net change in fair value of cash flow hedges transferred to profit and loss	643	(1,104)
Income tax on other comprehensive income	743	(84)
Other comprehensive (loss) / income for the period, net of income tax	**(964)**	**212**
Total comprehensive income for the year	**9,875**	**19,882**

Prospective Consolidated Statement of Changes in Equity

In thousands of NZD	Share Capital	Employee Benefits Reserve	Hedging Reserves	Revaluation Reserve	Retained Earnings	Total Equity
Equity at the start of the period (1 August 2012)	103,648	–	848	8,008	(24,260)	88,244
Accounting policy change to monthly milk price	–	–	–	–	(1,953)	(1,953)
Restated Equity at the start of the period (1 August 2012)	103,648	–	848	8,008	(26,213)	86,291
Profit for the year	–	–	–	–	10,839	10,839
Other comprehensive income						
Items that may be reclassified subsequently to profit and loss						
Effective portion of changes in fair value of cash flow hedges	–	–	(2,350)	–	–	(2,350)
Net change in fair value of cash flow hedges transferred to profit and loss	–	–	643	–	–	643
Income tax on income and expense recognised directly in equity	–	–	743	–	–	743
Total other comprehensive loss	–	–	(964)	–	–	(964)
Issue of new shares	75,000	–	–	–	–	75,000
Share issue cost	(6,175)	–	–	–	–	(6,175)
Total contributions by and distributions to owners	68,825	–	–	–	–	68,825
Equity at the end of the period (31 July 2013)	172,473	–	(116)	8,008	(15,374)	164,991
Equity at the start of the period (1 August 2013)	172,473	–	(116)	8,008	(15,374)	164,991
Profit for the year	–	–	–	–	19,670	19,670
Other comprehensive income						
Items that may be reclassified subsequently to profit and loss						
Effective portion of changes in fair value of cash flow hedges	–	–	1,400	–	–	1,400
Net change in fair value of cash flow hedges transferred to profit and loss	–	–	(1,104)	–	–	(1,104)
Income tax on income and expense recognised directly in equity	–	–	(84)			(84)
Total other comprehensive income	–	–	212	–	–	212
Recognition of share based payments	–	330				330
Issue of new shares	–		–	–	–	–
Share issue cost	–		–	–	–	–
Total contributions by and distributions to owners	–	330	–	–	–	330
Equity at the end of the period (31 July 2014)	172,473	330	96	8,008	4,296	185,203

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Prospective Consolidated Statement of Financial Position

In thousands of NZD	FY2013F	FY2014F
Assets		
Trade and other receivables	68,876	45,064
Goods and services tax refundable	2,771	3,763
Income accruals and prepayments	784	402
Inventories	58,847	49,841
Total current assets	**131,278**	**99,070**
Non-current assets		
Property, plant and equipment	217,954	281,117
Intangible assets	230	230
Total non-current assets	**218,184**	**281,347**
Total assets	**349,462**	**380,417**
Current liabilities		
Working Capital Facility	39,755	4,923
Trade and other payables	60,959	87,311
Trade Finance Facility	48,478	35,748
Derivatives	1,104	146
Total current liabilities	**150,296**	**128,128**
Non current liabilities		
Loans and borrowings	20,950	46,570
Deferred tax liabilities	11,772	19,504
Derivatives	1,453	1,012
Total non-current liabilities	**34,175**	**67,086**
Total liabilities	**184,471**	**195,214**
Equity		
Share capital	172,473	172,473
Reserves	7,892	8,434
Retained (deficit) / earnings	(15,374)	4,296
Total equity attributable to equity holders of the Company	**164,991**	**185,203**
Total equity and liabilities	**349,462**	**380,417**

Prospective Consolidated Statement of Cash Flows

In thousands of NZD	FY2013F	FY2014F
Cash flows from operating activities		
Cash receipts from customers[32]	413,382	533,927
Cash paid for milk purchased	(288,586)	(301,319)
Cash paid to other creditors and employees	(134,010)	(146,086)
Goods and services tax refunds	723	(992)
Income tax refunds	228	–
Net cash (used in) / from operating activities	**(8,263)**	**85,530**
Cash flows from investing activities		
Interest received	62	193
Acquisition of property, plant and equipment	(15,237)	(68,713)
Net cash (used in) / from investing activities	**(15,175)**	**(68,520)**
Cash flows from financing activities		
Proceeds and costs from issue of shares	69,568	(743)
Repayment of borrowings	(81,120)	(36,500)
Receipt from borrowings	9,840	62,121
Interest paid	(12,927)	(7,056)
Net cash (used in) / from financing activities	**(14,639)**	**17,822**
Net (decrease) / increase in cash and cash equivalents	**(38,077)**	**34,832**
Net overdraft at beginning of period	(1,678)	(39,755)
Net overdraft at end of period	**(39,755)**	**(4,923)**

[32] Movements in the Trade Finance Facility are classified within revenue as they relate to the remittance of customer receipts. For this reason movements in this loan facility are not classified within cash flows from financing.

ACCOUNTING POLICIES

The accounting policies applied to the preparation of the prospective financial information in this Offer Document are those which are expected to be used in future reporting periods and are consistent with those which have been applied in the audited financial statements of Synlait Milk for FY2012 apart from the three exceptions described below under Monthly Milk Pricing, Group Reporting and Share Based Payments and the fact that as an issuer Synlait Milk will no longer qualify for differential reporting concessions. The accounting policies that cover the forecast period are summarised under the heading "Synlait Significant Accounting Policies" included on page 138.

Monthly Milk Price (MMP):

It is noted that there has been a change in accounting policy in regard to the way we account for milk. The valuation of inventory based on the MMP methodology was implemented in the financial year ending 31 July 2013 and the comparative financial information for the year ended 31 July 2012 has been restated. We believe that in a volatile pricing and foreign exchange environment this is the most accurate way to account for milk within our cost of sales during the financial year and similar methods have been adopted by some others in the industry. This accounting treatment is further explained in the Notes to the Interim Financial Statements on page 146.

Group Reporting:

Synlait Milk will be considered a Group for accounting purposes from FY2013F. The reason for this is that prior to 31 July 2013 Synlait Milk will create a new subsidiary, Synlait Milk Finance Limited, which will hold the external debt of the new Group and facilitate the administration of the New Financing Arrangements. The prospective financial information is prepared as Group financial statements and incorporate the financial statements of Synlait Milk and entities (including special purpose entities) controlled by Synlait Milk (its subsidiaries). Control is achieved where Synlait Milk has the power to govern the financial and operating policies of an entity as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Share Based Payments:

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of equity-settled share-based payments is recognised on a straight-line basis over the vesting period, based on the Synlait Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Synlait Group revises its estimate, and the change in estimate, if any, is recognised in profit and loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at the end of each reporting period.

PRINCIPAL ASSUMPTIONS

The principal assumptions upon which the prospective financial information is based are summarised below. This should be read in conjunction with the information set out in this Offer Document in Section 1.4 (Answers to Important Questions) under the heading "What are my risks?" and in Section 5 (Risks).

The prospective financial information covering the years ending 31 July 2013 and 31 July 2014 (the prospective period or FY2013F and FY2014F) are based on events and conditions existing at the date of this Offer Document. The prospective financial information includes historical trading results up to and including 30 April 2013.

An overview of the New Zealand dairy industry including a description of its history as well as regulatory environment is included within Section 3 of this Offer Document.

GENERAL ASSUMPTIONS

Economic Environment

It is assumed that there will be no material changes in the economic outlook for the New Zealand and international dairy market in which we operate beyond normal market movements in dairy commodity prices.

Legislative and Regulatory Environment

It is assumed that there will be no change in the legislative and regulatory environment of New Zealand or any other country in which we operate that will materially impact our performance.

Competitive Environment and Industry Conditions

It is assumed that there will be no significant changes to competitive activity, industry structure, general industry conditions or the employee environments of New Zealand. Whilst we are seeing new entrants planning to establish processing capability in New Zealand the prospective financial information has been prepared on our assumption that it will not materially change the competitive environment in New Zealand for supply of raw milk or the global marketplace for the sale of our products.

It is assumed that sales of our products will not be adversely affected by any adverse publicity about our products or the New Zealand dairy industry in general, whether or not legitimate.

Operating Environment

There will be no material costs incurred through either industrial or contractual disputes. There will be no delays in commissioning of our new lactoferrin plant, dry store, and quality testing laboratory.

Natural Environment

It is assumed that we will experience no significant disruption from earthquakes, flooding, biosecurity events, other unforeseen natural disasters or hazards that may disrupt our operations. It is assumed that there will be no material unforeseen weather events such as droughts or other weather patterns that impact our supply of raw milk.

Key Directors, Senior Management, Personnel and Consultants

It is assumed that Directors, senior management key personnel and consultants will remain in employment of Synlait Milk or be available to Synlait Milk as required. The key management resources will be appropriate for the requirements of the company.

Key Customers and Suppliers

While we will continue to build our base Infant Formula and Nutritional products business and it is assumed that there will be no material change to contractual, business and operational relationships with our base of key customers, contracted farmers and other suppliers.

Taxation and Superannuation

There will be no material change to the tax regime in New Zealand, including no change to the company tax rate of 28%. GST has been incorporated into the forecast model at a rate of 15%. Included in FY2013F and FY2014F prospective Statement of Financial Position is deferred tax assets relating to tax losses recognised in accordance with New Zealand equivalent to International Accounting Standard 12: Income Taxes (NZ IAS 12).

Employer based Kiwisaver contribution rates increased from 2% to 3%, effective from 1 April 2013 (due to the legislative change).

Acquisitions and Disposals

It is assumed that Synlait Milk will not undertake any material acquisitions or disposals in the forecast period.

Interest Rates

The base interest rates assumed within the prospective financial information are consistent with the medium term outlook for the 90 day bill rate as published externally in regular bank market updates.

SPECIFIC ASSUMPTIONS

Volumes and Revenue

Overall sales volumes are forecast to increase by 4,110MT or 4.7% from FY2013F to FY2014F. Volumes of Ingredient products for FY2014F are forecast to be very similar to FY2013F (-0.6%) however Infant Formula and Nutritional products volumes are forecast to increase by 4,577 MT (or 66.4%) to 11,465 MT for the same period. The strong forecast increase in Infant Formula and Nutritional products is driven by the on-going development of our customer relationships and our strategy to move into higher value products.

Sales revenues in FY2013F are forecast to reach $426.4 million of which $373.5 million relates to Ingredient products and $52.9 million relates to Infant Formula and Nutritional products. This is set to rise to total revenue of $524.4 million in FY2014F with the increase in Ingredient products revenue driven by commodity price movements and Infant Formula and Nutritional products sales driven predominately by volume increases.

In thousands of NZD	FY2013F	FY2014F
Ingredient Products	373,512	435,899
Infant Formula and Nutritional Products	52,914	88,548
Total Sales Revenue	426,426	524,447

	MT	MT
Ingredient Products	80,902	80,435
Infant Formula and Nutritional Products	6,888	11,465
Total Sales Volume	87,790	91,900

Costs of Production

Milk Volumes	FY2013F	FY2014F
	kg MS (000)	kg MS (000)
Milksolids purchased from suppliers	42,032	46,400
Milksolids purchased from Fonterra and other suppliers[33]	4,617	–
Total milksolids purchased	**46,649**	**46,400**
Cost of Production in thousands of NZD	$ (000)	$ (000)
Milksolids costs	276,912	326,724
Ingredient costs	43,376	42,550
Packaging (including external blending and canning costs)	14,461	19,811
Fixed and variable production costs	43,522	49,649
Total costs of production	**378,271**	**438,734**
Changes in opening and closing inventory values	(16,444)	9,283
Total cost of sales	**361,827**	**448,017**
Milk as a % of total production costs	*73.2%*	*74.5%*
MT of Production	MT	MT
MT's Produced of Ingredient Products	80,856	79,262
MT's Produced of Infant Formula and Nutritional Products	10,772	11,684
Total MT of production	**91,628**	**90,946**
Cost of production / MT	$ / MT	$ / MT
Total cost of production per MT of Ingredient Products	3,992	4,672
Total cost of production per MT of Infant Formula and Nutritional Products	5,150	5,855
Milk Price NZD		
Synlait milk price	5.80	7.03
Assumed weighted average milk price after composition and premiums[33]	5.88	7.04

[33] Milk purchases under DIRA (equating to 50 million litres allocation) plus additional milk purchased from / sold to other suppliers. This affects the weighted average cost of milk in FY2013F.

Overall milk supply volumes are forecast to remain steady between FY2013F and FY2014F. The forecast for FY2014F does not include any milk from Fonterra (although we are entitled to up to 50 million litres or approximately 4.6 million kg MS under the DIRA).

The forecast increase in the cost of milksolids (increase by 18.0% or $49.8 million) is driven as a result of the change in the weighted average milk price from $5.88 per kg MS to $7.04 per kg MS. The higher milk price in FY2014F as compared to FY2013F is driven by the assumption that dairy commodity prices are forecasted to remain high well into the last quarter of the 2013 calendar year.

Ingredient costs include lactose, vegetable oils, and milk proteins. Lactose costs are forecast to decrease $3.2 million from $23.1 million in FY2013F to $19.9 million in FY2014F. The main driver for this expected decrease is a reduction in the international price. The consumption year on year is at similar levels based on powder production. Volume of vegetable oils and milk proteins are forecast to increase proportionally with the manufactured volumes of infant formula. Other ingredients are forecast to increase primarily as a result of the ingredients associated with the infant formula canned production increasing year on year by 1,452 MT.

The packaging costs are forecast to increase year on year as a result of the increase in the infant formula canned production combined with relatively consistent level of other production (at the total MT level). It is important to note that the blending and canning function is still outsourced for FY2014F (with onsite facilities commissioned at the start of FY2015F).

Fixed and variable processing costs are forecast to rise through FY2013F and FY2014F as volumes increase and product mix moves towards a higher proportion of Infant Formula and Nutritional products compared to Ingredient products. The main driver in the expected upward movement of these expected manufacturing costs is the lift in direct human resource costs as we build more capability into the business in anticipation of strong growth. Our milk price for the 2013 Season is forecast to be a base milk price of $5.80 per kg MS or 18% lower than the 2012 Season ($6.14 per kg MS). Our milk price for the 2014 Season is forecast to be $7.03 per kg MS. The differential between the weighted average milk price and the Synlait Milk milk price in FY2013F is as a result of paying premiums for DIRA and other supply. It is assumed that we are entitled to charge certain suppliers whose contracts were novated to us from Oceania Dairy Limited in 2011 a distance surcharge. That amounts to $1.2 million plus GST in FY2014F. Some of those suppliers have notified us that they regard any imposition of a distance surcharge on them as a breach of contract. We believe we are entitled to introduce the distance surcharge. However, this may ultimately need to be determined by a Court.

Gross Profits

Gross profit is forecast to be $64.6 million in FY2013F or 40.4% higher than FY2012 ($46.0 million). This is forecast to increase by 18.3% in FY2014F to $76.4 million due mainly to the change in product mix towards Infant Formula and Nutritionals and the higher margins in these products.

Gross profit per MT in our Ingredient products are forecast to increase by 15.6% based on assumed improvements in quality, yield performance and fixed costs recoveries driven by better practises and more volume of product in total. Also in FY2013F we were disadvantaged by not having butter within our product capability when returns for butter were superior to AMF product for most of that year. In FY2014F we anticipate that these differences in returns will be far less pronounced hence our returns are forecast to be higher. Forecasted premiums achieved compared to Dairy Trading Platform pricing are set at similar levels to those achieved in FY2013F. For our Infant Formula and Nutritional products business our margins are set at what we consider more conservative levels compared to FY2013F. As a result of a conservative approach to expected Infant Formula and Nutritional product margins, year on year gross profit reduces from 15.1% to 14.6%.

In thousands of NZD	FY2013F	FY2014F
Gross Profit		
Ingredient Products	49,794	57,195
Infant Formula and Nutritional Products	14,805	19,235
Total Gross Profit	**64,599**	**76,430**
Gross Profit ($ / MT)	$ / MT	$ / MT
Ingredient Products	615	711
Infant Formula and Nutritional Products	2,150	1,678
Total Gross Profit / MT	**736**	**832**

Sales, Distribution and Administrative Expenses

In thousands of NZD	FY2013F	FY2014F
Sales and distribution expenses	(23,079)	(24,727)
Administrative and operating expenses	(14,230)	(19,648)
Total Sales, Distribution and Administrative expenses	**(37,309)**	**(44,375)**

Total sales, distribution and administrative expenses are forecast to be $37.3 million in FY2013F, an increase of $4.3 million on FY2012. These costs are expected to increase further in FY2014F by 18.9% to $44.4 million.

Sales, distribution and administrative expenses include the costs of freighting product (both domestic and export) which is highly correlated to the volume of product sold. Also included in these costs are warehousing, sales and marketing costs that are semi-fixed in nature. Sales and distribution expenses are forecast to increase by $1.6 million from FY2013F to FY2014F primarily driven by the forecast increase in sales volume.

Administrative and operating expenses are associated with the head office functions such as research and development, new product development, information technology, and the human resource costs that support those functions. The forecast increase in administrative and operating expenses is mainly driven by changes in human resource costs as we build more capability into the business for the next growth phase as well as the full year impact of headcount added in FY2013F for the same reasons. Other considerations are the higher on-going costs associated with the listing of the business on the NZX and higher insurance premiums as we grow the business.

Depreciation and Amortisation

Depreciation and amortisation expenses are forecast based on existing rates of depreciation and amortisation applied to relevant assets which are adjusted for planned capital expenditure. Key reasons for the $1.9 million increase are related to the addition of the new lactoferrin plant, dry store and quality testing laboratory facilities within FY2014F. Depreciation and amortisation rates are based on estimated useful lives which are assumed to remain consistent with levels observed historically and our accounting policy.

In thousands of NZD	FY2013F	FY2014F
Depreciation and Amortisation included in manufacturing costs	8,865	9,972
Depreciation and Amortisation included in overhead costs	1,098	1,921
Total depreciation	9,963	11,893

Taxation

An income tax rate of 28% on taxable profit is assumed for the prospective financial information period, being the current corporate tax rate in New Zealand. It is assumed through the prospective financial information period that we have continuity of losses to carry forward and that these losses will cover any taxable income in the prospective financial information period. Under current projections it is expected that these will be fully utilised by FY2015F. Therefore there are no provisional tax payments assumed in the prospective financial information period.

Working Capital

Our working capital position is composed of trade receivables, finished goods and raw material inventories, milk supply creditors, trade and other payables. Working capital as at 31 July 2013 is forecast to be $66.8 million which compares to a balance at 31 July 2012 of negative $19.0 million, an increase of $85.8 million. Our forecast working capital position at 31 July 2013 is considered to be abnormally high and is forecast to decrease to $7.6 million by 31 July 2014.

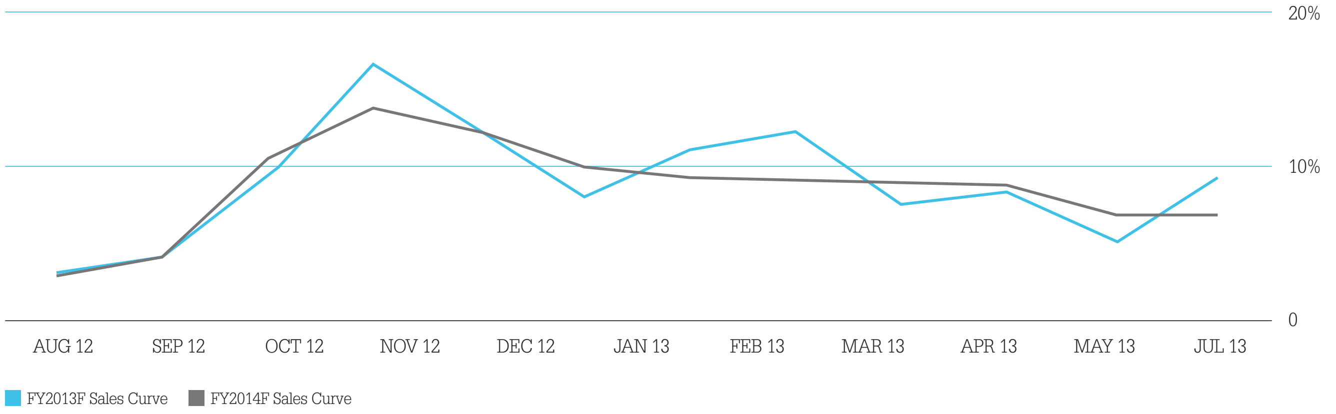
Reasons for the high 31 July 2013 forecast position are described below:

- Trade and other payables are forecast to be lower than usual, partially due to an increase in advance rates paid to milk suppliers in FY2013F. We increased our advance rates to be in line with the industry, which did so to provide milk suppliers with relief from drought conditions affecting New Zealand in early 2013. This added an extra $20.4 million to our Working Capital Facility balance as at 31 July 2013. The large majority of our farmers were not adversely affected by the drought.
- Trade and other receivables are forecast to be higher than usual partially due to an increase in Ingredient products sales prices over FY2013F (refer to chart 6.2.3 opposite). This has added $10.8 million to our forecast Trade Finance Facility balance as at 31 July 2013.
- Trade and other receivables are also forecast to be higher than usual partially due to a greater proportion of Ingredient products and Infant Formula and Nutritional products sales occurring towards the end of FY2013F compared to what we consider normal (refer to charts 6.2.1 and 6.2.2 opposite). This has added $7.6 million to our Trade Finance Facility balance as at 31 July 2013.

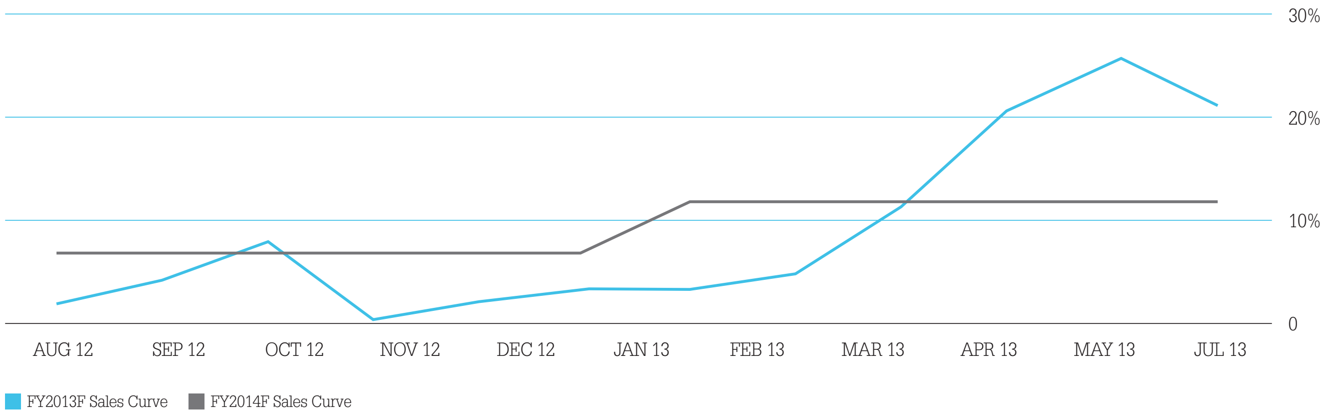
In thousands of NZD	FY2013F	FY2014F
Trade and other receivables	68,876	45,064
Inventories	58,847	49,841
Trade and other payables	(60,959)	(87,311)
Working capital	66,764	7,594

The below diagrams illustrate our Ingredient products and Infant Formula and Nutritional products sales curves for FY2013F and FY2014F:

6.2.1 Ingredient Products Sales Curve

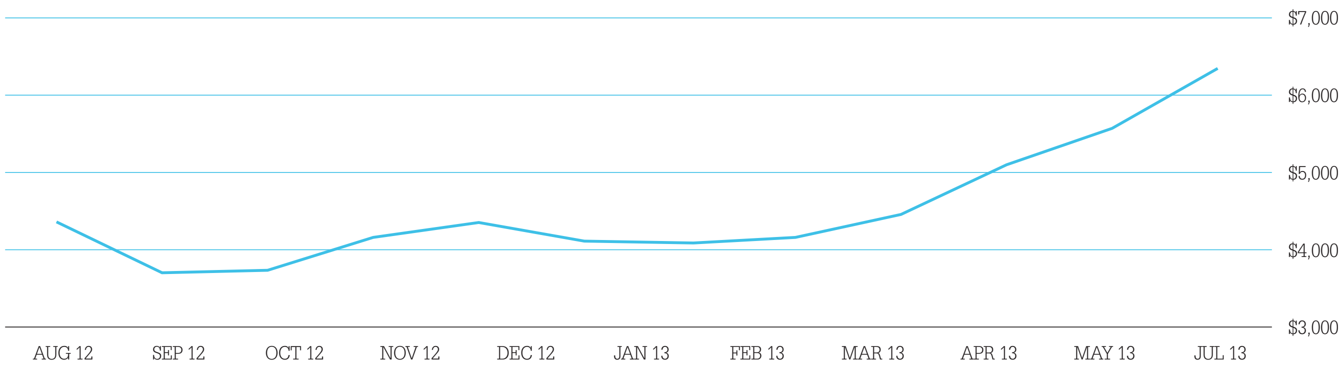


6.2.2 Infant Formula and Nutritionals Sales Curve



The below diagram illustrates our forecast average Ingredient products sales prices for FY2013F:

6.2.3 Ingredients Sales Prices (NZD)



Short Term Financing

Our working capital position is financed by our Working Capital Facility and our Trade Finance Facility. The Working Capital Facility is used to pay milk creditors, other operating costs, interest and fund operational capital expenditure. The Trade Finance Facility provides early payment on sales (within 5 working days). Our forecast short term financing position at 31 July 2013 is considered to be abnormally high as additional financing was required to fund extra advance rate payments, high forecast Ingredient prices, and the late timing of both Ingredient and Infant Formula and Nutritional products sales as described above under the heading "Working Capital". At 31 July 2012 our short term financing position was $15.3 million, which is forecast to increase by $72.9 million to $88.2 million by 31 July 2013, with a significant portion of this increased financing reversing in the first quarter of FY2014F. Short term financing is expected to decrease to $40.7 million at 31 July 2014.

In thousands of NZD	FY2013F	FY2014F
Working Capital Facility	39,755	4,923
Trade Finance Facility	48,478	35,748
Short Term Financing	**88,233**	**40,671**
Working capital ratio (for banking covenants)	1.44	2.31
Working capital ratio limit	1.25	1.25

Capital Expenditure

Synlait Milk is projecting the following capital expenditure over the prospective period.

In thousands of NZD	Commissioning	Total Spend	FY2013F	FY2014F
Growth Capital Expenditure				
Lactoferrin Plant	Jan–14	15,085	4,525	10,560
Dry Store	Jan–14	11,752	–	11,752
Quality Testing Laboratory	Mar–14	3,888	–	3,888
Blending & Canning Facility	Aug–14	27,465	–	26,420
Butter Plant	May–15	15,037	–	–
Dryer 3	Aug–15	103,525	–	3,500
Dryer 3 Dry Store	Aug–15	6,475	–	–
Administration Building	during FY2014F	4,500	–	4,500
Onsite Tanker Facilities	during FY2014F	1,500	–	1,500
Other Growth Capital Expenditure	during FY2014F	n / a	3,744	6,607
Total Growth Capital Expenditure		**189,227**	**8,269**	**68,727**
Operational Capital Expenditure				
Maintenance Capital Expenditure			1,148	2,195
Dryer 2 completion spend			1,797	–
Total Operational Capital Expenditure			**2,945**	**2,195**
Total Capital Expenditure			**11,214**	**70,922**

The capital expenditure forecast for FY2013F is $11.2 million. This is made up of expenditure to grow the business of $8.3 million and $2.9 million to maintain the business. The key project spend in FY2013F is $4.5 million on the new lactoferrin plant and the balance of the spend of $3.7 million is on other growth expenditure items which can be defined as investments in assets which directly add to profitability by increasing milk supply, improving plant capacity or optimising levels of operational support.

FY2014F is significantly higher at $70.9 million reflecting $68.7 million in growth expenditure, the majority of which relates to the Growth Initiatives (referenced in Section 4.1 (Business Description) of this Offer Document) with construction commencing on most projects in FY2014F.

Operational capital expenditure has been allocated between maintenance capital expenditure and the final payment associated with the build of Dryer 2. Maintenance capital expenditure contains capital spend required to keep operations and services maintained at current levels (ie IT infrastructure, dairy pallets, plant compliance assets, environment expenditure).

Net Debt, Finance Costs and Banking Covenants

We have negotiated New Financing Arrangements which we intend to sign during the Offer period and come into effect immediately after the IPO occurs. It is assumed that the capital raised in July 2013 will be applied against existing debt which strengthens our balance sheet before the drawdown of a new revolver facility and term debt in order to fund the capital spend on new Growth Initiatives as described in this Offer Document. Term debt relates to initial funding for our new Dryer 3 project.

We have a Trade Finance Facility which provides financing over specific customer orders to deliver cash promptly to us. We are a seasonal business and the Working Capital Facility provides us operational funding through the annual cycle as we match revenue receipts with milk payments.

The new banking covenant levels are displayed in the table below. Forecast covenant calculations during the prospective financial information period show that we should have adequate headroom throughout the prospective financial information period.

In thousands of NZD	FY2013F	FY2014F
Trade Finance Facility borrowings	48,478	35,748
Working Capital Facility borrowings	39,755	4,923
Revolver facility borrowings	20,950	43,070
Term debt borrowings	–	3,500
Net Interest Bearing Debt	109,183	87,241

Summary of proposed banking covenants	FY2013F	FY2014F
Interest Cover Ratio[34]		
Ratio	3.01	9.23
Covenant (must be greater than)	2.25	3.00
Shareholder Funds to Total Tangible Assets Ratio[35]		
Ratio	0.47	0.49
Covenant (must be greater than)	0.35	0.35
Working Capital Ratio[36]		
Ratio	1.44	2.31
Covenant (must be greater than)	1.25	1.25
Working Capital Facility Limit[37]		
Covenant (must remain under)	85.0	85.0
(Must stay under limit >)	OK	OK

[34] EBITDA / Net finance costs – measured quarterly on an annual outcome.

[35] Shareholder funds (total assets of the company less total liabilities and excluding foreign exchange revaluation) to Total Tangible Assets (total assets of the company (less intangible assets like goodwill, patents and trademarks and excluding foreign exchange revaluation) at all times is to be at least 35%.

[36] Current Assets / Working capital (including trade finance) – seasonal covenant limit, varies between >1.25x and 1.50x during the year.

[37] Working capital facility limit is $85.0m at all times during the year.

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Equity and Dividends

It is assumed that the Offer will raise $75.0 million with associated costs of $6.2 million (including brokerage and commission fees, joint lead management fees, share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage and courier costs), leaving $68.8 million of net capital to be applied to equity. It is assumed that during the prospective financial information period Shareholder capital will remain stable with the changes in total Shareholders' equity being driven by increased retained earnings.

It is forecast that no dividends will be payable in the prospective financial information period due to free cash flows being retained to provide additional working capital associated with growth and further expansion.

Sensitivity Analysis

Prospective financial information is inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from prospective financial information and this variation could be material. A summary of the likely effect of various changes in certain assumptions on forecast EBITDA is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes.

Care should be taken in interpreting the information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case.

Movements in one assumption may have offsetting or compounding effects on other variables, the effects of which are not reflected. In addition, it is possible that more than one assumption may move at any point in time giving rise to cumulative effects, which is also not reflected. The sensitivity analysis does not take into account any potential mitigating actions that management may take.

The sensitivity analysis is based on movements in assumptions for FY2014F only.

Sensitivities:

1. Effect of change in Infant Formula and Nutritional products volumes – reflecting an unanticipated change in volumes achieved compared to what is included in forecast.
2. Effect of change in Infant Formula and Nutritional products margins – reflecting an unanticipated change in margins achieved compared to what is included in forecast.
3. Effect of change in premiums achieved above market price – an unanticipated material change in the premium that we can achieve over Dairy Trading Platform pricing. This is a revenue measure and assumes no impact on cost of sales.
4. Effect of change in kg MS – an unanticipated change in the milk supply from our contracted farmers that may arise as a result of climatic or other supply related factors eg drought. This sensitivity assumes that Infant Formula and Nutritional products sales and production metrics remain unchanged and the impact of the increase / decrease in supply impact on Ingredient products only.
5. Effect on a change in butter price premiums to AMF fat pricing through the Farmgate Milk Price – reflecting a change in the pricing of butter relative to AMF through FY2014F. We do not currently have butter production capability – and hence are currently exposed to differences in the pricing of butter relative to AMF. Future planned investment in an Ammix butter plant will enable us to alternate our production between butter and AMF, depending on which product is delivering the better underlying fat price (expected commissioning in May 2015).
6. Effect of a change in the weighted average foreign exchange cover rate relative to that used to calculate the Farmgate Milk Price – an unanticipated differential between our foreign exchange cover rate vs that used to calculate the Farmgate Milk Price will mean higher or lower revenues are generated and could impact our profitability positively or negatively.

		Increase / Decrease	FY2014F EBITDA Impact ($000's)
1	Change in Infant Formula and Nutritional Products volumes (MT)	+ / - 10%	1,872 / (1,823)
2	Change in Infant Formula and Nutritional Products margins ($ / MT)	+ / - 10%	1,440 / (1,440)
3	Change in Dairy Trading Platform premiums	+ / - 5%	947 / (947)
4	Change in kg MS of Synlait Milk contracted milk collected	+ / - 10%	7,649 / (7,654)
5	Change in Milk Price due to butter prices	+ / - 10%	3,387 / (3,387)
6	Change in Milk Price due to FX differentials	+ / - 1 cent	6,063 / (6,217)

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

6.3

The Directors believe that the following non-GAAP adjustments assist potential investors to compare historical and prospective financial information.

Set out below is a reconciliation of non-GAAP profitability set out on page 114 to historical financial information and prospective financial information, with a description of the various adjustments following. EBITDA is a key metric which management monitors to operate the business.

In thousands of NZD	Note	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Underlying EBITDA		(2,032)	102	11,263	4,226	22,165	36,848	43,978
Failed fan adjustment	1	–	(871)	–	–	–	–	–
Costs associated with prospective capital raising	2	–	–	(1,626)	–	–	–	–
Unsuccessful acquisition cost	3	–	–	–	–	(697)	–	–
Subtotal – one off or unusual transactions		–	(871)	(1,626)	–	(697)	–	–
Ongoing costs of listed company	4	200	600	600	600	600	600	–
Subtotal – other pro forma adjustments		200	600	600	600	600	600	–
Restated EBITDA		(1,832)	(169)	10,237	4,826	22,068	37,448	43,978
Accounting policy change to monthly milk price	5	–	–	–	–	2,674	–	–
Reported EBITDA		(1,832)	(169)	10,237	4,826	24,742	37,448	43,978
Depreciation and Amortisation		(97)	(3,939)	(4,894)	(4,791)	(8,667)	(9,963)	(11,893)
Reported EBIT		(1,929)	(4,108)	5,343	35	16,075	27,485	32,085
Total income tax benefit / (expense)		1,156	(3,330)	(3,029)	1,217	(600)	(4,215)	(7,649)
Net financing costs		(137)	(6,718)	(13,982)	(4,337)	(9,165)	(12,431)	(4,766)
Reported NPAT		(910)	(14,156)	(11,668)	(3,085)	6,310	10,839	19,670

ONE-OFF OR UNUSUAL TRANSACTIONS

1. **Failed fan:** During the testing and commissioning of Dryer 1 in August 2008, a high-pressure fan in the evaporator failed. The fan was replaced promptly but caused intermittent delays in production over the following two months. During this period our contracted milk was processed by an independent processor under an agreed contingency arrangement.

   The loss incurred by the fan failure has been adjusted in FY2009 by adding back to revenue the net economic loss ($0.871 million net of insurance recoveries) we suffered as a result of the incident.

2. **Costs associated with prospective capital raising:** In FY2010, prior to the investment from Bright Dairy, we initiated a capital raising process that was unsuccessful. The costs associated with the unsuccessful capital raising process of $1.626 million are considered to be one-off and non-operating in nature and have been removed from the pro forma financial statements for comparison purposes to other financial information.

3. **Unsuccessful acquisition cost:** During FY2012 we unsuccessfully pursued the acquisition of a complementary business. The costs associated with this unsuccessful acquisition process of $0.697 million are considered to be one-off and non-operating in nature and have been removed from the administrative and operating expenses in the pro forma financial information.

OTHER PRO FORMA ADJUSTMENTS

The following items have been removed from the historical financial information or prospective financial information to ensure consistency in the financial information presented and to assist the reader to compare performance over each period:

4. **On-going costs of listed company:** The estimated on-going additional costs of operating as a company listed on the NZX totalling $0.600 million were incorporated into the prospective financial information

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for FY2014F. In order to facilitate the comparison of the historical financial performance to prospective financial performance, the on-going costs associated with being a listed company have been included in the historical pro forma financial information as well as the forecast financial information for FY2013F. These costs comprise recurring NZX listing fees, additional audit fees, annual shareholder meeting costs, annual report generation costs and other additional sundry listing costs. This cost has been removed from the administrative and operating expenses in the pro forma financial information.

ACCOUNTING POLICY CHANGE

5. **Change in accounting policy – Monthly Milk Price:** During FY2013F, we changed our accounting treatment methodology from an Annual Milk Price to a Monthly Milk Price basis. As such, the prospective financial information for FY2013F and FY2014F has been prepared on a Monthly Milk Price basis. Due to the change in accounting policy the comparative period for FY2012 has also been restated and the impact of this FY2012 restatement is included above in the calculation of underlying EBITDA. Consequently, the underlying Earnings information set out above is presented on an Annual Milk Price basis for FY2008 to FY2011 and on a Monthly Milk Price basis for FY2012 to FY2014F. This adjustment is recognised in cost of sales.

RESTATEMENT TO FARMGATE MILK PRICE FOREIGN EXCHANGE RATE

6. **Foreign exchange variance:** Our Treasury Management Policy seeks to achieve a USD annual average foreign exchange rate consistent to that applied in the calculation of the Farmgate Milk Price. However, there will always be variations between the actual USD annual average foreign exchange rates achieved as demonstrated by the historical comparison of rates set out in the table below.

NZD:USD average foreign exchange rate	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Difference to Farmgate foreign exchange rate ($)	0.037	0.026	(0.011)	(0.008)	(0.005)	–
Net USD exposure ($000)	62,595	140,884	189,781	269,997	305,484	384,472
Net Financial Benefit / (Cost) – NZD ($000)	**5,529**	**8,613**	**(3,821)**	**(3,524)**	**(2,186)**	**–**

In FY2014F the prospective financial information assumes that the USD annual average foreign exchange rate applied to our net receipts is the same as applied in the calculation of the Farmgate Milk Price.

It is noted that the impact of this key factor on the actual EBITDA achieved in any financial year by Synlait Milk is not considered to be a key indication of our underlying operational performance, but rather an impact of the application of our Board approved Treasury Management Policy.

Given the potential significant financial impact of what our USD annual average foreign exchange rate is compared to that achieved and applied in the determination of the Farmgate Milk Price, this has been disclosed above.

The actual foreign exchange variance recognised in the historical financial performance and assumed in the forecast FY2013F result, positive or negative, has been disclosed below to enable a comparison of the financial years through to FY2014F, where no variance is assumed.

In thousands of NZD	FY2009	FY2010	FY2011	FY2012	FY2013F	FY2014F
Underlying EBITDA	**102**	**11,263**	**4,226**	**22,165**	**36,848**	**43,978**
Restatement to Farmgate Milk Price foreign exchange rate	(5,529)	(8,613)	3,821	3,524	2,186	–
Underlying EBITDA restated for Farmgate Milk Price foreign exchange rate	**(5,427)**	**2,650**	**8,047**	**25,689**	**39,034**	**43,978**

Summary financial statements for Synlait Milk, as required by clauses 9(1)(a) and (b) of Schedule 1 of the Securities Regulations, are set out below.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars ($000).

The summary financial statements comply with FRS-43 Summary Financial Statements, subject to the Securities Regulations, whereby the summary financial statements are not required to include:

- a comparison of, and explanations for, major variances between, prospective and historical financial statements;
- information about events occurring after the balance date of a period; or
- comparative information for any period before the earliest period presented in the summary financial statements.

The summary financial statements have been authorised for issue by a resolution of the Board of Directors dated 21 June 2013. The Board has authorised the issue of the full financial statements on the following dates:

- Year ended 31 July 2012: 14 November 2012
- Year ended 31 July 2011: 18 November 2011
- Year ended 31 July 2010: 10 November 2010
- Year ended 31 July 2009: 19 December 2009
- 4 months ended 31 July 2008: 19 December 2009

The financial information has been extracted from audited financial statements subject to the following restatements and comments:

- the financial statements for the year ended 31 July 2010 reflect a correction of a land purchase option that had previously been treated as a cash flow hedge and shown in reserves. This restatement has been made in FY2008 and FY2009 also;
- the financial statements for the 4 months ended 31 July 2008 have been audited as comparatives in the FY2009 financial statements;
- the financial statements for FY2011 did not contain a statement of cash flows as this was not required due to the framework for differential reporting being applied. The comparative statement of cash flows was audited in the financial statements for FY2012; and
- the summary financial statements in respect of the six months ended 31 January 2013 and the restated summary financial statements for the year ended 31 July 2012 have been extracted from unaudited financial statements.

The audit opinions received for each period presented in the summary were unmodified except in respect of FY2009 where the audit opinion contained the following explanatory paragraph:

"In forming our unqualified opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the default of certain financial covenants and the renegotiation with its lenders for new terms for amounts borrowed totalling $103,350,000. While currently the outcome is uncertain, the directors believe this matter is likely to be resolved appropriately."

In FY2011 additional capital was raised and the banking facilities were successfully renegotiated.

During FY2013F, we changed our accounting policy for calculating the cost of raw milk applied to the valuation of finished goods inventory from the Annual Milk Price to the Monthly Milk Price methodology. Due to the change in accounting policy the comparative period for FY2012 has also been restated. FY2008 to FY2011 has been presented on an Annual Milk Price basis. This is outlined further in the interim financial statements for the period ended 31 January 2013 set out on pages 140 to 147.

Summary financial statements cannot be expected to provide as complete an understanding as that provided by the full financial statements. The audited financial statements for the year ended 31 July 2012 are included in this Offer Document and are set out on pages 149 to 164.

Summary Statement of Comprehensive Income for the periods ended 31 July

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012	1H2013
						Restated and Unaudited	*Unaudited*
Revenue	5,000	111,323	233,413	298,892	376,771	376,771	176,444
Cost of sales	(5,795)	(104,552)	(209,742)	(277,755)	(328,143)	(330,817)	(143,606)
Gross (loss) / profit	**(795)**	**6,771**	**23,671**	**21,137**	**48,628**	**45,954**	**32,838**
Other income	–	1,289	1,501	1,273	501	501	50
Sales and distribution expenses	(67)	(9,099)	(13,931)	(15,074)	(21,337)	(21,337)	(10,912)
Administrative and operating expenses	(1,067)	(3,069)	(5,898)	(7,301)	(11,717)	(11,717)	(6,860)
EBIT	**(1,929)**	**(4,108)**	**5,343**	**35**	**16,075**	**13,401**	**15,116**
Depreciation and Amortisation	97	3,939	4,894	4,791	8,667	8,667	4,794
EBITDA	**(1,832)**	**(169)**	**10,237**	**4,826**	**24,742**	**22,068**	**19,910**
Net financing costs	**(137)**	**(6,718)**	**(13,982)**	**(4,337)**	**(9,165)**	**(9,165)**	**(5,763)**
(Loss) / profit before income tax	**(2,066)**	**(10,826)**	**(8,639)**	**(4,302)**	**6,910**	**4,236**	**9,353**
Total income tax benefit / (expense)	1,156	(3,330)	(3,029)	1,217	(600)	148	(2,592)
Net (loss) / profit after tax for the period	**(910)**	**(14,156)**	**(11,668)**	**(3,085)**	**6,310**	**4,384**	**6,761**
Revaluation of property, plant and equipment	–	–	–	–	11,056	11,056	–
Effective portion of changes in fair value of cash flow hedges	19	20,989	(13,913)	316	(1,408)	(1,408)	(2,323)
Net change in fair value of cash flow hedges transferred to profit and loss	–	(11,312)	10,466	(2,236)	169	169	(674)
Income tax on other comprehensive income	(6)	(2,889)	1,557	662	(2,701)	(2,701)	932
Other comprehensive income / (loss) for the period, net of income tax	**13**	**6,788**	**(1,890)**	**(1,258)**	**7,116**	**7,116**	**(2,065)**
Total comprehensive (loss) / income for the year	**(897)**	**(7,368)**	**(13,558)**	**(4,343)**	**13,426**	**11,500**	**4,696**

Summary Statement of Changes in Equity for the periods ended 31 July

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012	1H2013
						Restated and Unaudited	*Unaudited*
Equity at the start of the period	22,336	21,439	14,071	513	74,818	74,791	86,291
(Loss) / profit for the year	(910)	(14,156)	(11,668)	(3,085)	6,310	4,384	6,761
Revaluation of property, plant and equipment	–	–	–	–	11,056	11,056	–
Effective portion of changes in fair value of cash flow hedges	19	20,989	(13,913)	316	(1,408)	(1,408)	(2,323)
Net change in fair value of cash flow hedges transferred to profit and loss	–	(11,312)	10,466	(2,236)	169	169	(674)
Income tax on income and expense recognised directly in equity	(6)	(2,889)	1,557	662	(2,701)	(2,701)	932
Total other comprehensive income / (loss)	13	6,788	(1,890)	(1,258)	7,116	7,116	(2,065)
Issue of new shares	–	–	–	82,000	–	–	–
Share issue cost	–	–	–	(3,352)	–	–	–
Total contributions by and distributions to owners	–	–	–	78,648	–	–	–
Equity at the end of the period	21,439	14,071	513	74,818	88,244	86,291	90,989

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FIVE YEAR SUMMARY OF HISTORICAL FINANCIAL INFORMATION

6.4

Summary Statements of Financial Position as at 31 July

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012	1H2013
						Restated and Unaudited	*Unaudited*
Current assets							
Cash and cash equivalents	–	9,327	7,782	2,624	922	922	3,163
Trade and other receivables	2,449	7,102	15,797	39,730	20,884	20,884	43,574
Goods and services tax refundable	2,489	1,026	2,702	4,496	3,492	3,492	5,521
Income accruals and prepayments	–	596	1,741	508	159	159	1,765
Inventories	687	14,394	12,481	12,468	33,841	30,746	102,353
Current tax asset	14	17	173	226	231	231	–
Derivatives	1,953	15,897	6,214	6,680	4,109	4,109	1,187
Capital raising costs	–	–	1,792	–	–	–	367
Total current assets	**7,592**	**48,359**	**48,682**	**66,732**	**63,638**	**60,543**	**157,930**
Non-current assets							
Property, plant and equipment	79,367	103,697	102,253	178,178	214,099	214,099	211,382
Deferred tax assets	614	–	–	–	–	–	–
Intangible assets	26	55	58	318	2,871	2,871	2,781
Derivatives	–	–	–	36	–	–	–
Total non-current assets	**80,007**	**103,752**	**102,311**	**178,532**	**216,970**	**216,970**	**214,163**
Total assets	**87,599**	**152,111**	**150,993**	**245,264**	**280,608**	**277,513**	**372,093**
Current liabilities							
Working Capital Facility	190	17,500	20,100	10,300	2,600	2,600	70,500
Trade and other payables	13,807	19,294	29,567	62,969	71,002	70,619	80,309
Trade Finance Facility	–	4,937	8,212	13,506	13,617	13,617	21,559
Loans and borrowings	–	85,850	81,405	11,000	21,000	21,000	21,000
Derivatives	1,935	4,306	3,572	2,077	2,582	2,582	1,230
Total current liabilities	**15,932**	**131,887**	**142,856**	**99,852**	**110,801**	**110,418**	**194,598**
Non-current liabilities							
Loans and borrowings	50,228	–	–	63,821	70,768	70,768	74,059
Deferred tax liabilities	–	6,153	7,624	5,746	9,061	8,302	9,958
Derivatives	–	–	–	1,027	1,734	1,734	2,489
Total non-current liabilities	**50,228**	**6,153**	**7,624**	**70,594**	**81,563**	**80,804**	**86,506**
Total liabilities	**66,160**	**138,040**	**150,480**	**170,446**	**192,364**	**191,222**	**281,104**
Equity							
Share capital	25,000	25,000	25,000	103,648	103,648	103,648	103,648
Reserves	(1,900)	4,888	2,998	1,740	8,856	8,856	6,791
Retained (deficit) / earnings	(1,661)	(15,817)	(27,485)	(30,570)	(24,260)	(26,213)	(19,450)
Total equity attributable to equity holders of the Company	**21,439**	**14,071**	**513**	**74,818**	**88,244**	**86,291**	**90,989**
Total equity and liabilities	**87,599**	**152,111**	**150,993**	**245,264**	**280,608**	**277,513**	**372,093**

Summary Statements of Cash Flows for the periods ended 31 July

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012	1H2013
						Restated and Unaudited	*Unaudited*
Cash flows from operating activities							
Cash receipts from customers	11,923	111,837	227,013	274,575	399,048	399,048	151,522
Cash paid to suppliers and employees	(7,029)	(121,032)	(208,147)	(258,220)	(370,241)	(370,241)	(211,104)
Goods and services tax (payments) / refunds	(1,194)	1,463	(1,677)	(1,794)	1,003	1,003	(2,029)
Income tax refunds / (payments)	–	549	(156)	(53)	10	10	231
Net cash from / (used in) operating activities	3,700	(7,183)	17,033	14,508	29,820	29,820	(61,380)
Cash flows from investing activities							
Interest Received	5	283	228	81	53	53	34
Acquisition of property, plant and equipment	(40,869)	(28,306)	(3,450)	(79,125)	(29,499)	(29,499)	(2,077)
Payment of intercompany borrowings	(5,875)	(492)	–	–	–	–	–
Acquisition of intangible assets	(1)	(29)	(3)	(260)	(3,260)	(3,260)	(249)
Net cash (used in) / from investing activities	(46,740)	(28,544)	(3,225)	(79,304)	(32,706)	(32,706)	(2,292)
Cash flows from financing activities							
Proceeds from issue of shares	–	–	–	80,440	–	–	–
Repayment of borrowings	–	–	(3,418)	(81,405)	(11,000)	(11,000)	–
Receipt from borrowings	42,948	35,622	(4,445)	74,821	27,947	27,947	2,924
Interest paid	(84)	(7,878)	(10,090)	(4,418)	(8,063)	(8,063)	(4,911)
Net cash from / (used in) financing activities	42,864	27,744	(17,953)	69,438	8,884	8,884	(1,987)
Net (decrease) / increase in cash and cash equivalents	(176)	(7,983)	(4,145)	4,642	5,998	5,998	(65,659)
Net Working Capital Facility at beginning of period	(14)	(190)	(8,173)	(12,318)	(7,676)	(7,676)	(1,678)
Net Working Capital Facility at end of period	(190)	(8,173)	(12,318)	(7,676)	(1,678)	(1,678)	(67,337)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR SYNLAIT MILK FOR THE FIVE YEAR PERIOD ENDED 31 JULY 2012

The full financial statements for Synlait Milk for each period shown in the summary financial statements have been prepared in accordance with NZ GAAP and comply with NZ IFRS as appropriate for profit oriented entities that qualify for and apply differential reporting.

The principal accounting policies adopted in the preparation of the financial statements are set out in the notes to the financial statements for the year ended 31 July 2012 on pages 153 to 156. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Changes in accounting policies

During the six month period ended 31 January 2013, the company changed its accounting policy for calculating the value of inventory from the Annual Milk Price to the Monthly Milk Price methodology. The cost of dairy product manufactured from milk is established by using the Monthly Milk Price calculated for the month when the dairy product was manufactured. The Monthly Milk Price is determined using a milk pricing model and is benchmarked against the Farmgate Milk Price announcements during the year and against the milk price statement when this is released annually. The change in milk price methodology is a change in measurement basis from an average cost inventory approach to a First In First Out basis. Synlait Milk has determined that this change in measurement basis constitutes a change in accounting policy and therefore the comparative periods have been restated.

The comparative figures for the year ended 31 July 2012 have been restated using the Monthly Milk Price methodology. The restatement for the year ended 31 July 2012 is a reduction on reported NPAT for the full year to 31 July 2012 of $1.9 million, resulting in an adjusted NPAT of $4.4 million.

Differential reporting

During the five year period, Synlait Milk qualified for differential reporting exemptions on the basis that it was not publically accountable and there is no separation between the owners and the governing body. During the five year period, Synlait Milk has taken advantage of all available differential reporting exemptions except for NZ IAS 7 'Statement of Cash Flows' and NZ IAS 12 'Income Taxes'.

Major Factors Affecting the Historical Financial Position

Capital expenditure
At the end of FY2012 property, plant and equipment net book value totalled $214.1 million up from $178.1 million in FY2011 and $102.3 million in FY2010. Capital expenditure since our inception has focused primarily on milk processing and supply chain assets. The following table identifies our historical capital expenditure projects from FY2008 through to FY2012.

Remaining capital expenditure was primarily focused on asset replacement and plant enhancements.

In thousands of NZD	FY2008	FY2009	FY2010	FY2011	FY2012	Total
Capital Expenditure						
Dryer 1	129	50,977	154	1,102	834	53,196
Milk storage vats (on farm)	614	4,666	709	526	1,089	7,604
Improvements to the Dunsandel site		16,464	410	128	3,021	20,023
AMF Plant		9,207	–	5	27	9,239
Energy Centre and Workshop		12,845	16	14		12,875
Dryer 1 Dry Store		3,426	176	7		3,609
Special Milks Dryer			7,984	1,521		9,505
Dryer 2					84,902	84,902
Dryer 2 Dry Store					5,582	5,582
Energy Centre (boiler)					8,759	8,759
Enterprise Resource Planning system					3,152	3,152
Operational Capital Expenditure	18	674	29	59	4,309	5,089
Total capital expenditure	761	98,259	9,478	3,362	111,675	223,535

Working capital
Working capital is driven by four core factors:

- Sales deliveries – the timing of sales deliveries can impact on inventory and in turn working capital.
- Commodity price and underlying foreign exchange rates – changes to the underlying commodity prices and foreign exchange rates can have a direct impact on the price of products, inventory values, customer debtors and the milk price paid to contracted farmers.
- The seasonality of milk production – inventory levels generally build significantly during the peak seasonal production periods (being October and November) and remain high until monthly sales volumes exceed monthly production volumes, generally from April onwards.
- Milk price payments – timing of advanced milk price payments to contracted farmers, based on the forecast Annual Milk Price and the volume of milk collected.

Our seasonal cash flow requirements will be funded from an $85.0 million Working Capital Facility under the New Financing Arrangements and a Trade Finance Facility provided by Mitsui & Co NZ Limited under the export agency agreement. See "Borrowings" below for more information.

Our working capital position has increased during the five year period as Synlait Milk has increased the volume of milk purchased each year and increases the amount of product manufactured and sold.

Capital structure
FY2011 marked a shift in the capital structure of our business, with the introduction of Bright Dairy as a key partner and 51% Shareholder resulting in share capital lifting by $78.6 million. We utilised this additional capital to reduce net interest bearing debt and invest in the build of Dryer 2.

Borrowings

We have negotiated New Financing Arrangements, which we intend to sign during the Offer period and come into effect immediately after the IPO occurs. The Existing Financing Arrangements between Synlait Milk, ANZ and BNZ will remain in place during the Offer period. The Existing Financing Arrangements comprise a seasonal Working Capital Facility which fluctuates throughout the year up to a maximum of $85.0 million, and term facilities of $112.0 million. ANZ and BNZ have confirmed they have obtained credit approval for the New Financing Arrangements. At 31 January 2013 $70.5 million was drawn under the Working Capital Facility under the Existing Financing Arrangements. We also had term loans totalling $95.1 million. We had committed but undrawn Existing Finance Arrangements totalling $17.7 million.

The New Financing Arrangements will consist of an $85.0 million seasonal Working Capital Facility, a $75.0 million Revolving Credit Facility and a $110.0 million Dryer 3 Term Facility. Interest rate options are utilised to help manage risks associated with fluctuations in the underlying index linked components of the financing costs.

Under the unsecured Trade Finance Facility, Mitsui & Co NZ Limited agrees to pay us amounts invoiced to customers pursuant to sales contracts (less agreed charges) within an agreed period after shipment, whether or not the customer has paid, unless the customer is insolvent. A trust is however created in favour of Mitsui & Co NZ Limited over a bank account containing trade receipts received by us directly from any such customers. As Mitsui & Co NZ Limited is our agent, if the customer does not pay Mitsui & Co NZ Limited it is our responsibility to either reimburse Mitsui & Co NZ Limited or to ensure that the customer pays.

You can find out more information about our New Financing Arrangements in Section 6.9 (Description of Synlait Milk's Financing Arrangements).

Presented in the following pages are Synlait Milk's unaudited condensed interim financial statements for the six month period ended 31 January 2013. Also presented are comparative results for the six month period ended 31 January 2012 and the FY2012 financial year ended 31 July 2012 (restated and unaudited).

Condensed Statement of Comprehensive Income for the six months ended 31 January 2013

In thousands of NZD	Six months ended 31 Jan 13	Six months ended 31 Jan 12	Year ended 31 July 2012
	Unaudited	*Restated and Unaudited*	*Restated and Unaudited*
Revenue	176,444	175,087	376,771
Cost of sales	(143,606)	(156,251)	(330,817)
Gross profit	32,838	18,836	45,954
Other income	50	498	501
Sales and distribution expenses	(10,912)	(8,772)	(21,337)
Administrative and operating expenses	(6,860)	(6,133)	(11,717)
Results from operating activities	15,116	4,429	13,401
Net financing costs	(5,763)	(3,611)	(9,165)
Profit before income tax expense	9,353	818	4,236
Total income (expense) / tax benefit	(2,592)	1,481	148
Net profit after tax for the period	6,761	2,299	4,384
Items that will not be reclassified subsequently to profit and loss			
Revaluation of property, plant and equipment	–	–	11,056
Income tax on income and expense recognised directly in equity	–	–	(3,048)
Total Items that will not be reclassified subsequently to profit and loss	–	–	8,008
Items that may be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges	(2,323)	727	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss	(674)	(632)	169
Income tax on other comprehensive income	932	(37)	347
Total Items that may be reclassified subsequently to profit and loss	(2,065)	58	(892)
Other comprehensive (loss) / income for the period, net of income tax	(2,065)	58	7,116
Total comprehensive income	4,696	2,357	11,500
Earnings per Share			
Basic and diluted (cents)	13.25	4.51	8.59
Number of Share (millions)	*51.023*	*51.023*	*51.023*

Condensed Statement of Changes in Equity for the six months ended 31 January 2013

In thousands of NZD *Restated and Unaudited*	Share Capital	Hedging Reserves	Revaluation Reserve	Retained Earnings	Total Equity
Equity at the start of the period (1 August 2011)	103,648	1,740	–	(30,570)	74,818
Accounting policy change to monthly milk price	–	–	–	(27)	(27)
Restated Equity at the start of the period (1 August 2011)	103,648	1,740	–	(30,597)	74,791
Profit for the year	–	–	–	4,384	4,384
Other comprehensive income					
Items that will not be reclassified subsequently to profit and loss					
Revaluation of property, plant and equipment	–	–	11,056	–	11,056
Income tax on income and expense recognised directly in equity	–	–	(3,048)	–	(3,048)
Total Items that will not be reclassified subsequently to profit and loss	–	–	8,008	–	8,008
Items that may be reclassified subsequently to profit and loss					
Effective portion of changes in fair value of cash flow hedges	–	(1,408)	–	–	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss	–	169	–	–	169
Income tax on income and expense recognised directly in equity	–	347	–	–	347
Total Items that may be reclassified subsequently to profit and loss	–	(892)	–	–	(892)
Total other comprehensive (loss) / income	–	(892)	8,008	–	7,116
Net change in employee benefit reserve	–	–	–	–	–
Issue of new shares	–	–	–	–	–
Share issue cost	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Equity at the end of the period (31 July 2012)	103,648	848	8,008	(26,213)	86,291

Condensed Statement of Changes in Equity for the six months ended 31 January 2013 *continued*

In thousands of NZD *Unaudited*	Share Capital	Hedging Reserves	Revaluation Reserve	Retained Earnings	Total Equity
Equity at the start of the period (1 August 2011)	103,648	1,740	–	(30,570)	74,818
Accounting policy change to monthly milk price	–	–	–	(27)	(27)
Restated Equity at the start of the period (1 August 2011)	103,648	1,740	–	(30,597)	74,791
Profit for the six months	–	–	–	2,299	2,299
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Effective portion of changes in fair value of cash flow hedges	–	727	–	–	727
Net change in fair value of cash flow hedges transferred to profit and loss	–	(632)	–	–	(632)
Income tax on income and expense recognised directly in equity	–	(37)	–	–	(37)
Total other comprehensive income	–	58	–	–	58
Net change in employee benefit reserve	–	–	–	–	–
Issue of new shares	–	–	–	–	–
Share issue cost	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Equity at the end of the period (31 January 2012)	103,648	1,798	–	(28,299)	77,147

Condensed Statement of Changes in Equity for the six months ended 31 January 2013 *continued*

In thousands of NZD *Unaudited*	Share Capital	Hedging Reserves	Revaluation Reserve	Retained Earnings	Total Equity
Equity at the start of the period (1 August 2012)	103,648	848	8,008	(24,260)	88,244
Accounting policy change to monthly milk price	–	–	–	(1,953)	(1,953)
Restated Equity at the start of the period (1 August 2012)	103,648	848	8,008	(26,213)	86,291
Profit for the six months	–	–	–	6,761	6,761
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Effective portion of changes in fair value of cash flow hedges	–	(2,323)	–	–	(2,323)
Net change in fair value of cash flow hedges transferred to profit and loss	–	(674)	–	–	(674)
Income tax on income and expense recognised directly in equity	–	932	–	–	932
Total other comprehensive loss	–	(2,065)	–	–	(2,065)
Net change in employee benefit reserve	–	–	–	–	–
Issue of new shares	–	–	–	–	–
Share issue cost	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Equity at the end of the period (31 January 2013)	103,648	(1,217)	8,008	(19,450)	90,989

Condensed Statement of Financial Position as at 31 January 2013

In thousands of NZD	Six months ended 31 Jan 13	Six months ended 31 Jan 12	Year ended 31 July 2012
	Unaudited	*Restated and Unaudited*	*Restated and Unaudited*
Current assets			
Cash and cash equivalents	3,163	4,621	922
Trade and other receivables	43,574	45,009	20,884
Goods and services tax refundable	5,521	6,044	3,492
Income accruals and prepayments	1,765	1,734	159
Inventories	102,353	86,892	30,746
Current tax asset	–	229	231
Derivatives	1,187	9,308	4,109
Capital raising costs	367	–	–
Total current assets	157,930	153,837	60,543
Non-current assets			
Property, plant and equipment	211,382	195,576	214,099
Intangible assets	2,781	448	2,871
Total non-current assets	214,163	196,024	216,970
Total assets	372,093	349,861	277,513
Current liabilities			
Working Capital Facility	70,500	43,700	2,600
Trade and other payables	80,309	94,357	70,619
Trade Finance Facility	21,559	25,461	13,617
Loans and borrowings	21,000	11,000	21,000
Derivatives	1,230	2,360	2,582
Total current liabilities	194,598	176,878	110,418
Non-current liabilities			
Loans and borrowings	74,059	88,923	70,768
Deferred tax liabilities	9,958	4,290	8,302
Derivatives	2,489	2,623	1,734
Total non-current liabilities	86,506	95,836	80,804
Total liabilities	281,104	272,714	191,222
Equity			
Share capital	103,648	103,648	103,648
Reserves	6,791	1,798	8,856
Retained deficit	(19,450)	(28,299)	(26,213)
Total equity attributable to equity holders of the Company	90,989	77,147	86,291
Total equity and liabilities	372,093	349,861	277,513

Statement of Cash Flows for the six months ended 31 January 2013

In thousands of NZD	Six months ended 31 Jan 13	Six months ended 31 Jan 12	Year ended 31 July 2012
	Unaudited	*Restated and Unaudited*	*Restated and Unaudited*
Cash flows from operating activities			
Cash receipts from customers	151,522	167,702	399,047
Cash paid to suppliers and employees	(211,104)	(199,872)	(370,240)
Goods and services (payments) / tax refunds	(2,029)	(1,548)	1,004
Income tax refunds	231	755	9
Net cash (used in) / from operating activities (Note 5)	**(61,380)**	**(32,963)**	**29,820**
Cash flows from investing activities			
Interest Received	34	23	53
Acquisition of property, plant and equipment	(2,077)	(20,834)	(29,499)
Acquisition of intangible assets	(249)	(203)	(3,260)
Net cash (used in) / from investing activities	**(2,292)**	**(21,014)**	**(32,706)**
Cash flows from financing activities			
Proceeds from issue of shares	–	–	–
Repayment of borrowings	–	–	(11,000)
Receipt from borrowings	2,924	25,102	27,947
Interest paid	(4,911)	(2,528)	(8,063)
Net cash (used in) / from financing activities	**(1,987)**	**22,574**	**8,884**
Net (decrease) / increase in cash and cash equivalents	**(65,659)**	**(31,403)**	**5,998**
Net working capital facility at beginning of period	**(1,678)**	**(7,676)**	**(7,676)**
Net working capital facility at end of period (Note 5)	**(67,337)**	**(39,079)**	**(1,678)**
Working Capital Facility	(70,500)	(43,700)	(2,600)
Cash and cash equivalents	3,163	4,621	922
Net working capital facility at end of period (Note 5)	**(67,337)**	**(39,079)**	**(1,678)**

STATEMENT OF ACCOUNTING POLICIES

1. REPORTING ENTITY

Synlait Milk Limited is a profit oriented entity incorporated and domiciled in New Zealand, registered under the Companies Act 1993. The company is a reporting entity for the purposes of the Financial Reporting Act 1993.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**). They comply with New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) "Interim Financial Reporting".

The financial statements for the six months ended 31 January 2013, the comparatives for the six months ended 31 January 2012 and the restated annual comparatives for the year ended 31 July 2012 are unaudited.

3. CHANGES IN ACCOUNTING POLICIES

The same accounting policies are applied in the interim financial statements as were applied in the financial statements for the year ended 31 July 2012 set out on pages 153 to 156, except as noted below in respect of the adoption of the Monthly Milk Price for determining the valuation of inventory.

These financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report for the year ended 31 July 2012.

The information is presented in thousands of New Zealand dollars.

Adoption of Monthly Milk Price

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

The change in milk price methodology is a change in measurement basis from an average cost inventory approach to a First In First Out basis. The Directors have determined that this change in measurement basis constitutes a change in accounting policy and therefore the comparative periods have been restated.

Comparative Figures

The comparative figures for the period ended 31 January 2012 and 31 July 2012 have been restated using the Monthly Milk Price methodology. The restatement to 31 January 2012 has reduced reported NPAT by $6.0 million, resulting in an adjusted NPAT of $2.3 million. The impact on reported NPAT for the full year to 31 July 2012 is a reduction of $1.9 million, resulting in an adjusted NPAT of $4.4 million.

The interim financial statements were approved by the Board of Directors on 21 June 2013.

4. REPORTABLE SEGMENTS

We operate in one industry, being the manufacture and sale of milk Ingredient products, Infant Formula and Nutritional products.
The Board makes resource allocation decisions based on expected cash flows and results of operations as a whole. No segmental reporting analysis has therefore been undertaken.

5. RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of NZD	Six months ended 31 Jan 13	Six months ended 31 Jan 12	Year ended 31 July 2012
	Unaudited	*Restated and Unaudited*	*Restated and Unaudited*
Net profit after tax for the period	**6,761**	**2,299**	**4,384**
Impairment loss recognised on trade receivables	–		
Depreciation and amortisation of non-current assets	5,133	3,509	8,654
Interest Costs	5,763	3,611	9,165
Deferred tax	2,592	2,505	600
Non-cash items	**13,488**	**9,625**	**18,419**
(Increase) / decrease in trade receivables	(22,690)	(5,279)	18,846
(Increase) / decrease in prepayments	(1,606)	(1,226)	349
(Increase) / decrease in other receivables	(676)	(1,378)	5,034
(Increase) / decrease in inventories	(71,607)	(74,462)	(18,316)
(Increase) / decrease in other current assets	(1,798)	(1,778)	1,013
(Increase) / decrease in trade payables	16,748	39,236	91
Movements in working capital	**(81,629)**	**(44,887)**	**7,017**
Net cash generated by operating activities	**(61,380)**	**(32,963)**	**29,820**

6. COMMITMENTS

As at 31 January 2013, we had no capital commitments (31 January 2012: nil, 31 July 2012 nil).

7. BANK LOANS

The company was fully compliant with and operating within the principal financial covenants as at 31 January 2013 under the Existing Financing Arrangements with its bankers. At 31 January 2013 the company had unutilised borrowing facilities of $17.7 million (January 2012: $10.0 million, June 2012 $48.3 million).

The existing term loan facilities mature on 30 November 2014 and are classified as non-current liabilities except for the annual tranche payments due on 31 July each year.

8. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity is Bright Dairy & Food Co., Ltd which is domiciled in the People's Republic of China. Bright Dairy Holding Limited holds 51% of the Shares issued by Synlait Milk with the remainder of Shares on issue being owned by Synlait Limited.

(b) Transactions with key management personnel:

i Loans to Directors

There were no loans to Directors during the period ended 31 January 2013 (31 January 2012: nil, 31 July 2012: nil).

ii Key management personnel compensation

Other than salaries and bonus incentives, there are no other cash benefits to Directors and executive officers.

iii Other transactions with key management personnel

Directors and key management personnel of Synlait Milk, indirectly through shareholdings in Synlait Limited, controlled 12.23% (31 January 2012: 12.23%, 31 July 2012 12.23%) of the voting Shares of Synlait Milk at balance date. The Directors and key management personnel either held their shareholdings in Synlait Limited directly, or through an entity controlled by them.

(c) Other related party transactions:

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

In thousands of NZD	Six months ended 31 Jan 13	Six months ended 31 Jan 12	Year ended 31 July 2012
Purchase of goods and services – transaction value			
Bright Dairy & Food Co., Ltd – Directors fees	172	165	165
Bright Dairy & Food Co., Ltd – Other costs	–	118	–
Synlait Farms Limited – purchase of raw milk	21,477	24,203	32,804
Purchase of goods and services – balance outstanding			
Bright Dairy & Food Co., Ltd – Directors fees	172	165	14
Bright Dairy & Food Co., Ltd – Other costs	–	118	–
Synlait Farms Limited – purchase of raw milk	5,441	3,451	6,817
Sale of goods and services – transaction value			
Bright Dairy & Food Co., Ltd – Sale of milk powder products	658	451	4,604
Bright Dairy & Food Co., Ltd – Reimbursement of costs	63	–	181
Management fees received from Synlait Farms Limited	17	113	113
Sale of goods and services – balance outstanding			
Bright Dairy & Food Co., Ltd – Sale of milk powder products	318	289	481
Bright Dairy & Food Co., Ltd – Reimbursement of costs	63	–	(39)
Management fees received from Synlait Farms Limited	3	23	8

9. SEASONALITY OF INTERIM RESULTS AND WORKING CAPITAL

The interim financial statements for the six month period ended 31 January 2013 are affected by the seasonality of the dairy industry.

The dairy Season runs from 1 June to 31 May each year. June and July are the lowest dairy farm production months and this leads to inventory levels being lowest at 31 July each year.

Working capital requirements vary considerably across the financial year, due primarily to the seasonal nature of the dairy industry causing the build-up of inventories during the peak of the dairy Season. This is shown above by the high levels of inventory on hand at 31 January each year at $102.4 million in 2013, and $86.9 million in 2012, compared to $30.7 million at 31 July 2012.

Deloitte.

REVIEW REPORT
TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

We have reviewed the interim financial statements on pages 140 to 147. The interim financial statements provide information about the past financial performance of the Company and its financial position as at 31 January 2013. This information is stated in accordance with the accounting policies set out in the Company's annual financial statements dated 31 July 2012.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the interim financial statements which give a true and fair view of the financial position of the Company as at 31 January 2013 and of the results of operations and cash flows for the 6 months ended on that date.

Independent Accountant's Responsibilities

We are responsible for reviewing the interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of Synlait Milk Limited for the 6 months ended 31 January 2013 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Other than in our capacity as auditors under the Companies Act 1993, acting as investigating accountant in respect of the initial public offering and the provision of other assurance and advisory services, we have no relationship with or interests in Synlait Milk Limited.

Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements on pages 140 to 147 do not present fairly the financial position of the Company as at 31 January 2013 and the results of operations and cash flows for the 6 months ended on that date in accordance with *NZ IAS 34: Interim Financial Reporting*.

Our review was completed on 24 June 2013 and our review opinion is expressed as at that date.

Deloitte

Chartered Accountants
Christchurch, New Zealand

This review report relates to the unaudited interim financial statements of Synlait Milk Limited for the 6 months ended 31 January 2013 included on Synlait Milk Limited's website. The Board of Directors is responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited interim financial statements since they were initially presented on the website. The review report refers only to the interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited interim financial statements and related review report dated 24 June 2013 to confirm the information included in the unaudited interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Financial Position as at 31 July 2012

In thousands of New Zealand dollars

	Note	2012	2011
Assets			
Property, plant and equipment	11	214,099	178,178
Intangible assets	12	2,871	318
Derivatives	21	–	36
Total non-current assets		216,970	178,532
Inventories	14	33,841	12,468
Current tax asset	10	231	226
Derivatives	21	4,109	6,680
Trade and other receivables	15	20,884	39,730
Income accruals and prepayments		159	508
Goods and services tax refundable		3,492	4,496
Cash and cash equivalents	16	922	2,624
Total current assets		63,638	66,732
Total assets		280,608	245,264
Equity			
Share capital	17	103,648	103,648
Reserves	17	8,856	1,740
Retained earnings / (deficit)		(24,260)	(30,570)
Total equity attributable to equity holders of the Company		88,244	74,818
Liabilities			
Deferred tax liabilities	13	9,061	5,746
Derivatives	21	1,734	1,027
Loans and borrowings	19	70,768	63,821
Total non-current liabilities		81,563	70,594
Bank overdraft	16	2,600	10,300
Trade and other payables	20	84,619	76,475
Derivatives	21	2,582	2,077
Loans and borrowings	19	21,000	11,000
Total current liabilities		110,801	99,852
Total liabilities		192,364	170,446
Total equity and liabilities		280,608	245,264

The notes on pages 153–164 are an integral part of these financial statements.

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Statement of Comprehensive Income for the Year Ended 31 July 2012

In thousands of New Zealand dollars

	Note	2012	2011
Revenue	5	376,771	298,892
Cost of sales	7	(328,143)	(277,755)
Gross profit		**48,628**	**21,137**
Other income	6	501	1,273
Sales and distribution expenses		(21,337)	(15,074)
Administrative expenses	7, 8	(10,641)	(6,799)
Operating expenses	7, 8	(1,076)	(502)
Results from operating activities		**16,075**	**35**
Finance income	9	53	81
Finance expenses	9	(9,218)	(4,418)
Net financing (costs) / income		**(9,165)**	**(4,337)**
Profit / (loss) before income tax		**6,910**	**(4,302)**
Income tax (expense) / benefit	10	(600)	1,217
Net profit / (loss) for the period		**6,310**	**(3,085)**
Other comprehensive income / (loss)			
Revaluation of property, plant and equipment		11,056	–
Effective portion of changes in fair value of cash flow hedges		(1,408)	318
Net change in fair value of cash flow hedges transferred to profit and loss		169	(2,238)
Income tax on other comprehensive income	10	(2,701)	662
Other comprehensive income / (loss) for the period, net of income tax		**7,116**	**(1,258)**
Total comprehensive income / (loss) for the year		**13,426**	**(4,343)**

The notes on pages 153–164 are an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 July 2012

In thousands of New Zealand dollars

	Note	Share Capital	Hedging Reserve	Revaluation Reserve	Retained Earnings	Total Equity
Balance at 1 August 2010		25,000	2,998	–	(27,485)	513
(Loss) for the year		–	–	–	(3,085)	(3,085)
Other comprehensive income / (loss)						
Effective portion of changes in fair value of cash flow hedges		–	318	–	–	318
Net change in fair value of cash flow hedges transferred to profit and loss		–	(2,238)	–	–	(2,238)
Income tax on income and expense recognised directly in equity		–	662	–	–	662
Total other comprehensive income / (loss)		–	(1,258)	–	–	(1,258)
Issue of new shares	17	82,000	–	–	–	82,000
Share issue cost	17	(3,352)	–		–	(3,352)
Total contributions by and distributions to owners		78,648	–	–	–	78,648
Balance at 31 July 2011		103,648	1,740	–	(30,570)	74,818
Profit for the year		–	–	–	6,310	6,310
Other comprehensive income						
Revaluation of property, plant and equipment		–		11,056	–	11,056
Effective portion of changes in fair value of cash flow hedges		–	(1,408)	–	–	(1,408)
Net change in fair value of cash flow hedges transferred to profit and loss		–	169	–	–	169
Income tax on income and expense recognised directly in equity		–	347	(3,048)	–	(2,701)
Total other comprehensive income		–	(892)	8,008	–	7,116
Issue of new shares	17	–	–	–	–	–
Share issue cost	17	–	–	–	–	–
Total contributions by and distributions to owners		–	–	–	–	–
Balance at 31 July 2012		103,648	848	8,008	(24,260)	88,244

The notes on pages 153–164 are an integral part of these financial statements.

SEC 6

Statement of Cash Flows for the Year Ended 31 July 2012

In thousands of New Zealand dollars

	Note	2012	2011
Cash flows from operating activities			
Cash receipts from customers		399,048	274,575
Cash paid to suppliers and employees		(370,241)	(258,220)
Goods and services tax refunds / (payments)		1,003	(1,794)
Income tax refunds / (payments)		10	(53)
Net cash from operating activities		29,820	14,508
Cash flows from investing activities			
Interest Received		53	81
Acquisition of property, plant and equipment		(29,499)	(79,125)
Disposal / (Acquisition) of intangible assets		(3,260)	(260)
Net cash (used in) investing activities		(32,706)	(79,304)
Cash flows from financing activities			
Proceeds from issue of shares		–	80,440
Payment of borrowing		(11,000)	(81,405)
Receipt from borrowing		27,947	74,821
Interest paid		(8,063)	(4,418)
Net cash from financing activities		8,884	69,438
Net increase in cash and cash equivalents		5,998	4,642
Net overdraft at beginning of period		(7,676)	(12,318)
Net overdraft at end of period	16	(1,678)	(7,676)

The notes on pages 153–164 are an integral part of these financial statements.

1. REPORTING ENTITY

Synlait Milk Limited (the "Company") is a profit oriented entity incorporated and domiciled in New Zealand. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

The financial statements were approved by the Board of Directors on 14 November 2012.

(b) Basis of measurement

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

- Land, buildings, plant and equipment
- derivative financial instruments

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency and are rounded to the nearest thousand ($000).

(d) Use of estimates and judgements

The preparation of financial statements 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.

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

(e) Changes in accounting policies

There have been no changes in accounting policies during the current year.

(f) Differential Reporting

The Company qualifies for differential reporting exemptions as it is not publically accountable and there is no separation between the owners and the governing body. The Company has taken advantage of all available differential reporting exceptions except for NZ IAS 7 'Statement of Cash Flows' and NZ IAS 12 'Income Taxes'.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have all been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

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) Financial instruments

i. Non-derivative financial instruments

Loans and receivables:
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

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

Trade and other payables:
Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods or services. 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 rate method.

Loans and borrowings:
Borrowings are recorded initially at fair value, plus transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Recognition and derecognition:
A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

ii. Derivative financial instruments

The Company 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.

Derivatves 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 sheet date, The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Company.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current libailities.

Hedge accounting
The Company designates certain hedging instruments in respect of foreign currency risk as either cash flow hedges, or fair value hedges. Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges.

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At the inception of the hedge relationship, the Company 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. Furthermmore, at the inception of the hedge and on an ongoing basis, the Company 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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the 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 the Other Income or Finance Expense line.

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 discountinued when the Company revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or excercised, 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.

(c) Property, plant and equipment

i. Recognition and measurement

Office equipment is 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.

ii. Revaluations

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

iii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company 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.

iv. Depreciation

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

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

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

- buildings	10–50 years
- fixtures and fittings	2–20 years
- plant and equipment	3–33 years
- vehicles	5–10 years

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

(d) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Company'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.

(e) Inventories

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

(f) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

i. Impairment of receivables

The recoverable amount of the Company'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.

ii. Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

(g) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit or loss when incurred.

(h) Short-term employee benefits

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

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

(i) Revenue

Sale 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, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For local sales, transfer occurs at the point the goods are picked up by the purchaser. For international shipments, transfer occurs upon loading the goods onto the relevant carrier.

Interest Revenue:
Interest revenue is recognised using the effective interest rate method.

Effective Interest Method:
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount of the financial asset.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables and losses on hedging instruments that are recognised in profit or loss). Borrowing costs are recognised in profit or loss with the exception of borrowing costs that are attributable to construction or production of qualifying assets, in these cases borrowing costs are capitalised as part of that asset.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows;

- operating activities are the principle revenue producing activities of the Company and other activities that are not investing or financing activities;
- investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- financing activities are activities that result in changes in the size and compositon of the contributed equity and borrowings of the entity. The Company has elected to show the cost of servicing borrowings in the financing activities section of the statement of cash flows.

(n) Adoption of new or revised standards and interpretations

No standards have been adopted during the year which have had a material impact on these financial statements. We are not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods set out below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

Land and buildings and plant and equipment, excluding office equipment, are included in the statement of financial position at either their depreciated replacement cost (for buildings and plant and equipment) or market value (for land) as determined on a cyclical basis, not exceeding three years, by an independent registered valuer. Fair value is the amount for which assets could be exchanged between knowledgeable and willing buyers and sellers in an arms length transaction at the valuation date. Fair value is determined based on depreciated replacement cost. The fair values are reviewed at the end of each reporting period to ensure that the carrying value of the assets is not materially different from their fair values.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows.

(c) Derivatives

The fair value of forward exchange contracts and interest rate swaps are measured at the present value of future cashflows using forward foreign exchange market rates at balance date and yield curves derived from quoted interest rates matching maturities of the contracts.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. REVENUE

In thousands of New Zealand dollars

Revenue	2012	2011
Milk powder and milk powder related products	376,771	298,892
Total revenue	376,771	298,892

6. OTHER INCOME

In thousands of New Zealand dollars

	2012	2011
Management fees	113	1,196
Other sundry income	388	77
Total other income	501	1,273

7. PERSONNEL EXPENSES

In thousands of New Zealand dollars

	2012	2011
Wages and salaries	12,584	7,647

The above wages and salaries are included within Cost of Sales, Operating and Administrative expenses.

8. ADMINISTRATIVE AND OPERATING EXPENSES

In thousands of New Zealand dollars

	2012	2011
Audit services – Deloitte	125	50
Other services provided by Deloitte	777	113
The following items of expenditure are included in operating expenses		
Research and development expenses	1,076	502

The above items of expenditure are included in administrative expenses.

9. FINANCE INCOME AND EXPENSE

In thousands of New Zealand dollars

	2012	2011
Interest income on bank deposits	53	81
Finance income	53	81
Interest & facility fees (net of capitalised interest)	(10,626)	(5,069)
Settlement of ineffective portion of cash flow hedges	1,408	3,563
Ineffective portion of changes in fair value of cash flow hedges	–	(2,912)
Finance expense	(9,218)	(4,418)
Net finance Income / (expenses)	(9,165)	(4,337)

10. INCOME TAX EXPENSE

In thousands of New Zealand dollars

	Note	2012	2011
Current period		–	–
Adjustment for prior period		14	–
Current tax payable		14	–
Temporary differences		(2,182)	1,277
Prior period adjustments			
Additional prior year tax losses brought forward		1,704	–
Other prior year adjustments		(136)	(20)
Deferred tax (expense) / benefit	13	(614)	1,217
Total income tax (expense) / benefit		(600)	1,217

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10. INCOME TAX EXPENSE CONTINUED

Income tax recognised in other comprehensive income

In thousands of New Zealand dollars	2012 Before tax	2012 Tax (expense) benefit	2012 Net of tax	2011 Before tax	2011 Tax (expense) benefit	2011 Net of tax
Cash flow hedges	(1,239)	347	(892)	(1,920)	662	(1,258)
Revaluation of property, plant and equipment	11,056	(3,048)	8,008	–	–	–
Total	9,817	(2,701)	7,116	(1,920)	662	(1,258)

Reconciliation of effective tax rate

In thousands of New Zealand dollars

	2012	2011
Profit (Loss) before income tax	6,910	(4,302)
Income tax using the Company's domestic tax rate – 28% (2011:30%)	(1,935)	1,290
Permanent differences		
Reduction in tax rate of buildings	(41)	(53)
Tax exempt income	(3)	–
Other non deductable costs	(203)	–
Prior period adjustments		
Additional prior year tax losses brought forward	1,704	–
Other prior year adjustments	(122)	(20)
Total income tax (expense) / benefit	(600)	1,217

Imputation credits

In thousands of New Zealand dollars

	2012	2011
Imputation credits at 1 June	226	172
New Zealand tax payments, net of refunds	–	–
Resident withholding tax attached to interest received	5	54
Other credits	–	–
Imputation credits at end of period	231	226

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of New Zealand dollars

	Land and buildings	Plant and equipment	Office equipment	Assets under construction	Total
Cost or revaluation					
Balance at 1 August 2010	24,541	82,323	1,634	2,689	111,187
Additions	224	2,942	196	77,354	80,716
Reclassifications	–	–	–	–	–
Balance at 31 July 2011	24,765	85,265	1,830	80,043	191,903
Additions	4,536	2,439	566	28,450	35,991
Disposals	(29)	(13)	–	–	(42)
Reclassification / transfer	5,229	95,795	–	(104,176)	(3,152)
Revaluation	1,931	10,272	–	–	12,203
Balance at 31 July 2012	36,432	193,758	2,396	4,317	236,903
Accumulated depreciation					
Balance at 1 August 2010	1,486	6,745	703	–	8,934
Depreciation for the period	797	3,811	183	–	4,791
Balance at 31 July 2011	2,283	10,556	886	–	13,725
Depreciation for the period	959	6,720	281	–	7,960
Disposals	(18)	(10)	–	–	(28)
Revaluation	180	967	–	–	1,147
Balance at 31 July 2012	3,404	18,233	1,167	–	22,804
Carrying amounts					
At 31 July 2011	22,482	74,709	944	77,880	178,178
At 31 July 2012	33,027	175,526	1,229	4,317	214,099

Capitalised Interest

Assets constructed during the period to 31 July 2012 include the Dryer two milk plant. Capitalised interest of $2.56m has been recognised in the period to 31 July 2012 (2011: $4.05m).

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. The forecasted cashflows support the carrying value of assets.

Security

At 31 July 2012, the carrying value of property, plant and equipment is subject to a fixed and floating charge securing bank loans (see note 19).

Revaluations

Land, buildings, plant and equipment were independently valued as at 31 July 2012 by Jones Lang LaSalle using either the depreciated replacement cost method (for buildings and plant and equipment) or market based valuation (for land). The method applied by the valuer is described in note 3 (c). Land, buildings, 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, plant and equipment would have been $197.5m, resulting in a revaluation of $11.1m.

Revaluations are accounted for by proportionately increasing both the cost and accumulated depreciation in order to arrive at the new carrying value.

Asset under construction

Assets under construction include software projects, until which time as they are commissioned and transferred to intangible assets.

12. INTANGIBLE ASSETS

In thousands of New Zealand dollars

	Trade-marks	Supplier contracts	Brand Assets	Software	Total
Balance at 31 July 2010	58	–	–	–	58
Acquisitions	1	259	–	–	260
Amortisation	–	–	–	–	–
Balance at 31 July 2011	59	259	–	–	318
Transfer from assets under construction	–	–	–	3,152	3,152
Acquisitions	6	–	102	–	108
Amortisation	–	(88)	–	(619)	(707)
Balance at 31 July 2012	65	171	102	2,533	2,871

13. DEFERRED TAX ASSETS AND LIABILITIES

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of New Zealand dollars

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	–	–	(13,760)	(7,643)	(13,760)	(7,643)
Derivatives	–	–	(330)	(677)	(330)	(677)
Other items	163	417	(16)	(17)	147	400
Tax loss carry-forward	4,882	2,174	–	–	4,882	2,174
Net tax (assets) / liabilities	5,045	2,591	(14,106)	(8,337)	(9,061)	(5,746)

Movement in temporary differences during the period

In thousands of New Zealand dollars

	Balance 1 Aug 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 July 2012
Property, plant & equipment	(5,314)	(2,329)	–	(7,643)	(3,069)	(3,048)	(13,760)
Derivatives	(1,861)	522	662	(677)	–	347	(330)
Other items	(449)	849	–	400	(253)	–	147
Tax loss carry-forward	–	2,174	–	2,174	2,708	–	4,882
Total	(7,624)	1,216	662	(5,746)	(614)	(2,701)	(9,061)

14. INVENTORIES

In thousands of New Zealand dollars

	2012	2011
Finished goods	22,485	6,910
Raw materials and consumables	11,356	5,558
Total inventories	33,841	12,468

15. TRADE AND OTHER RECEIVABLES

In thousands of New Zealand dollars

	2012	2011
Accounts receivable	20,884	39,730
Total trade and other receivables	20,884	39,730

Accounts receivable are amounts incurred in the normal course of business. Receivables denominated in other currencies other than the functional currency comprise NZ$19.26 m (2011: $32.13m) of USD denominated trade receivables and accruals.

16. CASH AND CASH EQUIVALENTS

In thousands of New Zealand dollars

	2012	2011
Cash and cash equivalents	922	2,624
Bank overdrafts used for cash management purposes (refer to note 19)	(2,600)	(10,300)
Cash and cash equivalents in the statement of cashflows	(1,678)	(7,676)

17. CAPITAL AND RESERVES

Share capital

	Ordinary shares	
Number of ordinary shares	2012	2011
On issue at beginning of period	51,022,858	25,001,200
Issue of shares	–	26,021,658
On issue at end of period	51,022,858	51,022,858

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.

Revaluation Reserves

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.

Hedging reserves

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

Dividends

No dividends were declared by the Company during the year.

18. CAPITAL MANAGEMENT

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

The Company'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 recognises 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 is subject to various security ratios within the Company bank loans.

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

19. LOANS AND BORROWINGS

In thousands of New Zealand dollars

Non-current liabilities	2012	2011
Secured bank loans	71,230	64,625
Loan facility fees	(462)	(804)
Balance at end of period	70,768	63,821

Current liabilities		
Secured bank overdraft	2,600	10,300
Secured bank loans	21,000	11,000
Balance at end of period	23,600	21,300

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings.

Terms of loans and borrowings

Group	Nominal interest rate	Year of maturity	Carrying amount 2012	Carrying amount 2011
Secured bank loan – ANZ / BNZ	5.05%	2014	91,768	74,821
Secured bank overdraft – ANZ / BNZ	4.98%	2014	2,600	10,300

The secured bank loans and bank overdraft within Synlait Milk Limited are secured under the terms of the Composite Security Deed dated 26 July 2010, by which all present and future property is secured to the ANZ National Bank and Bank of New Zealand.

As the loans facility maturity period expires in December 2014 these loans and borrowings have been classified as non-current, except for the annual tranche payments due 31 July each year.

20. TRADE AND OTHER PAYABLES

In thousands of New Zealand dollars

	2012	2011
Trade payables	35,888	31,470
Accruals and other payables	48,731	45,005
Balance at end of period	84,619	76,475

21. DERIVATIVES

Derivative balances comprise of:

In thousands of New Zealand dollars

	2012	2011
Foreign currency forward contracts	3,756	4,654
Interest rate swaps	(3,963)	(2,911)
Land purchase option	–	1,869
Balance at end of period	(207)	3,612

Classified as:

In thousands of New Zealand dollars	2012	2011
Non current assets	–	36
Current assets	4,109	6,680
Non current liabilities	(1,734)	(1,027)
Current liabilities	(2,582)	(2,077)
	(207)	3,612

22. RELATED PARTIES

(a) Parent Entity

The parent entity is Bright Dairy and Food Limited which is domiciled in the Peoples Republic of China. Bright Dairy and Food Limited hold 51% of the shares issued by the Company with the remainder of shares on issue being owned by Synlait Limited.

(b) Transactions with key management personnel:

i. Loans to directors

There were no loans to directors issued during the period ended 31 July 2012 (2011: $nil).

ii. Key management personnel compensation

Other than their salaries and bonus incentives, there are no other cash benefits to directors and executive officers.

iii. Other transactions with key management personnel

Directors of the Company, indirectly through shareholdings in Synlait Limited, control 13.3% (2011: 12.9%) of the voting shares of the company at balance date.

iv. Other related party transactions:

Purchase of goods and services

	Transaction value		Balance outstanding	
In thousands of New Zealand dollars	2012	2011	2012	2011
Bright Dairy & Food Co Ltd – Directors fees	165	61	14	61
Synlait Farms Limited – purchase of raw milk	32,804	45,838	6,817	3,557

Sale of goods and services

	Transaction value		Balance outstanding	
In thousands of New Zealand dollars	2012	2011	2012	2011
Bright Dairy & Food Co Ltd – Sale of Milk Powder Products	4,604	9,107	481	1,655
Bright Dairy & Food Co Ltd – Reimbursement of costs	181	0	(39)	0
Management fees received from Synlait Farms Limited	113	1,196	8	1,704

Synlait Farms Limited is a 100% subsidary of Synlait Limited.

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

23. OPERATING LEASES

Leases as lessees:

Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars	2012	2011
Less than one year	840	633
Between one and five years	–	232
Greater than 5 years	–	–

The operating leases relate to the leasing of warehouse space. All terms are reviewed on a regular basis.

24. COMMITMENTS

As at 31 July 2012 the Company has no capital commitments (2011: $16.192m).

25. CONTINGENCIES

The company has no contingent liabilities as at 31 July 2012 (2011: nil)

26. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

In thousands of New Zealand dollars	2012	2011
Profit (Loss) for the year	6,310	(3,085)
Non-cash and non operating items:	21,000	5,030
Depreciation and amortisation of non-current assets	8,639	4,800
Interest costs classified as financing cash flow	9,166	4,337
Deferred tax	614	(1,217)
(Increase) / decrease in other receivables	2,581	(2,890)
Movements in working capital:	2,510	12,563
(Increase) / decrease in trade receivables	18,846	(23,933)
(Increase) / decrease in prepayments	349	1,233
(Increase) / decrease in inventories	(21,373)	13
(Increase) / decrease in other current assets	1,012	(1,847)
(Decrease) / increase in trade and other payables	3,676	37,097
Net cash generated by operating activities	29,820	14,508

Deloitte.

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 on pages 149 to 164, which comprise the statement of financial position as at 31 July 2012, the statement of comprehensive income, the statement of changes in equity and the statement 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 is 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, the provision of information technology services, taxation and financial model assurance and assistance we have no relationship with or interests in Synlait Milk Limited.

Opinion

In our opinion, the financial statements on pages 149 to 164:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Synlait Milk Limited as at 31 July 2012, and its financial performance and its cash flows for the year ended on that date.

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 2012:

- 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
14 November 2012
Christchurch, New Zealand

This audit report relates to the financial statements of Synlait Milk Limited for the year ended 31 July 2012 included on Synlait Milk Limited's website. The Board of Directors is responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to / from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 14 November 2012 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Deloitte.

24 June 2013

Board of Directors
Synlait Milk Limited
1028 Heslerton Road
R D 13
RAKAIA 7783

Dear Directors

INDEPENDENT AUDITOR'S REPORT

This report is issued in respect of the Initial Public Offering of ordinary shares in Synlait Milk Limited (the 'Company' and 'issuer') in terms of the prospectus and investment statement dated 24 June 2013 (the "Offer Document").

This report is made solely to the directors of the Company (the "directors"), in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009 ("Schedule 1"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible for the preparation and presentation of:

a) the financial statements including those required by clause 23 of Schedule 1. The financial statements of the Company, referred to on pages 149 to 164, comprise the statement of financial position as at 31 July 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The directors are responsible to ensure that the financial statements comply with generally accepted accounting practice in New Zealand and give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

b) the summary financial statements of the Company for the years ended 31 July 2008, 2009, 2010, 2011 and 2012 as required by clause 9 of Schedule 1;

c) the summary financial statements of the Company for the six months ended 31 January 2013; and

d) the prospective financial information of the Company for the years ending 31 July 2013 and 2014, including the assumptions on which the prospective financial information is based, as required by clause 11 of Schedule 1.

Auditor's Responsibilities

We are responsible for:

a) expressing an independent opinion on the financial statements of the Company as at 31 July 2012, and for the year ended on that date, prepared and presented by the directors, and reporting our opinion in accordance with clause 28(1) of Schedule 1;

b) reporting, in accordance with clause 28(1)(h) of Schedule 1, on the amounts included in the summary financial statements for the years ended 31 July 2008, 2009, 2010, 2011 and 2012 and for the six months ended 31 January 2013; and

c) reporting, in accordance with clause 28(2) of Schedule 1, on the prospective financial information for the years ending 31 July 2013 and 2014.

This report has been prepared for inclusion in the Offer Document for the purpose of meeting the requirements of clause 28 of Schedule 1. We disclaim any assumption of responsibility for reliance on this report or the amounts and disclosures included in the financial statements, the summary financial statements and the prospective financial information for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

Independence

When carrying out the audit we followed the independence requirements of the External Reporting Board.

In addition to the audit, we have carried out other assurance and advisory services for the Company and Deloitte has acted as the investigating accountant in respect of this public offer. These are services that are compatible with these independence requirements. Other than these matters and the audit, we have no relationship with or interests in the Company.

Basis of Opinion

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 have also undertaken procedures to provide reasonable assurance that the amounts in the summary financial statements have been correctly taken from audited or unaudited financial statements.

In addition, we have examined the prospective financial information to confirm that, so far as the accounting policies and calculations are concerned, they have been properly compiled on the footing of the assumptions made or adopted by the directors of the Company and are presented on a basis consistent with the accounting policies normally adopted by the Company. The assumptions relate to future events. However, we are not in a position to, and do not express an opinion on, these assumptions on a stand-alone basis.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

b) the financial statements on pages 149 to 164 that are provided (including pursuant to clause 23 of Schedule 1) and that are audited:

    i. subject to the Securities Regulations 2009, comply with generally accepted accounting practice in New Zealand;

    ii. give a true and fair view of the matters to which they relate;

    Our audit of the financial statements of the Company as at 31 July 2012 and for the year ended on that date was completed on 14 November 2012 and our unmodified opinion was expressed as at that date. We have not performed any procedures in relation to the 31 July 2012 annual financial statements subsequent to 14 November 2012.

c) the amounts in the summary financial statements, on pages 133 to 138, have been correctly taken from audited financial statements of the Company for the years ended 31 July 2008, 2009, 2010, 2011 and 2012 and from unaudited financial statements of the Company for the six months ended 31 January 2013; and

d) the prospective financial information for the years ending 31 July 2013 and 2014 set out on pages 117 to 121, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the directors of the Company set out on pages 122 to 130 of this Offer Document and is presented on a basis consistent with the accounting policies normally adopted by the Company as set out on pages 153 to 156 except for changes in accounting policies set out on page 122.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether results consistent with the prospective financial information will be achieved.

We completed our work for the purposes of this report on 24 June 2013 and our unqualified opinion is expressed as at that date.

Yours faithfully
DELOITTE

Deloitte

Chartered Accountants
Christchurch, New Zealand

This audit report relates to the prospectus of Synlait Milk Limited dated 24 June 2013 included on Synlait Milk Limited's website. The Board of Directors is responsible for the maintenance and integrity of Synlait Milk Limited's website. We have not been engaged to report on the integrity of Synlait Milk Limited's website. We accept no responsibility for any changes that may have occurred to the prospectus since it was initially presented on the website. The audit report refers only to the prospectus named above. It does not provide an opinion on any other information which may have been hyperlinked to / from the prospectus. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the prospectus and related audit report dated 24 June 2013 to confirm the information included in the prospectus presented on this website. Legislation in New Zealand governing the preparation and dissemination of prospectuses may differ from legislation in other jurisdictions.

Deloitte.

24 June 2013

The Directors
Synlait Milk Limited
1028 Heslerton Road
R D 13
RAKAIA 7783

Synlait Milk Limited
1028 Heslerton Road
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INVESTIGATING ACCOUNTANT'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION

1. Introduction

We have prepared this Investigating Accountant's Report (the "Report") on the prospective financial information of Synlait Milk Limited (the "Company") for inclusion in the prospectus and investment statement ("Offer Document") to be dated on or about 24 June 2013 and to be issued by the Company, in respect of the Initial Public Offering of ordinary shares in Synlait Milk Limited (the "Offer").

Expressions defined in the Offer Document have the same meaning in this Report.

2. Scope

Deloitte has been requested to prepare this Report to cover the Prospective Financial Information as defined below:

The prospective financial information as set out in pages 117 to 130 of the Offer Document comprises:

- Prospective consolidated statements of comprehensive income of the Company for the years ending 31 July 2013 and 31 July 2014;
- Prospective consolidated statements of changes in equity of the Company for the years ending 31 July 2013 and 31 July 2014;
- Prospective consolidated statements of financial position of the Company as at 31 July 2013 and 31 July 2014;
- Prospective consolidated statements of cash flows of the Company for the years ending 31 July 2013 and 31 July 2014; and
- Notes and assumptions to these consolidated prospective statements of comprehensive income, changes in equity, financial position and cash flows,

(hereafter, the "Prospective Financial Information").

The Prospective Financial Information is based on the assumptions as outlined on pages 122 to 130 of the Offer Document.

This Report is made solely to the Company and its directors for inclusion in the Offer Document. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978 we do not accept or assume responsibility to anyone other than the Addressees of this report for the conclusions that we have formed.

3. Directors' Responsibility for the Prospective Financial Information

The Directors of the Company have prepared and are responsible for the preparation and presentation of the Prospective Financial Information. The Directors are also responsible for the determination of the best-estimate assumptions as set out on pages 122 to 130 of the Offer Document.

4. Our Responsibility

Our responsibility is to express a conclusion on the Prospective Financial Information based on our review.

We have conducted an independent review of the Prospective Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

a) The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;

b) The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;

c) The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Company disclosed in the annual financial statements of Synlait Milk Limited as at and for the year ended 31 July 2012 on pages 153 to 156, and on page 122 of the Offer Document; and

d) The Prospective Financial Information is unreasonable.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Company's potential future financial performance and position based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from the Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out under the heading "What are my risks?" in the Answers to Important Questions section of the Offer Document and under the heading Risks in Section 5 of the Offer Document.

Our review of the best estimate assumptions underlying the Prospective Financial Information was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued by the External Reporting Board, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out above.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

5. Review conclusion on Prospective Financial Information

Based on our review of the Prospective Financial Information, which is not an audit, and based on our review of the reasonableness of the Directors' best-estimate assumptions giving rise to the Prospective Financial Information, nothing has come to our attention which causes us to believe that:

- The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Company disclosed on pages 153 to 156 and page 122 of the Offer Document; and
- The Prospective Financial Information is unreasonable.

The best-estimate assumptions, set out in pages 122 to 130 of the Offer Document, are subject to significant uncertainties and contingencies often outside the control of the Company and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by the Company may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

6. Independence or Disclosure of Interest

Deloitte does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. We have no relationship with or interests in the Company other than in our capacity as auditor, investigating accountant, and providers of other assurance and advisory services. These services have not impaired our independence as auditor of Synlait Milk Limited.

7. Restriction of Use

This Report has been prepared for inclusion in the Offer Document. We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Yours faithfully
DELOITTE

Paul Munro
Partner

EXISTING FINANCING ARRANGEMENTS

We have negotiated New Financing Arrangements, which we intend to sign during the Offer period and come into effect immediately after the IPO occurs. The Existing Financing Arrangements between Synlait Milk, ANZ and BNZ will remain in place during the Offer period.

NEW FINANCING ARRANGEMENTS

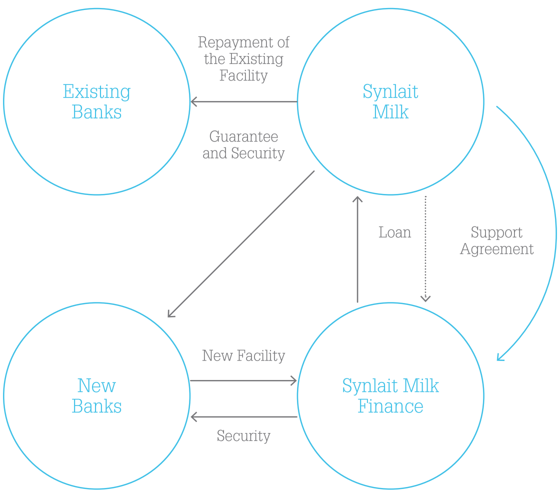
We are entering into the New Financing Arrangements to fund our Growth Initiatives and to change the terms of our arrangements with our banking syndicate to reflect the fact that we will now be a listed company, our improved capital structure and how we have grown over time.

The New Financing Arrangements will provide funds to finance our Growth Initiatives that would not be available under the Existing Financing Arrangements. They also include a new financing structure and new financial covenants (discussed below).

We expect that the New Financing Arrangements will be available after all of the conditions to borrowing money are satisfied, which will include us raising $75 million under the Offer (before costs associated with the Offer are deducted). If all the conditions are not satisfied by 30 August 2013 or the New Financing Arrangements are not entered into, then the Existing Financing Arrangements will continue and the New Financing Arrangements will not come into force.

Financing Structure

Synlait Milk Finance will borrow the money from ANZ and BNZ under the New Financing Arrangements. Synlait Milk Finance will then lend that money to us. We will use the money lent to us, together with the money raised under the Offer, to repay our debt under our Existing Financing Arrangements and to fund our Growth Initiatives as described in Section 4.1 (Business Description). Under the New Financing Arrangements, we will guarantee Synlait Milk Finance's obligations to ANZ and BNZ.



Synlait Milk Finance is our wholly-owned subsidiary. Using a wholly-owned subsidiary to borrow money is a common arrangement for listed companies. The intercompany loan and our direct agreement to fund any liabilities of Synlait Milk Finance (being, in part, the New Financing Arrangements) are Synlait Milk Finance's main assets.

Facilities

Under our New Financing Arrangements, the banks will provide the following facilities to us:

Facility	Amount	Purpose	Expiry Date
Seasonal Working Capital Facility[38]	$85 million	General corporate and working capital purposes.	31 July 2014 *(but expected to be extended annually)*
Revolving Credit Facility	$75 million	Repayment of our existing debt. Funding the construction and associated costs of: - a lactoferrin plant; - a blending and consumer packaging plant; - a warehouse; - a butter plant; and - a quality testing laboratory. Funding other capital expenditure projects of no more than $7.5 million each year, unless the lenders agree otherwise.	31 July 2016
D3 Term Facility[39]	$110 million	Funding the construction of Dryer 3 and all associated costs. Refinancing the preliminary costs relating to the construction of Dryer 3 funded by the Working Capital Facility or the Revolving Credit Facility.	31 July 2017

The banks will require that Synlait Milk Finance satisfy certain conditions before it can borrow amounts under the new loan agreement as part of the New Financing Arrangements. These conditions will be reasonably standard for a loan of this type, except that some conditions will specifically relate to the dairy industry and the completion of the Offer. If the conditions are not met or the New Financing Arrangements are not entered into, the Existing Financing Arrangements will continue in force.

Security

ANZ currently has security from us, and it is intended that ANZ will take security from us and Synlait Milk Finance on behalf of itself and BNZ in relation to the New Financing Arrangements. This means that all of our (and all of our subsidiaries) present and future assets, and the present and future assets of Synlait Milk Finance and all of its subsidiaries, (including any interests in land but excluding a bank account holding certain trade receipts) are intended to be collateral for the loans from the banks. This is consistent with our current security arrangements.

[38] The Seasonal Working Capital Facility is expected to be available in NZD or USD. The $85 million limit will be in NZD.

[39] The D3 Term Facility is intended to be available on the later of 1 August 2014 and the satisfaction of conditions to borrowing the D3 Term Facility. The D3 Term Facility is intended to automatically terminate if Synlait Milk does not borrow any cash under it by 30 November 2014. We expect that no amounts of the D3 Term Facility will be able to be borrowed after 31 July 2017.

We anticipate that the Seasonal Working Capital Facility or the Revolving Credit Facility will be able to be used to fund, altogether, up to $5 million of preliminary costs relating to the construction of Dryer 3. These will be refunded by the D3 Term Facility when it becomes available.

ANZ and BNZ's security will mean that if we or Synlait Milk Finance do not pay principal and interest when due or do not comply with the other obligations under the New Financing Arrangements once entered into, then ANZ will be able to enforce that security on behalf of the banks, by doing things like appointing a receiver, or selling our assets to repay the debt.

This security is intended to be "first ranking", meaning that, after the people the law requires to be paid first, ANZ and BNZ will be the first persons to be repaid in the event of an insolvency. In an insolvency, the banks would need to be fully repaid before Shareholders receive anything.

We and Synlait Milk Finance also intend to provide cross guarantees in relation to all our obligations to ANZ and BNZ as part of the Financing Arrangements. This means that we will guarantee each other's obligations to the banks, and that ANZ and BNZ would be able to pursue us if Synlait Milk Finance does not meet any of its obligations to the banks.

Financial Covenants

The New Financing Arrangements will contain a number of legally binding promises from both us and Synlait Milk Finance. Important among these will be covenants regarding financial matters that require us and Synlait Milk Finance to maintain certain levels of Shareholder funds and operate within defined performance and gearing ratios, as set out below:

Shareholders' Funds	The ratio of Shareholders' Funds (total assets of the company less total liabilities and excluding foreign exchange revaluation) to Total Tangible Assets (total assets of the company (less intangible assets like goodwill, patents and trademarks and excluding foreign exchange revaluation)) is to be at least 35%.
Interest Cover Ratio	The ratio of EBITDA to interest expense for a relevant year is to be not less than 2.25x for the period 1 April 2013 to 31 July 2013 and after that 3.0x (tested quarterly).
Working Capital Ratio	The ratio of (1) the value of certain inventory plus certain debtors of the Group to (2) the amount owed to the banks under the Seasonal Working Capital Facility plus the debt to Mitsui under the Export Agency Agreement is to be not less than 1.5x from 1 January 2014 to 30 June 2014 and 1.25x at all other times from financial close under the New Financing Arrangements until 31 July 2014 (and may be changed or extended if the Seasonal Working Capital Facility is extended).

Failure to meet any covenant will be an event of default. When we entered into the dairy industry, in our early years we faced some challenges meeting our financial covenants. From time to time, we have not met our financial covenants and have required certain financial covenants to be waived. However, our current banks have remained supportive and have been committed to working with us during these periods and to date. At the last date on which we were tested, we were fully compliant with our financial covenants under our Existing Financing Arrangements.

Over time, we have grown and are now in a better position to meet all our financial covenants, but there has been an instance in the last year of us breaching a financial covenant and requiring a waiver. We required a waiver of a special production variance covenant that only applied during the financial year ended 31 July 2013. That production variance covenant related to the difference between the budgeted and actual amount of WMP and infant formula produced by us during that financial year and measured quarterly. Due to the timing of actual infant formula sales mainly falling in the later half of the year, we did not meet the budgeted volumes in the first half of the year. The financial covenant was then changed to become a combined test as the lenders agreed that the individual tests for WMP and infant formula were no longer relevant.

The financial covenants under the New Financing Arrangements are intended to be changed to reflect our growth over time and improved capital structure and the fact that we will now be a listed company. The new financial covenants are expected to be fully complied with during the period to which the prospective financial information relates.

Events of Default

The events of default under our New Financing Arrangements will be usual for a loan agreement of this nature, including any untrue statement, breach of the agreement or an insolvency related event, and breach of certain important documents relating to the New Financing Arrangements.

If an event of default occurs the banks will be able to require that Synlait Milk Finance pays back all of the money it borrowed from them and enforce their security, including by appointing a receiver.

Events of Review

The New Financing Arrangements will also include events which are called events of review. These will include change of control, de-listing of Synlait Milk from the NZX, failure to comply with obligations in relation to milk supply and the milk payment regime and failure to comply with certain obligations in relation to the construction of the Dryer 3 Project. If an event of review occurs and a satisfactory solution has not been reached, then ANZ on behalf of the banks will be able to, after discussing the issue with Synlait Milk Finance for an agreed period, terminate the facilities on 30 days' notice and require the repayment of all the facilities 30 days from when it gives notice. Any failure to pay could result in ANZ enforcing the security on behalf of the banks.

Finance Cost

Synlait Milk Finance will pay interest on and fees in relation to the loans under the New Financing Arrangements. We will have to ensure Synlait Milk Finance is in a position to pay these and we will fund it for any interest and fees it incurs. Interest is expected to be calculated as a floating base rate plus a margin.

Interest rates are hedged in accordance with our Treasury Management Policy (described in Section 4.2 (Board, Management and Corporate Governance)).

Restrictions on making distributions and borrowing

We expect that we will not be able to make distributions to Shareholders that exceed net profit after tax in any financial year under the New Financing Arrangements. We will also not be able to make distributions to Shareholders where there is an event of default, a potential event of default of which we are aware or event of review outstanding. Synlait Milk Finance will be able to make distributions to us.

The New Financing Arrangements will contain restrictions on our and Synlait Milk Finance's abilities to borrow. We, and Synlait Milk Finance, will only be able to incur additional debt under our trade finance arrangements with Mitsui & Co NZ Limited, arrangements between us and Synlait Milk Finance, plus up to $3 million of further debt and some other minor exceptions. Those are that we will also be permitted to borrow other money if the borrowed money secures a security interest that is allowed under the New Financing Arrangements or the debt cannot be repaid before the bank debt on terms that the banks are satisfied with or the debt is owed to another guarantor of the New Financing Arrangements.

WE WERE CROWNED CHAMPION GLOBAL OPERATOR* AT THE CHAMPION CANTERBURY AWARDS IN 2012

*(medium / large enterprise)


Synlait Milk Limited


synlait

SECTION 7

OFFER DETAILS

THE OFFER

The Offer is an offer of ordinary shares in Synlait Milk, comprising both:

- new Shares to be issued by Synlait Milk; and
- existing Shares offered by Selldown Co,

(together, the **Offer Shares**).

The Offer Shares will be offered at the Final Price, which will be set on or about 10 July 2013 following completion of the Bookbuild in which Institutional Investors and NZX Firms will be invited to participate (as described further below).

The Offer is made on the terms, and is subject to the conditions, set out in this Offer Document.

PRICING VIA BOOKBUILD PROCESS

The Final Price will be set by way of the Bookbuild, which will be managed by the Joint Lead Managers.

The Joint Lead Managers will carry out the Bookbuild on 8 and 9 July 2013, pursuant to which they will invite Institutional Investors and NZX Firms to submit bids, indicating the number of Offer Shares they wish to apply for at a range of prices. Synlait Milk, in association with the Joint Lead Managers, will set the Final Price following completion of the Bookbuild.

The Indicative Price Range is $2.05 to $2.65 per Offer Share, however the range provided to the parties participating in the Bookbuild will be updated at the time of the Bookbuild and may differ from the Indicative Price Range. Synlait Milk reserves the right to set the Final Price within, higher or lower than the Indicative Price Range.

All Offer Shares allotted under the Offer will be allotted at the Final Price.

In setting the Final Price Synlait Milk and the Joint Lead Managers will take account of:

- the level of demand for Offer Shares in the Institutional Offer and the Broker Firm Offer;
- the level of demand for the Offer Shares at various prices;
- pricing indications from Institutional Investors and NZX Firms;
- Synlait Milk's desire to create an informed and active trading market for the Shares on the NZX Main Board; and
- any other factors that Synlait Milk or the Joint Lead Managers deem relevant.

SIZE OF THE OFFER

The Offer is an initial public offering of 47.3 million to 55.6 million Shares in Synlait Milk (based on the Indicative Price Range and the Selling Shareholders selling down their current shareholdings, as described further below under the heading "Shareholding Structure"). The Offer Shares comprise:

- 28.3 million to 36.6 million new Shares (based on the Indicative Price Range) to be issued on the Allotment Date (**New Shares**); and
- an estimated 19 million Shares currently held by Synlait Limited which are expected to be acquired by Selldown Co (although the actual number of Shares acquired by Selldown Co that will form part of the Offer could be higher or lower than this) as described further under "Shareholding Structure" below (**Existing Offer Shares**). The exact number of these Existing Offer Shares will only be known at the time of the Bookbuild after binding sale agreements must have been received by Selldown Co from Selling Shareholders.

STRUCTURE OF THE OFFER

The Offer comprises:

- a Broker Firm Offer which is available only to New Zealand resident clients of selected NZX Firms who received a Firm Allocation (**Broker Firm Offer**); and
- an Institutional Offer, which consists of an invitation to bid for Offer Shares made to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions (**Institutional Offer**).

No general public offer will be made, however, you can contact a NZX Firm to determine whether you may be offered shares under the Broker Firm Offer. The allocation of Shares between the Institutional Offer and the Broker Firm Offer will be determined by Synlait Milk in consultation with the Joint Lead Managers following completion of the Bookbuild, having regard to the allocation policies outlined under the heading "Allocation and price" in this section.

PURPOSE OF THE OFFER AND USE OF PROCEEDS

The purpose of the Offer and intended use of the offer proceeds is as follows:

- for Synlait Milk, the proceeds of $75 million (before costs) from the Offer of New Shares will be applied to repaying debt under the Existing Financing Arrangements, enabling Synlait Milk to access certain proceeds of a loan from Synlait Milk Finance under the New Financing Arrangements, which will go towards:
  - construction of Dryer 3;
  - construction of a lactoferrin plant;
  - construction of an on-site blending and consumer packaging plant;
  - construction of a dry store;
  - construction of an in-house quality testing laboratory; and
  - construction of a butter plant; and
- for Selldown Co, the proceeds from the Offer of the Existing Offer Shares will be used to fund the acquisition by Selldown Co of Shares in Synlait Milk from the Selling Shareholders in order to make these Shares available under the Offer.

All fixed costs associated with the Offer will be borne by Synlait Milk, and all brokerage fees will be split pro rata between Synlait Milk and Selldown Co.

You can find further information about our Financing Arrangements (including our relationship with Synlait Milk Finance) in Section 6.9 (Description of Synlait Milk's Financing Arrangements). You can find further information about our Growth Initiatives in Section 4.1 (Business Description).

SHAREHOLDING STRUCTURE

Bright Dairy & Food Co., Ltd currently holds a 51% shareholding in Synlait Milk through an intermediate holding company, Bright Dairy Holding Limited. Synlait Limited currently holds the other 49% of the Shares.

Synlait Limited will sell approximately 600,000 Shares under the Offer, via Selldown Co. Prior to the Allotment Date, Synlait Limited will distribute the remaining Shares it holds on a pro-rata basis to its (Synlait Limited's) shareholders (**SL Shareholders**). On completion of the Offer, Synlait Limited will no longer hold any Shares. It is currently intended that Synlait Limited will be liquidated after the Offer is completed.

Once Synlait Limited has distributed the remainder of its Shares on a pro-rata basis to SL Shareholders, SL Shareholders will hold shares in both Synlait Limited and Synlait Milk directly. The SL Shareholders include Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno. The SL Shareholders may elect to sell some, all or none of their Shares under the Offer. Any Shares sold by SL Shareholders under the Offer will be sold via Selldown Co. The SL Shareholders will determine the number of Shares they wish to sell by 5 July 2013. Those SL Shareholders who elect to sell their Shares are referred to in this Offer Document (together with Synlait Limited) as Selling Shareholders. Mitsui & Co., Limited and Mitsui & Co. (Australia) Limited have confirmed that they will not sell any Shares to Selldown Co. John Penno has confirmed that he will sell to Selldown Co up to 15% of the Shares that are distributed to him.

Bright Dairy has elected not to sell any of its Shares into the Offer. Following completion of the Offer, Bright Dairy will hold between 38.5% and 40.7% of the Shares (based on the Indicative Price Range). The remaining Shares will be held by Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno, the SL Shareholders who do not elect to sell all of their Shares, and new investors who are allotted shares under the Offer. None of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno or the SL Shareholders guarantees, or undertakes any liability in respect of, the Shares.

INSTITUTIONAL OFFER

Certain Institutional Investors along with NZX Firms will be invited to bid for Offer Shares in the Institutional Offer. The Institutional Offer comprises an invitation to Institutional Investors in New Zealand, Australia and other selected jurisdictions to bid for Offer Shares in accordance with arrangements made with the Joint Lead Managers.

The Institutional Offer will be conducted under the Bookbuild as described under the heading "Pricing via Bookbuild process" above. Full details of how to participate, including bidding instructions, will be provided by the Joint Lead Managers to invited participants in due course.

Allocation and price

Synlait Milk, in consultation with the Joint Lead Managers, will determine the allocation of Offer Shares among Institutional Investors and NZX Firms that have bid for Offer Shares in the Bookbuild. There is no assurance that any participant in the Bookbuild will be allocated any Offer Shares or the number of Offer Shares for which it has bid. The allocation policy will be influenced by a number of factors, which may include:

- the number and price of Offer Shares bid for by particular bidders;
- the timelines of the bid by particular bidders;
- Synlait Milk's desire for an informed and active trading market for the Shares on the NZX Main Board;
- Synlait Milk's desire to have a wide spread of institutional Shareholders on its share register;
- the overall level of demand under the Institutional Offer and the Broker Firm Offer;
- the size and type of funds under management of particular bidders;
- an assessment of whether particular bidders will be long term Shareholders; and
- any other factors that Synlait Milk and the Joint Lead Managers consider appropriate.

All successful Applicants will pay the Final Price for each Offer Share allocated to them under the Institutional Offer.

BROKER FIRM OFFER

The Broker Firm Offer is available to New Zealand resident clients of selected NZX Firms who have received an allocation from an NZX Firm. Applications under the Broker Firm Offer must be for a minimum of 2,000 Offer Shares and thereafter in multiples of 100 Offer Shares, except for employees of Synlait Milk for which Applications under the Broker Firm Offer may be for a minimum of 800 Offer Shares and thereafter in multiples of 100 Offer Shares.

You should contact your NZX Firm to determine whether you may be offered Offer Shares under the Broker Firm Offer.

Applicants in respect of the Broker Firm Offer should complete and lodge the Application Form attached to this Offer Document. In making an Application, investors must declare that they were given a copy of this Offer Document, together with an Application Form. Any NZX Firm Application Form must be stamped by the relevant NZX Firm so that the correct allocation of Offer Shares is received.

Payment methods

Applications must be accompanied by payment in accordance with the directions of the NZX Firm from whom an allocation is received.

If payment is by cheque, the cheques must be drawn on a New Zealand registered bank from a New Zealand dollar bank account and must be made in New Zealand dollars. Cheques should be crossed "Non Transferrable" and made out to "Synlait Milk Offer". Cheques must not be post-dated as they will be banked on receipt. The banking of Application Moneys does not constitute confirmation of allotment of any Shares or acceptance of an offer to subscribe for Shares. If your cheque is dishonoured, your Application will be rejected and Synlait Milk may cancel your allotment of Shares and pursue any other remedies available to it at law.

To make a payment via direct debit, tick the box authorising the Share Registrar to direct debit the nominated bank account applied for on that Application Form. The bank account must be with a registered New Zealand bank. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- sufficient funds in the bank account for direct debit are available on the day the Share Registrar receives the Application Form;
- the person(s) giving the direct debit instruction has / have the authority to operate the account solely / jointly; and
- the bank account you nominated is a transactional account eligible for direct debit transactions.

If you are uncertain, you should contact your bank or financial institution. Should your direct debit fail, your Application will be rejected. The Share Registrar will not be able to process your direct debit if you do not sign and date the Application Form. If requested, the Share Registrar will provide you with a direct debit authority form.

Submit your Application Form and Application Moneys as early as possible

Investors applying for Shares under the Broker Firm Offer are encouraged to submit their Application Form and Application Moneys as early as possible in advance of the Closing Date and to allow a sufficient period for mail processing time.

Each NZX Firm will, in turn, submit the Application Moneys to the Share Registrar. NZX Firms will be responsible for ensuring that the Application Moneys are submitted to the Share Registrar before or on the Closing Date. Applicants under the Broker Firm Offer must send the completed Application Form and Application Moneys to the NZX Firm who provided the allocation so as to be received in time to enable them to be forwarded and received by the Share Registrar by no later than 5.00pm on 19 July 2013.

If you wish to apply under the Broker Firm Offer you should contact your NZX Firm if you require further instructions.

Allocation and price

Offer Shares which have been allocated to selected NZX Firms for allocation to their New Zealand resident clients under the Broker Firm Offer will be issued to the Applicants nominated by those NZX Firms. It will be a matter for the NZX Firms how they make allocations among their retail clients, and they (and not Synlait Milk, Selldown Co or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received an allocation from them receive the relevant Offer Shares.

All successful Applicants will pay the Final Price for each Offer Share allocated to them under the Broker Firm Offer

APPLICATIONS FOR OFFER SHARES

An Application is an offer by you to subscribe for Offer Shares having the value specified in the Application Form, at the Final Price, on the terms and conditions set out in this Offer Document (including any supplementary or replacement Offer Document) and the Application Form. By submitting an Application Form, you irrevocably agree to purchase the Offer Shares on the terms set out in this Offer Document and the Application Form, notwithstanding any variations or extensions to the Closing Date or other dates which Synlait Milk, Selldown Co and the Joint Lead Managers are entitled to so vary or extend.

Synlait Milk, Selldown Co and the Joint Lead Managers may, at their sole discretion, treat any Application Form as valid, notwithstanding that it does not comply with the requirements above or is irregular. Synlait Milk, Selldown Co and the Joint Lead Managers may also, at their sole discretion, rectify any errors in, or omissions from, any Application Form to enable that form to constitute a valid acceptance of the Offer and to facilitate registration of the Applicant as a Shareholder, including inserting or correcting details and filling in any blanks. An Application Form may be treated by Synlait Milk, Selldown Co and the Joint Lead Managers as a valid Application whether or not it is received before the applicable closing date, and may be accepted in respect of the full dollar amount specified in the Application Form or a lesser amount, without further notice to the Applicant. If the amount of your cheque(s) for Application Moneys is less than the amount specified on your Application Form, you may be taken to have applied for such lower dollar amount for Shares as for which your clear Application Moneys will pay, or your Application Form may be rejected at the discretion of Synlait Milk and / or Selldown Co in consultation with the Joint Lead Managers. Acceptance of your Application will give rise to a binding contract.

Synlait Milk, Selldown Co and the Joint Lead Managers reserve the right to refuse all or any part of any Application without giving a reason.

Money received in respect of Applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted to unsuccessful Applicants within five Business Days after allocation of Offer Shares or after an Application has been declined (as applicable). Interest will not be paid on any Application Moneys refunded to Applicants.

Until the allotment of Offer Shares, Application Moneys received will be held in a separate account for the benefit of the Applicants according to their respective entitlements and for Synlait Milk and Selldown Co. Any interest on Application Moneys will be paid to the issuers to offset against their issue costs. If you apply for Offer Shares, you should ensure that sufficient funds are held in your account(s) to cover the amount of your Application.

The banking of Application Moneys does not constitute confirmation of allotment of any Offer Shares or the acceptance of an Application. If your cheque does not clear, your Application may be rejected.

ALLOTMENT OF OFFER SHARES

New Zealand residents with a CSN will have their Offer Shares allotted under their CSN, if the CSN was provided on the Application Form.

Applicants who do not have a CSN will be allocated a CSN prior to the Allotment Date. The CSN will be advised by the Share Registrar on the Business Day prior to the Allotment Date, where an Applicant provides an email address in the Application Form or, at the time the allotment of Offer Shares is confirmed. The associated Authorisation Code (FIN) will be sent by the Share Registrar as a separate communication.

The allotment of the Offer Shares to successful Applicants is scheduled to take place on 23 July 2013. You should ascertain your allocation (if any) before trading in the Offer Shares. You can do this by phoning the Share Registrar, Computershare Investor Services Limited, on +64 9 488 8777 or, where applicable, the NZX Firm from whom your NZX Firm Allocation was offered.

If you have a Common Shareholder Number (**CSN**) and Authorisation Code (**FIN**), you may access your holding information on the Share Registrar's website: www.investorcentre.com/nz.

If you sell Offer Shares prior to receiving your Security Transaction Statement, you will do so at your own risk. None of Synlait Milk, Selldown Co, the Joint Lead Managers, nor any of their respective officers, employees or advisers accepts any liability or responsibility should you or any person attempt to sell or otherwise deal with Offer Shares before you receive a statement showing the number of Offer Shares allocated to you (if any).

Synlait Milk expects that trading of the Shares on the NZX Main Board will commence on 23 July 2013. In the event that application to list on the NZX Main Board is denied, or for any other reason the allotment of Offer Shares does not proceed, all Application Moneys will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed.

OPENING AND CLOSING DATES

The Broker Firm Offer will open on 10 July 2013 and close on 19 July 2013. Dates for the Institutional Offer will be advised by the Joint Lead Managers. Synlait Milk and Selldown Co may amend these dates at their discretion, subject to obtaining the prior approval of NZX.

The Bookbuild will commence on 8 July 2013 and close on 9 July 2013, the day prior to the opening of the Offer period.

BROKERAGE

First NZ Capital Securities Limited and Goldman Sachs New Zealand Limited are the Joint Lead Managers of the Offer.

The Joint Lead Managers do not guarantee or undertake any liability in respect of the Offer Shares. Fees and commissions payable to the Joint Lead Managers are detailed under the heading "Preliminary and Issue expenses" in Section 7.3 (Statutory Information).

The Joint Lead Managers will pay NZX Firms certain fees as agreed between them including a commission of 1.5% of the gross proceeds in respect of valid Applications bearing their stamp submitted under the Broker Firm Offer.

ESCROW ARRANGEMENTS

Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited, John Penno and the SL Shareholders who do not elect to sell all of their Shares to Selldown Co is subject to an escrow arrangement with Synlait Milk, as described below. An escrow arrangement is an agreement not to sell, transfer or otherwise dispose of Shares for a certain time period.

Bright Dairy, Mitsui and John Penno

Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno have entered into an escrow deed with Synlait Milk, under which Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno agree to not sell, transfer or otherwise dispose of Shares in Synlait Milk until at least the first day after the date on which Synlait Milk releases to NZX its preliminary announcement of its financial results for FY2014F (being the end of the prospective financial information period) (**Escrow Period**).

These restrictions do not apply (and therefore Shares can be sold) if a partial or full takeover offer is made under the Takeovers Code for Shares or if an amalgamation or scheme of arrangement with respect to the Shares is proposed (unless the relevant shareholder is an 'associated person' of the offeror under the takeover, amalgamation or scheme of arrangement). Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno are also permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution, or to transfer all of their shareholding to an 'associated person' with the prior written approval of the non-interested Directors (provided that the lender / associated person (as applicable) also enters into an Escrow Deed with Synlait Milk).

The number of Shares John Penno may sell to Selldown Co is detailed under the heading "Shareholding Structure" at page 179. None of Bright Dairy, Mitsui & Co., Limited or Mitsui & Co. (Australia) Limited will sell any Shares to Selldown Co.

SL Shareholders

All SL Shareholders (apart from Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno) who do not sell all of their Shares to Selldown Co (and so remain as Shareholders on completion of the Offer) will be subject to the same escrow arrangements that apply to Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno. These escrow arrangements are set out in the Constitution.

These escrow arrangements are subject to an exception that each SL Shareholder (other than Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno) can sell at any time prior to the expiry of the Escrow Period up to an aggregate number of Shares equal to $300,000 based on the Final Price.

You should note that these escrow arrangements will only apply to those SL Shareholders who do not elect to sell all of their Shares to Selldown Co.

For the purposes of the Listing Rules, the Shares issued pursuant to the share subdivision and consolidation that occurred on 21 June 2013 will also be subject to this escrow arrangement to the extent that such Shares are not sold under the Offer.

EMPLOYEE INCENTIVE SCHEMES

We will have two employee incentive schemes in relation to the Offer, as discussed below. We may also offer participation in further incentive scheme or share plans on equivalent or different terms as determined by the Board from time to time.

IPO Incentive Scheme

The purpose of this scheme is to provide a mechanism to incentivise and retain senior management leading up to and following the listing of Synlait Milk on the NZX Main Board as a result of this Offer. It is anticipated that approximately 15 selected senior Synlait Milk employees (the **Senior Employees**) will be given the opportunity to participate in this scheme.

Synlait Milk will enter into an agreement with each Senior Employee 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 Synlait Milk on the NZX Main Board as a result of this Offer (the **Performance Date**). The issue or transfer of Shares pursuant to this scheme will be at an issue price equal to the Final Price. It is intended that each Senior Employee will be provided with an entitlement which has a value (calculated as the number of new Shares they could receive multiplied by the Final Price) equal to a maximum of 75% of their base salary as at 1 August 2013. That entitlement will be split into three equal tranches of 25%.

The issue or transfer of new Shares will be 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 Synlait Milk on the NZX Main Board as a result of this Offer.

There are two separate performance conditions each of which must be satisfied. The first requires Synlait Milk's net profit after tax (**NPAT**) for the relevant financial year to be at least 10% above the budgeted NPAT for those periods.

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

TSR	Annual entitlement as a % of base salary as at 1 August 2013
20% or more	25%
15%	18.75%
12%	6.25%
Less than 12%	0%

TSR means the total return, as determined by 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 will be the Final Price.

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. Retesting of the NPAT performance condition will be based on the aggregate NPAT and budgeted NPAT in the relevant financial 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, Senior Employees must also satisfy the service conditions. One of the service conditions is that the Senior Employee must continue to be in full time employment with Synlait Milk at the Performance Date. In addition a Senior Employee 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 Final Price.

There will be no restriction on the sale of the Shares once they have been issued or transferred to Senior Employees, and those Shares will have full voting and dividend rights.

On the basis that all of the performance and service conditions are satisfied by each Senior Employee, Synlait Milk will be contractually obliged to issue or transfer Shares with a cumulative issue price of up to approximately $2.97 million. Those Shares will represent approximately 1% of the Shares on issue after this Offer. The exact number of Shares which may be issued or transferred under this scheme will also be dependent on which employees are invited to participate in this scheme and the size of the entitlement provided to each Senior Employee.

The allotment or transfer of Shares under this scheme will occur as soon as reasonably practicable following assessment of the performance and service conditions on the Performance Date.

FY2014F Short Term Incentive Scheme

The purpose of this scheme is to provide recognition to our eligible employees if we exceed our forecast NPBT for FY2014F (as set out in the prospective financial information contained in Section 6.2) by 20% or more.

Should this target be achieved, each eligible employee (as defined below), will receive $2,000 worth of Shares (net of any PAYE tax that may be payable in relation to the scheme) based on the closing price of Shares on the date that those financial results are announced. On the basis of 160 eligible employees the cost of this scheme is anticipated to be approximately $450,000.

The employees eligible for this scheme will be all permanent and fixed term full time or part time employees with at least 9 months' service as at 31 July 2014. In addition, the employees must have been rated as 'meeting expectations' or above (subject to the CEO's discretion) at our end of year performance reviews. Eligible employees need to be employed as at the date of the announcement of our FY2014F results. Any employees who announce their intention to resign during the period from 31 July 2014 until the announcement of the result will cease to be eligible for this scheme.

Employees participating in the IPO Incentive Scheme (see above for more details) are not eligible to participate in this scheme. There will be no restriction on the sale of the Shares once they have been allocated to eligible employees, and the Shares will have full voting and dividend rights.

Any Shares allotted under the scheme are expected to be purchased on-market by Synlait Milk at the appropriate time to satisfy its obligations (ie new Shares will not be issued by Synlait Milk). It is expected that this will occur as soon as reasonably practicable following the release of our FY2014F results.

NZX LISTING

Application has been made to NZX for permission to list Synlait Milk, and to quote the Shares on the NZX Main Board. All requirements of NZX relating to that application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document.

NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange registered under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on 23 July 2013 under the stock code "SML". Synlait Milk will bear a "Non Standard" designation on the NZX Main Board to reflect Synlait Milk's governance arrangements, as described further in Section 1.3 (Offer at a Glance) and Section 4.2 (Board, Management and Corporate Governance).

OVERSEAS INVESTORS

The Offer is being made to members of the public in New Zealand and Institutional Investors in New Zealand, Australia and certain other overseas jurisdictions only (excluding the United States or any US Persons). This Offer Document is intended for use only in connection with the Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been, or will be, taken to register this Offer Document in any jurisdiction other than New Zealand or otherwise permit a public offering of the Shares outside of New Zealand.

No person may offer, sell (including resell), distribute or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction.

In particular, this Offer Document (including an electronic copy) may not be released in whole or in part, to persons in the United States or any persons who are, or are acting for the benefit of, US Persons. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. The Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold (including resold), distributed or delivered, directly or indirectly, in the United States, or to, or for the account or benefit of, a US Person.

Unless otherwise agreed with Synlait Milk and Selldown Co, any person or entity subscribing for Offer Shares under the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such a jurisdiction.

None of Synlait Milk, Selldown Co, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

TAKEOVERS CODE

The Takeovers Code, amongst other things, prohibits any person (together with their associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Synlait Milk other than in compliance with the requirements of the Takeovers Code. You should seek legal advice in relation to any act, omission or circumstance which may result in you breaching any provision of the Takeovers Code.

New Zealand taxes may affect the returns to investors. The following taxation summary addresses the general tax implications for investors and is based on New Zealand tax laws and their interpretation as at the date of this Offer Document. Tax legislation, its interpretation and the rates and basis of taxation, are subject to change.

This summary is not intended to be an authoritative or complete statement of applicable law and does not constitute tax advice on which you can rely. It does not necessarily deal with your specific circumstances. Prospective investors are advised to obtain independent professional advice relevant to their own particular circumstances before investing.

Tax Residence

The tax rules that apply to your investment in Shares will differ depending on whether you are a New Zealand tax resident or a non tax resident. If you are a natural person you will be tax resident in New Zealand if you:

- have a permanent place of abode in New Zealand; and / or
- have been personally present in New Zealand for more than 183 days in a 12 month period, and have not subsequently been absent from New Zealand for more than 325 days in a 12 month period.

A company will be a New Zealand tax resident if it: is incorporated in New Zealand, or has its head office in New Zealand, or has its centre of administrative management in New Zealand, or if its directors exercise control of the company from New Zealand.

In some cases a person may be tax resident in New Zealand and another country simultaneously. If you are in this position, you should obtain tax advice to confirm how this affects the New Zealand tax treatment of your investment in Shares.

We will assume you are a tax resident of New Zealand unless you advise us otherwise.

Taxation implications for New Zealand tax resident investors

If you are a New Zealand tax resident the tax implications of investing in Shares should be as follows:

Acquisition and transfers of Shares: No stamp duty or other form of transfer or transaction tax, including New Zealand GST, will apply to Share transfers. This includes both the transfer of your initial allocation of Shares to you under this Offer Document and any subsequent Share transfers you make. No notice of Share transfers is required to be given by a Shareholder to the New Zealand Inland Revenue.

Disposal of Shares: New Zealand does not have a comprehensive capital gains tax regime. Consequently, where the disposal of Shares does not form part of your business, amounts derived from the disposal of Shares will generally not be subject to New Zealand income tax. However, there are exceptions to this where the Shares were purchased for the dominant purpose of sale, or if the Shares were acquired as part of a profit making undertaking or scheme, or if you are in the business of dealing in shares. Where one of these exceptions applies, or the Shares are otherwise acquired as part of your business, the taxable gain (or deductible loss) for you will be the difference between the cost of acquiring the Shares and the consideration you receive for their disposal.

Dividends: Distributions you receive from us in respect of Shares, including any cash dividend payment, will be taxable dividends. Shareholders will be liable to pay tax on such dividends at their personal tax rates but will be able to utilise any imputation credits attached to the dividend (representing income tax paid by us) and any RWT deducted by us (discussed below) to offset that tax in whole or in part. Some distributions you receive from us will not be taxable dividends (including any non-taxable bonus issues of Shares or a return of capital in certain circumstances).

Resident withholding tax: We will be required to deduct RWT from any dividends we pay you at a 33% withholding rate, to the extent applicable. This will be the case even where the dividends have the maximum allowable imputation credits attached, as a fully imputed dividend does not entirely eliminate the requirement to deduct RWT. However, we will not withhold RWT from dividends you receive if you hold, at the time of the applicable dividend, a current RWT exemption certificate that you have provided to us before a dividend is paid to you.

Income tax returns: If you are not currently required to file an income tax return, the receipt of dividends from us should not affect that. However, if your personal tax rate is less than 33% you may be able to reduce your tax liabilities, or seek a refund of RWT on dividends, by filing an income tax return.

Taxation implications for non tax resident investors

If you are a non resident for New Zealand tax purposes the tax implications of investing in Shares should be as follows:

Acquisition and transfers of Shares: No stamp duty or other form of transfer or transaction tax, including New Zealand GST, will apply to Share transfers. This includes both the transfer of your initial allocation of Shares to you under this Offer Document and any subsequent Share transfers you make. No notice of Share transfers is required to be given by a Shareholder to the New Zealand Inland Revenue.

Dividends: We will withhold NRWT from dividends paid to you. The standard NRWT deduction rate is 30%. However, a deduction rate of 15% will apply where you are paid a dividend that is fully imputed (being a dividend with imputation credits attached to it at the maximum rate allowable by law) or are entitled to a 15% rate under a DTA New Zealand has concluded with your country of residence. Some distributions you receive from us will not be taxable dividends (including any non-taxable bonus issues of Shares or a return of capital in certain circumstances). If a non-resident Shareholder with a 10% or greater shareholding receives a fully imputed dividend from us the NRWT deduction rate in respect of that dividend will be 0%.

Supplementary dividend: If a non-resident Shareholder has a less than 10% shareholding and the DTA between New Zealand and their country of residence applies a 15% or greater tax rate to the payment of dividends, we may pay those Shareholders a supplementary dividend under the foreign investor tax credit regime (where imputation credits are available). The supplementary dividend (if paid) is designed to offset the economic burden associated with the NRWT that is payable on the non-resident Shareholder's dividend payments. We should get a tax credit for any supplementary dividends we make, so there will be no disadvantage to Shareholders generally.

Tax credit: Your country of residence may allow you to claim a tax credit for any NRWT deducted from dividend payments you receive from us. However, this will depend on the tax laws that apply in your country of residence.

Disposal of Shares: If you are a resident of a country with which New Zealand has concluded a DTA, New Zealand will generally not have the right to impose New Zealand tax on any income you derive from disposing of Shares unless you hold your Shares through a New Zealand "permanent establishment". If a DTA does not give you relief from New Zealand taxation, your New Zealand tax position will be determined using the same rules that apply to disposals of shares by New Zealand residents. Consequently, where the disposal of Shares does not form part of your business, amounts derived from the disposal of Shares will generally not be subject to New Zealand income tax. However, there are exceptions to this where the Shares were purchased for the dominant purpose of sale, or if the Shares were acquired as part of a profit making undertaking or scheme, or if you are in the business of dealing in shares. Where one of these exceptions applies, or the Shares are otherwise acquired as part of your business, the taxable gain (or deductible loss) for you will be the difference between the cost of acquiring the Shares and the consideration you receive for their disposal.

This section contains the information required by Schedule 1 to the Securities Regulations.

1. Main Terms of the Offer

The issuer of the Offer Shares is Synlait Milk Limited. Synlait Milk's registered office is 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

The securities being offered under this Offer are fully paid ordinary shares in Synlait Milk. A brief description of these securities is set out under the heading "What sort of investment is this?" in Section 1.4 (Answers to Important Questions).

The maximum number of Shares being offered under the Offer is 74.0 million Offer Shares, being 36.6 million New Shares (based on a Final Price of $2.05) and up to 37.4 million Existing Offer Shares (based on Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno retaining the number of Shares specified in the escrow deed and Synlait Limited and all other SL Shareholders selling their entire holding of Shares). However, based on preliminary indications from SL Shareholders it is estimated that the number of Existing Offer Shares that will be offered under the Offer will be approximately 19 million Shares.

The consideration to be paid for each Offer Share is the Final Price. An Indicative Price Range of $2.05 to $2.65 per Share has been set, however Synlait Milk reserves the right to set the Final Price within, lower or higher than the Indicative Price Range. Synlait Milk, in association with the Joint Lead Managers, will set the Final Price following completion of the Bookbuild process, as described further in Section 7.1 (Details of the Offer). In setting the Final Price, Synlait Milk and the Joint Lead Managers will take account of:

- the level of demand for Offer Shares in the Institutional Offer and the Broker Firm Offer;
- the level of demand for the Offer Shares at various prices;
- pricing indications from Institutional Investors and NZX Firms;
- Synlait Milk's desire to create an informed and active trading market for the Shares on the NZX Main Board; and
- any other factors that Synlait Milk or the Joint Lead Managers deem relevant.

The Final Price is expected to be announced and posted on our website www.synlait.com and on www.nzx.com under Synlait Milk's stock code SML on or about 10 July 2013.

2. Name and address of offeror

SML New Zealand Limited (Selldown Co) is the offeror of the Existing Offer Shares and can be contacted at its registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand. The net amount of consideration received by Synlait Milk in respect of the original allotment of all its Shares, was $107,001,200 (being the amount paid by all existing Synlait Milk Shareholders for their Shares in Synlait Milk), and in respect of the original allotment of Shares now held by Synlait Limited was $25,001,200.

3. Details of Incorporation of Issuer

Synlait Milk (Company Number 1600872) was incorporated in New Zealand under the Companies Act on 2 March 2005. The public file relating to Synlait Milk is available for inspection on the Companies Office website at www.business.govt.nz/companies.

4. Principal Subsidiaries of Issuer

As at the date of registration of this Offer Document, Synlait Milk has one wholly owned subsidiary, Synlait Milk Finance.

5. Names, addresses and other information

Names and addresses of Directors: The names and addresses of the Directors and the city, town or district in which their principal residence is based as at the date of this Offer Document are Graeme Roderick Milne (Cambridge), John William Penno (Lincoln), Ruth Margaret Richardson (Christchurch), Willem Jan Roest (Auckland), Ke Li (Shanghai), Zongbo Dong (Shanghai) and Sihang Yang (Shanghai).

You can contact the Directors at Synlait Milk's registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand.

You can find out more information about the Directors in Section 4.2 (Board, Management and Corporate Governance).

Employee Directors:

- John Penno is employed by Synlait Milk as Managing Director and Chief Executive Officer.
- Ke Li is employed by Bright Dairy & Food Co., Ltd as vice president, head of marketing and head of public relations.
- Zongbo Dong is employed by Bright Dairy & Food Co., Ltd as Chief Financial Officer.
- Sihang Yang is employed by Bright Dairy & Food Co., Ltd as director of strategy and research.

Auditor: Our auditor is Deloitte.

Share Registrar: Our share registrar is Computershare Investor Services Limited.

Advisers: The names of our financial advisers, and the solicitors and other professional advisers who have been involved in preparing this Offer Document (being First NZ Capital Securities Limited, Goldman Sachs New Zealand Limited, Minter Ellison Rudd Watts and Deloitte) are set out in the Directory.

Experts:

- Deloitte

We have engaged Deloitte to provide investigating accountant services in relation to the prospective financial information set out in this Offer Document, and to review the interim financial information set out in this Offer Document. Deloitte's address is set out in the Directory. An Investigating Accountant's Report prepared by Deloitte is set out in Section 6.8 of this Offer Document, and a review report in respect of the interim financial information prepared by Deloitte is set out in Section 6.5 of this Offer Document. Details of Deloitte's qualifications are set out in those reports.

Deloitte have given and not withdrawn their consent to the distribution of this Offer Document with the inclusion of the Investigating Accountant's Report and review report in this Offer Document in the form and context in which they are included. Deloitte are also our Auditors, and have provided the Audit Reports set out in Sections 6.6 and 6.7 of this Offer Document.

- Babbage Consultants Limited

Babbage Consultants Limited is a company whose specialists include architects, project managers, consulting engineers and surveyors. Its address is Level 4, 68 Beach Road, Auckland 1100. We have engaged Babbage Consultants Limited to provide an engineer's review of our existing assets and certain proposed Growth Initiatives. A report in relation to the review prepared by Babbage Consultants Limited is set out in Section 4.3 of this Offer Document. Details of Babbage Consultants Limited's qualifications are set out in that report.

Babbage Consultants Limited has given and has not withdrawn its consent to the distribution of this Offer Document with their report included in the form and context in which it is included.

Neither Deloitte nor Babbage Consultants Limited, nor any director, officer or employee of either of them, is or is intended to be, a director, officer or employee of Synlait Milk or Selldown Co. However, Deloitte and Babbage Consultants Limited have provided, and may in the future provide, professional advisory services to Synlait Milk.

6. Restrictions on Directors' Powers

Constitution

The Constitution incorporates by reference the requirements of the Listing Rules, and requires Synlait Milk to comply with the Listing Rules for so long as it is listed. The principal restrictions on the powers of the Board which will be imposed by the Constitution (either expressly or by importing certain of the Listing Rules) and the Listing Rules (which will apply once Synlait Milk is listed) are as follows:

- the Directors may not allow Synlait Milk to issue or acquire any of its equity securities except in accordance with the provisions of the Constitution, the Companies Act and the Listing Rules;
- the Directors may not allow Synlait Milk to give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by it, except in limited circumstances and in accordance with the provisions of the Constitution, the Companies Act and the Listing Rules;
- a Director may not vote at a meeting of the Board of Synlait Milk on a matter in which he or she is interested unless required by the Companies Act to sign a certificate in respect of the matter, or unless the matter relates to the grant of an indemnity under section 162 of the Companies Act (and further, the Managing Director may not vote at any Board meeting in relation to any matter regarding his or her appointment or removal as a Managing Director, his or her remuneration, or the appointment of any new Managing Director);
- the Directors may not allow Synlait Milk to issue, acquire or redeem securities in relation to a person or group of associated persons entitled before the issue, acquisition or redemption to exercise or direct the exercise of not less than 1% of the total votes attaching to Synlait Milk securities, where there is a significant likelihood that it will result in that person or group of persons materially increasing their ability to exercise or direct the exercise of effective control of Synlait Milk, without the prior approval of an ordinary resolution of Shareholders;
- the Directors may not allow Synlait Milk to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Synlait Milk, which would change the essential nature of the business of Synlait Milk, or in respect of which the gross value is in excess of 50% of the average market capitalisation of Synlait Milk, without the prior approval of an ordinary resolution of Shareholders;
- the Directors may not enter into certain material transactions with related parties if that related party is, or is likely to become a direct or indirect party to the material transaction or at least one of a related series of transactions of which the material transaction forms part or, in the case of a guarantee or similar material transaction, a direct or indirect beneficiary of such guarantee or other transaction, without the prior approval of an ordinary resolution of Shareholders;
- the Directors may not allow Synlait Milk to pay remuneration to a Director in his or her capacity as a Director except in accordance with the provisions of the Constitution and the Listing Rules; and
- the Directors may not allow Synlait Milk to cancel, reduce, or defer an obligation to pay any amount which is unpaid on any equity security without the prior approval of an ordinary resolution of Shareholders.

See also Clause 26 below in respect of certain waivers and approvals granted by NZX which may restrict Directors' powers in certain circumstances.

Companies Act

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Directors. For example, the Directors may not allow Synlait Milk to enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders, and the Directors may not allow Synlait Milk to take any action which affects the rights or privileges attached to Shares, without the sanction of a special resolution of any interest group (being a group of Shareholders with similar or identical rights).

These provisions apply to any company registered under the Companies Act.

In addition, the existing constitution of Synlait Milk as at the date of registration of this Offer Document contains certain restrictions on the powers of Directors, including that the Board may not issue shares or register the transfer of shares otherwise than in accordance with the shareholders agreement in relation to Synlait Milk. This constitution will cease to apply when the new Constitution comes into effect prior to listing.

7. Substantial Equity Security Holders of Synlait Milk

Names and shares held

As at the date of registration of this Offer Document, Synlait Milk is 51% owned by Bright Dairy, which holds 57,247,647 Shares, and 49% owned by Synlait Limited, which holds 55,002,640 Shares. Neither Bright Dairy nor Synlait Limited guarantees, or undertakes any liability in respect of, the Shares being offered under the Offer.

It is intended that Synlait Limited will distribute its Shares to the SL Shareholders prior to the Allotment Date, as described further in Section 7.1 (Details of the Offer). SL Shareholders will be entitled to sell their Shares to Selldown Co, which is offering the Existing Offer Shares for sale under this Offer.

For the purposes of Listing Rule 7.1.15, the following information is disclosed as at the date of this Offer Document:

- Bright Dairy is the registered holder of 57,247,647 Shares. 26,021,658 shares were issued to Bright Dairy pursuant to a subscription agreement dated 9 July 2010 under which Bright Dairy paid $82,000,000 subscription money. On 21 June 2013 these shares were subdivided on a 1:11 basis then consolidated on a 5:1 basis. In between the share split and consolidation, Synlait Milk purchased three of Bright Dairy's shares for nil consideration. These three shares were then cancelled, so that following the subdivision, purchase and consolidation Bright Dairy held 57,247,647 Shares.
- Synlait Limited is the registered holder of 55,002,640 Shares. Synlait Limited initially acquired Shares on 31 March 2007 by way of an amalgamation of Synlait Limited and Synlait Investments Limited (with Synlait Limited as the continuing, amalgamated entity). Synlait Investments Limited held 1,200 Shares (issued upon incorporation of Synlait Milk on 2 March 2005), which became the property of Synlait Limited pursuant to section 225(d) of the Companies Act. A further 25,000,000 Shares were issued to Synlait Limited, for the consideration of $1 per share, on 31 January 2008 (bringing Synlait Limited's total number of Shares to 25,001,200). On 21 June 2013 these shares were subdivided on a 1:11 basis then consolidated on a 5:1 basis, so that following the subdivision and consolidation Synlait Limited held 55,002,640 Shares.

8. Description of Activities of Issuing Group

In the 5 years preceding the date of this Offer Document, the activities of Synlait Milk have been purchasing raw milk from farmer suppliers, processing that milk into a range of milk-based ingredient and nutritional products, and selling those products to customers.

Synlait Milk Finance was incorporated on 14 June 2013 with the principal purpose of being the borrower of, and facilitating the administration of, Synlait Milk's post-Offer bank facilities under the proposed New Financing Arrangements. Since its incorporation, Synlait Milk Finance's only activity has been to negotiate the New Financing Arrangements and it intends to on-lend the money borrowed to Synlait Milk.

You can find out more about the activities of Synlait Milk in Section 4.1 (Business Description).

The principal assets held by Synlait Milk comprise plant and equipment, fittings, land and buildings located at Dunsandel and elsewhere in the Canterbury region which are used for the purpose of the activities of Synlait Milk as referred to above. Synlait Milk owns all of its principal assets, subject to the security granted as part of Synlait Milk's Financing Arrangements. The principal assets of Synlait Milk are not, on the date of this Offer Document, subject to obligations in favour of another person that modify or restrict its ability to deal with those assets except for restrictions provided for in Synlait Milk's Financing Arrangements and arrangements with Mitsui & Co NZ Limited (these are described in more detail in Section 6.9 (Description of Synlait Milk's Financing Arrangements) and below under the heading "Interested Persons".

Synlait Milk Finance's principal asset is Synlait Milk's direct agreement to ensure Synlait Milk Finance can meet its liabilities including under any loan facility, as described further in Section 6.9 (Description of Synlait Milk's Financing Arrangements). Synlait Milk Finance intends to make an intercompany loan to Synlait Milk. Synlait Milk Finance owns its principal asset, subject, once entered into, to any security granted as part of its Financing Arrangements. The principal asset of Synlait Milk Finance is not, as at the date of this Offer Document, subject to obligations in favour of another person that modify or restrict its ability to deal with that asset except for restrictions provided for in the New Financing Arrangements.

You can find out more information about the assets of Synlait Milk in Section 4.1 (Business Description).

9. Summary Financial Statements

Summary financial statements for each of the five consecutive accounting periods preceding 31 July 2012 and for the interim period to 31 January 2013 are set out under the heading Five Year Summary of Historical Financial Information in Section 6.4.

10. Prospects and Forecasts

Trading prospects

Information as to the trading prospects of the Issuing Group together with any material information that may be relevant to those prospects are set out in Section 4 (About Synlait Milk). Those statements include descriptions of Synlait Milk's strategic objectives, target markets and customers, current and potential product range and strategy, and details of its production capability. Further details of the trading prospects of the Issuing Group together with any material information that may be relevant to those prospects is set out in the prospective financial information in Section 6.2.

Any special trade factors and risks which could materially affect the prospects of the Issuing Group and which are not likely to be known or anticipated by the general public are set out in Section 5 (Risks).

Finance for capital projects

The purpose of the Offer of New Shares is, in part, to raise money to use together with certain proceeds of a loan from Synlait Milk Finance under the New Financing Arrangements, to repay Synlait Milk's existing debt and to allow Synlait Milk to fund the following capital projects under the New Financing Arrangements:

- Dryer 3;
- the lactoferrin plant;
- the on-site blending and consumer packaging plant;
- a new dry store;
- the quality testing laboratory; and
- the butter plant.

You can find out more information about these projects and an indication of their expected financial benefits in Section 4.1 (Business Description).

11. Provisions relating to initial flotations and minimum subscription

Plans of Directors

The Directors' plans in respect of the Issuing Group for the year commencing on the date of this Offer Document are to undertake the Offer, repay debt, commence construction of the lactoferrin plant, the on-site blending and consumer packaging plant, the dry store and the quality testing laboratory, and continue the business and trading activity of Synlait Milk described in Section 4.1 (Business Description). The source of finance required for these plans will be the capital raised pursuant to the Offer, operating cashflows, funds drawn down under the New Financing Arrangements and other financial accommodation considered appropriate by Synlait Milk.

Use of proceeds

Notwithstanding the plans of the Directors, the proceeds of the Offer may be applied towards any other purpose or undertaking in which Synlait Milk may lawfully engage.

Prospective financial statements

A prospective statement of financial position, a prospective statement of financial performance, and a prospective statement of cashflows for the Issuing Group in relation to the accounting periods ending 31 July 2013 and 31 July 2014 are set out in Section 6.2 (Prospective Financial Information).

Minimum amount

For the purposes of section 37(2) of the Securities Act, the minimum amount that, in the opinion of the Directors of Synlait Milk must be raised by the issue of the New Shares in order to provide the sums required to be provided in respect of:

- the purchase price of any property purchased or to be purchased that is to be met in whole or in part out of the proceeds of the Offer;
- any preliminary expenses or commission payable by Synlait Milk;
- working capital; and
- the repayment of any money borrowed by Synlait Milk in respect of any of the above,

is $75 million.

For the purposes of section 37(2) of the Securities Act, the minimum amount that, in the opinion of the Directors of Selldown Co must be raised by the issue of the Existing Offer Shares in order to provide for:

- the purchase price of any property purchased or to be purchased that is to be met in whole or in part out of the proceeds of the Offer;
- any preliminary expenses or commission payable by Selldown Co;
- working capital; and
- the repayment of any money borrowed by Selldown Co in respect of any of the above,

is an amount equal to the number of Existing Offer Shares offered by Selldown Co under the Offer multiplied by the Final Price.

Both of these minimum amounts must be raised in order for the Offer to proceed.

12. Acquisition of Business or Subsidiary

Not applicable.

13. Securities Paid Up Otherwise than in Cash

Not applicable.

14. Option to subscribe for Securities of Synlait Milk

Not applicable.

15. Appointment and Removal of Directors

Synlait Milk is party to a listing agreement with NZX (a registered exchange). Once it is listed, Synlait Milk's governance arrangements will differ to those that would usually apply to issuers listed on the NZX Main Board if Bright Dairy holds at least 37% of the Shares in Synlait Milk on listing, including regarding the appointment and removal of Directors. Synlait Milk has sought and been granted waivers from NZX in relation to these arrangements.

The key aspects of these governance arrangements relating to the appointment and removal of Directors are that, on Synlait Milk being listed on the NZX Main Board:

- The Synlait Milk Board will comprise up to eight (8) Directors.
- Bright Dairy will have the right to appoint and remove four (4) Directors. At all times, at least one of the Bright Dairy appointed Directors will be ordinarily resident in New Zealand and be a director of such standing, and with such commercial and governance experience in New Zealand, as is appropriate for a director of an NZX listed company. All of Bright Dairy's appointed Directors must also have appropriate skills and experience to ensure that Synlait Milk has a suitable mix of skills and experience on its Board. On listing, Bright Dairy's appointed Directors will be Ruth Richardson, Ke Li, Zongbo Dong and Sihang Yang.
- Synlait Milk will have three (3) Independent Directors. If, at any time, the number of Independent Directors is less than three (3), the Independent Directors holding office must, as soon as practicable, appoint an additional Independent Director. At the time of registration of this Offer Document there will be two (2) Independent Directors on listing (Graeme Milne and Willem Roest). The Board of Synlait Milk is in the process of securing an appropriate person to serve as a third Independent Director. The Independent Directors will be able to be appointed and removed by an ordinary resolution of Shareholders (being a simple majority of Shareholders entitled to vote and voting on the resolution). While Bright Dairy has the right to appoint and remove four (4) Directors, it will not be entitled to vote at a Shareholders meeting on the appointment or removal of the Independent Directors. One Independent Director will retire from office at each annual meeting of Synlait Milk (but will be eligible for re-election in accordance with the Constitution). Also, if there are only two (2) Independent Directors on listing or at any time thereafter, then it is a condition of NZX's approval that at any meeting of the Board of Synlait Milk, that one (1) Director appointed by Bright Dairy will abstain from voting.
- Synlait Milk will have a Managing Director appointed by the Board. The Managing Director must not be a Bright Director. John Penno is currently the Managing Director. As he was appointed by the Board the Listing Rules require that he resign as a Director at Synlait Milk's next annual meeting, expected to be held in December 2013, but will be eligible for election at that meeting for a maximum period of five (5) years. The Managing Director can be removed from office by an ordinary resolution of the Shareholders.
- No Director will be entitled to appoint an alternate Director to act in their place, but a Director appointed by Bright Dairy who cannot attend a meeting can pass his or her right to vote to another Director appointed by Bright Dairy to vote at a meeting of Directors.

If Bright Dairy's percentage shareholding in Synlait Milk reduces at any time below the level immediately following listing (other than by reason of being diluted on an issue of Shares to employees or Directors of Synlait Milk) or Bright Dairy Holding Limited ceases to be a subsidiary of Bright Dairy & Food Co., Ltd, then the governance arrangements described above will cease to apply and the Constitution will revert to one typical for listed companies.

If Bright Dairy, pursuant to the Takeovers Code, acquires Shares so that it holds more than 50% of the Shares in Synlait Milk, the above arrangements will no longer apply and the Constitution will automatically revert to one typical for listed companies.

You can find out more details about Synlait Milk's governance arrangements in Section 4.2 (Board, Management and Corporate Governance).

16. Interested Persons

Remuneration for services or recovery of expenses

In relation to the information set out in this section, 'specified person' means:

- a Director or proposed Director of Synlait Milk or an associated person of any of them; and
- Selldown Co, Bright Dairy and Synlait Limited (as holders of the Shares at the time of the Offer), and any associated person of any of them.

Other than as set out below, no specified person is entitled to remuneration from Synlait Milk for services other than by way of Directors' fees or reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a Director:

- John Penno is the Managing Director and Chief Executive Officer of Synlait Milk as referred to in Section 4.2 (Board, Management and Corporate Governance). The amount of remuneration under his contract of employment is limited in the current year to a base salary of $510,000 per annum and a performance based bonus payment of 40% of the base salary, payable at the discretion of Synlait Milk. The Board may approve increases to John Penno's remuneration.

Synlait Milk has granted indemnities, to the fullest extent permitted by the Companies Act and the Securities Act, in favour of each of its Directors. Synlait Milk also maintains insurance for its Directors and officers to support such indemnities to the extent permitted by the Companies Act and the Securities Act. There is no prescribed limit on the expenses payable to Directors.

Material interests

Particulars of any direct or indirect material interest in Synlait Milk or any of its subsidiaries, or in any contract or arrangement entered into on behalf of or in respect of Synlait Milk or any of its subsidiaries by a specified person are as follows:

Synlait Limited shareholdings: Graeme Milne, John Penno and Ruth Richardson have an indirect material interest in Synlait Milk by reason of their respective shareholding interests in Synlait Limited which at the date of this Offer Document holds 49% of the shares issued by Synlait Milk. Details of those shareholding interests expressed are as follows:

Shareholder	% of Synlait Limited	Indirect % of Synlait Milk
Graeme Milne	0.07%	0.03%
John Penno	11.61%	5.69%
Ruth Richardson	0.04%	0.02%

Bright Dairy: Synlait Milk has certain contractual arrangements with Bright Dairy, (that are material to either or both of Synlait Milk and Bright Dairy), as outlined below.

- Synlait Milk, Bright Dairy & Food Co., Ltd, Bright Dairy Holding Limited and Synlait Limited are parties to a shareholders agreement relating to Synlait Milk. This agreement will terminate on the day on which the Offer Shares are allotted / transferred pursuant to the Offer.
- Synlait Milk and Heilongjiang Bright Youyou Nutritional Foods Company Limited (**Bright Nutritional**) (a wholly owned subsidiary of Bright Dairy & Food Co., Ltd) are parties to an arms' length supply agreement, under which Synlait Milk manufactures and supplies dairy and value-added nutritional products to Bright Nutritional on a purchase order basis. The contract is for an initial term of two years and provides for two

further two year terms unless six months' notice of non-renewal is given by a party prior to expiry of a two year term. The contract may also be terminated for breach by either party. Bright Nutritional must give Synlait Milk regular forecasts for product requirements, purchase orders must be executed, products manufactured to specification, prepayments for orders must be paid and minimum quantities of product ordered. The contract sets out procedures for dealing with product made out of specification or with defects. Synlait Milk must set the price for products quarterly based on raw material prices, our milk price, margin, costs and the NZD / USD exchange rate. The contract sets out delivery requirements, payment terms, ownership of intellectual property (Synlait Milk retains ownership of its intellectual property), when risk and product passes, force majeure, insurance and other common clauses for contracts of this type. Bright Nutritional agrees to develop and grow sales of infant products in the market and will purchase these products from Synlait Milk. The Directors consider this contract to be on an arms' length basis as it is consistent with the terms offered by Synlait Milk to other third parties.

- In the past, Synlait Milk and Bright Dairy & Food Co., Ltd were parties to an off-take agreement under which Synlait Milk sold dairy products to Bright Dairy & Food Co., Ltd and its related companies for their use or resale. This agreement has since terminated.

Mitsui: Mitsui & Co., Limited and Mitsui & Co. (Australia) Limited are currently SL Shareholders and will be Shareholders in Synlait Milk after completion of the Offer. Synlait Milk has certain contractual arrangements with various Mitsui entities (that are material to either or both of Synlait Milk and the relevant Mitsui entity), as outlined below.

- Synlait Milk and Mitsui & Co NZ Limited are parties to an export agency agreement dated 2 July 2007 (as amended by a letter agreement dated 3 April 2012 and further amended by a letter agreement dated 11 June 2013). The export agency agreement appoints Mitsui & Co NZ Limited as Synlait Milk's exclusive sales agent for dairy products throughout the world (excluding New Zealand) and also includes a Trade Finance Facility for Synlait Milk to be provided by Mitsui & Co NZ Limited. The export agency agreement expires on 31 July 2013, however Mitsui & Co NZ Limited and Synlait Milk have executed a replacement export agency agreement which takes effect on 1 August 2013 and which will terminate on 31 July 2015, however the parties may agree to extend the export agency agreement for a further period of two years from 31 July 2015. Under the export agency agreement, Synlait Milk remains primarily responsible for identifying customers for dairy products, developing the customer relationship and securing inquiries for orders of its dairy products. Mitsui & Co NZ Limited is required to refer any inquiries or orders for its dairy products throughout the world (excluding New Zealand) to Synlait Milk. On request of Synlait Milk, Mitsui & Co NZ Limited may also conclude forward foreign exchange contracts on behalf of Synlait Milk to manage currency exposures arising from sales contracts.

  Under the export agency agreement, Mitsui & Co NZ Limited agrees to pay Synlait Milk the amounts invoiced to customers, pursuant to sales contracts concluded with such customers (less agreed charges payable to Mitsui & Co NZ Limited) within an agreed period after shipment of the dairy products, whether or not the customer has paid, unless the customer is insolvent. If any such customer pays Synlait Milk directly then these funds are paid into a bank account in Synlait Milk's name held on trust for Mitsui & Co NZ Limited and are then paid to Mitsui & Co NZ Limited. If the customer becomes insolvent, Mitsui & Co NZ Limited is not obliged to pay the invoiced amounts to Synlait Milk. As Mitsui & Co NZ Limited is Synlait Milk's agent for the purposes of each customer sales contract, if the customer does not pay Mitsui & Co NZ Limited the relevant invoiced amount when due, it is Synlait Milk's responsibility to either reimburse Mitsui & Co NZ Limited or to ensure that the customer pays. Synlait Milk can request that Mitsui & Co NZ Limited guarantee the payment of the price of dairy products payable by a customer for payment of an additional fee. As at the date of this Offer Document, no customers have been guaranteed by Mitsui & Co NZ Limited, but Synlait Milk may use the facility from time to time.

  Mitsui & Co NZ Limited may terminate the export agency agreement on 30 days' written notice to Synlait Milk during its term if Synlait Milk materially breaches the export agency agreement or any material term and fails to remedy that breach within 30 days of a written report, or if Synlait Milk persistently (4 times in any 6 month period) defaults or breaches its obligation under the export agency agreement.

- Synlait Milk and Mitsui & Co NZ Limited are parties to a services and entrustment agreement. Where Mitsui & Co NZ Limited owns goods or receives goods (including dairy products) from a third party it can require Synlait Milk to provide services and store the goods in its facilities at 1028 Heslerton Road, RD13, Rakaia, New Zealand. The services provided under the agreement include the receipt of goods, the movement and release of goods, custom clearance activities, and domestic and international transportation of goods.
- Synlait Milk, Mitsui & Co., Limited and Synlait Limited are parties to a long-term purchase agreement dated 2 July 2007 under which Synlait Milk manufactures and supplies dairy products to Mitsui & Co., Limited for its use or resale, and Synlait Limited guarantees Synlait Milk's performance under the agreement. This agreement terminates on 31 July 2013 and Synlait Milk and Mitsui & Co., Limited are currently negotiating a new 12 month agreement under which Synlait Milk will supply dairy products to Mitsui & Co., Limited.
- Synlait Milk and Mitsui & Co. (USA), Inc from time to time enter into sales contracts under which Synlait Milk purchases lactose in specified quantities from Mitsui & Co. (USA), Inc.

Synlait Farms / Synlait Limited: Synlait Milk has certain contractual arrangements with Synlait Farms and / or Synlait Limited (that are material to either or both of Synlait Milk and Synlait Farms and / or Synlait Limited (as applicable)), as outlined below.

- Synlait Milk and Synlait Farms are parties to a milk supply agreement pursuant to which Synlait Farms supplies all of its raw milk exclusively to Synlait Milk, on the terms referred to on page 73.
- Synlait Milk, Synlait Farms and Synlait Limited are parties to a deed of assignment of intellectual property, pursuant to which Synlait Limited and Synlait Farms each assigned and transferred to Synlait Milk all intellectual property rights associated with Synlait Milk's business of manufacturing, producing and supplying milk powder products under the name "Synlait". Synlait Milk also granted a non-exclusive licence to Synlait Limited and Synlait Farms to use the "Synlait" name (and associated trade marks) for their respective business purpose in New Zealand.
- Synlait Milk and Synlait Farms are parties to a water rights agreement under which Synlait Farms grants Synlait Milk the rights to take and use water needed for its plant operations and rights to discharge waste water and waste materials to two of Synlait Farms' farms. Under this agreement, Synlait Milk has a first right of refusal over the two relevant farms and also has an option to purchase the two relevant farms at the current market value at the time (based on independent valuations).
- Synlait Milk, Synlait Limited and Synlait Farms are parties to a deed of assignment of contracts and undertaking regarding milk supply agreements. Under this deed, Synlait Limited assigned specified contracts to Synlait Milk, and Synlait Farms provided an undertaking that it will only sell any of its specified farms with a contract securing milk supply to Synlait Milk in place.
- In the past, there was a management services agreement in place between Synlait Milk, Synlait Limited and Synlait Farms whereby Synlait Milk provided management services to certain Synlait companies. This agreement has been terminated.

Thorndale Dairies: A company which John Penno is currently a director and shareholder of, Thorndale Dairies Limited, previously owned a farm which had a milk supply agreement in place with Synlait Milk. However, this farm was sold to a third party two years ago.

Deeds of indemnity: Synlait Milk has entered into deeds of indemnity with each of its Directors, as detailed under the heading "Material Contracts" below.

Escrow Deed: Synlait Milk has entered into an escrow deed with each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno, as described further in Section 7.1 (Details of the Offer) and under the heading "Material Contracts" below.

Deed of contribution and indemnity: Synlait Milk has entered into a deed of contribution and indemnity with Synlait Milk Finance, as described under the heading "Material Contracts" below.

Except as set out above, no specified person has, or has held at any time during the five years preceding the date of this Offer Document, any direct or indirect material interest in Synlait Milk, or in any contract or arrangement entered into on behalf or in respect of Synlait Milk, that is material to either or both of the person who has the interest and Synlait Milk.

Further particulars of material interests are set out in the summaries of the material contracts referred to below.

17. Material Contracts

The Issuing Group has entered into the following material contracts during the two year period preceding the date of registration of this Offer Document (not being contracts entered into in the ordinary course of business):

- Deed of contribution and indemnity;
- Deeds of Indemnity;
- Offer Management Agreement; and
- Escrow Deed.

The general nature of each of the material contracts is set out below.

Deed of contribution and indemnity, dated 21 June 2013.

Synlait Milk has entered into an unsecured deed of contribution and indemnity for the benefit of Synlait Milk Finance under which Synlait Milk agrees to ensure that Synlait Milk Finance has sufficient funds to pay any amounts claimed from Synlait Milk Finance at any time. No amount can be claimed under the indemnity in respect of a liability under the new facilities agreement that Synlait Milk has paid direct to the banking syndicate under its guarantee.

Deeds of Indemnity, dated 21 June 2013

Synlait Milk has entered into a deed of indemnity and access with each of the Directors (each a **Director Indemnity** and, together, **Director Indemnities**). The Director Indemnities are on the same terms. Under the Director Indemnity, Synlait Milk must indemnify the Director against:

(a) the Director's reasonable costs incurred in any proceeding that relates to liability as a Director of Synlait Milk, but only if judgment is given in the Director's favour, or in which the Director is acquitted or relieved from liability, or if the proceeding is discontinued; and

(b) liability (other than criminal liability or liability in respect of a breach of the duty under section 131 of the Companies Act) to any third party for acts or omissions as a Director of Synlait Milk, and against the Director's reasonable costs in defending or settling any related claim.

Synlait Milk must also effect directors and officers liability insurance of specified minimum amounts for usual perils related to the activities of the Director in relation to Synlait Milk. The insurance must provide a "run-off cover" such that the Director, after he or she ceases to be a Director of Synlait Milk, remains insured for events that occurred during the time that he or she held office. If the Director has an insurance policy which expressly covers his or her liability as a Director of Synlait Milk, the Director must make a claim under that policy for any liability that the Director may be able to claim under the Director Indemnity. The Director must reimburse Synlait Milk using any relevant proceeds the Director receives under that policy.

The Director Indemnity excludes certain claims, such as claims resulting from liability for which an indemnity is prohibited by any legislation. Synlait Milk must also not effect insurance for liability and costs not permitted by the Companies Act and Securities Act.

Offer Management Agreement, dated 21 June 2013

Goldman Sachs New Zealand Limited, First NZ Capital Securities Limited, Synlait Milk and Selldown Co have entered into an offer management agreement. Under this agreement, Synlait Milk and Selldown Co appoint Goldman Sachs New Zealand Limited and First NZ Capital Securities Limited each as a Joint Lead Manager, bookrunner and arranger to the Offer, exclusive of any other financial institution.

The Joint Lead Managers have also agreed to provide settlement support for the settlement obligations of applicants under the Institutional Offer who are allocated Offer Shares. If an applicant under the Institutional Offer is allocated Offer Shares and fails to settle on those Offer Shares , the Joint Lead Managers are required to pay to Synlait Milk in cleared funds the shortfall on the Allotment Date. The Offer is not underwritten other than in respect of such settlement support.

The obligations of the Joint Lead Managers under this agreement are subject to a number of conditions precedent, including due diligence and NZX quotation approval. These conditions precedent are for the benefit of the Joint Lead Managers.

Synlait Milk and Selldown Co have provided certain representations, warranties and undertakings to the Joint Lead Managers customary for an offering of this nature. Each Joint Lead Manager has also provided a limited number of representations and warranties to Synlait Milk and Selldown Co.

Synlait Milk and Selldown Co have granted an indemnity to the Joint Lead Managers in relation to all claims (ie actions, claims, investigations, enquiries, demands, proceedings or judgments) and all losses suffered or incurred by the Joint Lead Managers in relation to the Offer or this agreement, provided that Synlait Milk and Selldown Co will have no liability if such claim or loss is proven to have resulted from the wilful misconduct, fraud, or gross negligence of the Joint Lead Managers.

The Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations in respect of the Institutional Offer in certain circumstances, including, where on or before settlement of the Institutional Offer (on the Allotment Date, which is expected to be 23 July 2013):

- any material adverse change or event occurs which is likely to materially adversely affect Synlait Milk;
- Synlait Milk is prevented from issuing Shares and / or Synlait Milk is prevented from transferring Shares by any applicable laws or as a result of an order or judgment of a Court or regulatory authority;
- the Offer is withdrawn by Synlait Milk and / or Selldown Co;
- a statement contained in this Offer Document is or becomes untrue, inaccurate, misleading or deceptive in any material respect (including by omission) or a material matter is omitted;
- an insolvency event occurs in relation to Synlait Milk or Selldown Co;
- particular disruptions in certain major financial markets following the successful completion of the bookbuild in relation to the Offer; or

- certain circumstances, including any of the following, occurs and in the reasonable opinion of the Joint Lead Managers is likely to have a material adverse effect on the Offer:
  - a breach of the Offer Management Agreement by Synlait Milk or Selldown Co;
  - a representation or warranty contained in the Offer Management Agreement on the part of Synlait Milk or Selldown Co is not true or correct; or
  - legal proceedings are commenced against any member of the Synlait Group.

Synlait Milk and Selldown Co have agreed that, subject to certain exceptions, during the lock-up period of 180 days from the Allotment Date, they will not, without the prior written consent of the Joint Lead Managers (not to be unreasonably withheld):

- allot, issue or transfer, issue or grant any right or option in respect of an issue of, offer for sale or accept offers for, any Shares or other securities of Synlait Milk or Selldown Co; or
- create any debt obligation which may be convertible or exchangeable into or redeemable by, or otherwise enter into an agreement entitling a person to the allotment and issue of, any Shares or other securities of Synlait Milk or Selldown Co.

Escrow Deed, dated 21 June 2013

Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno have entered into an escrow deed with Synlait Milk, under which Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno agree to not sell, transfer or otherwise dispose of Shares specified in the escrow deed until at least the first day after the date on which Synlait Milk releases to NZX its preliminary announcement of its financial results for FY2014F (being the end of the prospective financial information period).

Under the escrow deed, these restrictions do not apply (and therefore Shares can be sold) if a partial or full takeover offer is made under the Takeovers Code for Shares, or if an amalgamation or scheme of arrangement with respect to the Shares is proposed (unless the relevant shareholder is an 'associated person' of the offeror under the takeover, amalgamation or scheme of arrangement). Each of Bright Dairy, Mitsui & Co., Limited, Mitsui & Co. (Australia) Limited and John Penno are also permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution, or to transfer all of their shareholding to an 'associated person' with the prior written approval of the non-interested Directors of Synlait Milk (provided that the lender / associated person (as applicable) also enters into an Escrow Deed with Synlait Milk).

18. Pending proceedings

We have introduced a new price formula and distance surcharge to a number of suppliers whose contracts were novated to us from Oceania Dairy Limited. Some of those suppliers have notified us that they regard any imposition of a distance surcharge on them as a breach of contract. We believe in our entitlement to introduce the distance surcharge. However, this may ultimately need to be determined by a Court. In addition, a competitor has expressed concern that some of our staff who were previously contracted or employed by our competitor or who worked for others that licensed that competitor's technology, may be misusing confidential information about lactoferrin production in the development of our lactoferrin plant. We have assured our competitor that this is not the case and they have acknowledged those assurances. Our competitor has said that it will continue to monitor our plant development for any indication that its confidential information is being employed, but we do not have any reason at this time to expect that a claim may be made against us in relation to this matter. Other than in respect of these matters, as at the date of registration of this Offer Document, there are not any pending legal proceedings or arbitrations in relation to Synlait Milk that may have a material adverse effect on Synlait Milk.

19. Preliminary and Issue expenses

Issue expenses relating to the Offer (including brokerage and commission fees, joint lead management fees, share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage and courier costs) are estimated to amount to approximately $7.2 million, based on the issue of $75 million of New Shares and transfer of $45 million of Existing Offer Shares. All fixed costs associated with the Offer will be borne by Synlait Milk, and all brokerage and incentive fees will be paid by Synlait Milk and Selldown Co on the basis that these fees are attributable to the allotment of New Shares and Existing Offer Shares, respectively.

Synlait Milk will pay a brokerage fee of 2% of the gross proceeds in respect of Shares allotted to valid Applications for the Offer, payable to the Joint Lead Managers in equal proportions. In addition, Synlait Milk may at its absolute discretion pay the Joint Lead Managers an incentive fee of 0.50% of the gross proceeds in respect of Shares allotted to valid Applications for the Offer.

Selldown Co will pay Synlait Milk that portion of the brokerage and incentive fees paid to the Joint Lead Managers which relates to the Existing Offer Shares.

The Joint Lead Managers will pay NZX Firms certain fees as agreed between them including a commission of 1.5% of the gross proceeds in respect of valid Application bearing their stamp submitted under the Broker Firm Offer.

Other than as set out above, neither Synlait Milk nor Selldown Co will be liable for any fees payable to the NZX Firms or any participants in the Bookbuild.

20. Restrictions on Issuing Group

The only restrictions on the ability of the Issuing Group to make a distribution or to borrow are those resulting from the Financing Arrangements, details of which are set out in Section 6.9 (Description of Synlait Milk's Financing Arrangements).

21. Other terms of Offer and Securities

All terms of the Offer, and all terms of the Offer Shares, are set out in this Offer Document, other than any terms implied by law or which are set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

22–23. Financial Statements

Financial statements for the 12 month accounting period ending 31 July 2012 are set out under the heading "Audited Financial Statements for the year ended 31 July 2012" in Section 6.6. These were registered under the Financial Reporting Act 1993 on 5 December 2012.

24. Additional Interim Financial Statements

Financial statements for the six month interim accounting period ending 31 January 2013 are set out under the heading "Unaudited Interim Financial Statements" in Section 6.5.

25. Places of Inspection of Documents

The constitution of Synlait Milk, copies of the material contracts referred to above under the heading "Material Contracts" and copies of the financial statements referred to above under the headings "Financial Statements" and "Additional Interim Financial Statements", may be inspected free of charge during normal business hours at Synlait Milk's registered office at 1028 Heslerton Road, RD 13, Rakaia, New Zealand. Copies of those documents (except the financial statements referred to under the heading "Additional Interim Financial Statements") are also available for public inspection on the Companies Office website at www.business.govt.nz/companies.

Copies of the financial statements referred to under the headings "Financial Statements" and "Additional Interim Financial Statements" above can also be obtained free of charge at www.synlait.com.

You can also obtain a copy of Synlait Milk's new Constitution (that will be adopted immediately prior to listing) free of charge during normal business hours at Synlait Milk's registered office at 1028 Heslerton Road, RD13, Rakaia, New Zealand or at www.synlait.com.

26. Other Material Matters

NZSX Listing Rule waivers and approval

NZX has granted Synlait Milk certain waivers to allow the Constitution and the composition of the Board to reflect the non-standard governance arrangements of Synlait Milk (as described in Section 1.3 (Offer at a Glance)). The waivers will apply only for so long as Bright Dairy's (or any subsidiary) percentage shareholding in Synlait Milk does not reduce below the level immediately following listing of Synlait Milk on the NZX Main Board and for so long as Bright Dairy (or any subsidiary) holds no more than 50% of the Shares.

- NZX has granted a waiver in respect of the requirement in Listing Rule 3.3.5, which allows shareholders to nominate Directors for appointment. The effect of this waiver is to allow a precondition to be imposed in respect of persons who may be nominated by the shareholders other than Bright Dairy to fill three Director positions, that those candidates be independent for the purposes of the Listing Rules.
- NZX has granted a waiver from Listing Rule 3.3.8(a), which requires that the proportion of directors appointed by a specific shareholder not exceed the proportion of the shares held by that shareholder. The effect of this waiver is to allow the constitution of Synlait Milk to give Bright Dairy the right to appoint four Directors to the Board, even though that number of directors is in excess of the proportion of directors Bright Dairy would be entitled to appoint under Listing Rule 3.3.8(a).
- NZX has granted waivers from Listing Rule 3.3.11, which requires one third of the Directors to retire by rotation at each annual meeting. The effect of these waivers are that the reference to 'directors' in Listing Rule 3.3.11 refers solely to the Independent Directors appointed by shareholders other than Bright Dairy (so that only one Independent Director must retire at each annual meeting of Synlait Milk). However, if there are only two (2) Independent Directors on listing, and a third Independent Director is appointed before Synlait Milk's annual meeting following listing, two (2) Independent Directors must retire from office at that meeting (one by rotation and the other having been appointed by the Independent Directors to fill a casual vacancy) but will be eligible for election or re-election. Further, as soon as Bright Dairy ceases to be entitled to appoint four Directors to the Board, it must procure the resignation of such number of its appointed Directors so that its number of Directors on the Board does not exceed the proportion of the Shares held by it. Any Bright Dairy appointed Director who still remains in office at the first annual meeting of Synlait Milk following the date upon which Bright Dairy ceases to be entitled to appoint four Directors to the Board is required to retire by rotation. Also, if there are only two (2) Independent Directors on listing or at any time thereafter, then it is a condition of NZX's approval that at any meeting of the Board of Synlait Milk, that one (1) Director appointed by Bright Dairy will abstain from voting.
- NZX has granted a waiver from Listing Rule 3.1.1(a) in relation to the requirement under Listing Rule 3.1.1(a) that the Constitution incorporate by reference or contain provisions consistent with, and having the same effect as, Listing Rule 3.4.4, which states that a Director may vote in respect of matter in which that Director is interested if the matter is one which requires the Director to sign a certificate or relates to the grant of an indemnity. The effect of this waiver is that the Constitution contains a provision that provides that the Managing Director cannot vote on certain matters regarding his or her appointment or removal as a Managing Director, his or her remuneration, or the appointment of any new Managing Director.
- NZX has granted waivers from Listing Rule 3.1.1(a) in relation to the requirement under Listing Rule 3.1.1(a) that the Constitution incorporate by reference or contain provisions consistent with, and having the same effect as, Listing Rule 3.3.7, which relates to appointment of alternate directors. The effect of these waivers is that the Constitution contains a provision that removes the right of Directors of Synlait Milk to appoint another person to act as his or her alternate, and allows any Bright Dairy appointed Director who is unable to attend a meeting of the Board to appoint, by notice to the chairman on a case by case basis, another Bright Dairy appointed Director to exercise his or her voting rights at that meeting.
- NZX has granted a waiver from Listing Rule 11.1.1 which provides that no issuer shall impose in its constitution or otherwise any restrictions on the transfer of securities. The effect of this waiver is that the Constitution can contain the escrow arrangements referred to in Section 7.1 (Details of the Offer) under the heading "Escrow Arrangements".

As a condition of these waivers and approvals Synlait Milk will bear a "non-standard" designation on the NZX Main Board.

27. Directors' Statement

The Directors of Synlait Milk, after due enquiry by them, are of the opinion that there has been no material and adverse change during the period between 31 January 2013 and the date of this Offer Document in respect of any of the following:

(a) the trading or profitability of Synlait Milk;

(b) the value of the assets of Synlait Milk; or

(c) the ability of Synlait Milk to pay its liabilities due within the next 12 months.

28. Auditor's Report

The current appointed auditor of Synlait Milk is Deloitte. Deloitte is registered under the Auditor Regulation Act 2011 with registration under AUD187. There are no restrictions or limitations on Deloitte's registration.

A copy of the auditor's report required by clause 28 of Schedule 1 of the Securities Regulations is set out in Section 6.7 (Statutory Auditor's Report). Deloitte has given and has not withdrawn its consent to be named in this Offer Document as auditor of Synlait Milk and to the issue of the Offer Document with its audit report included in the form and context in which it appears. While Deloitte is an external auditor to Synlait Milk, neither Deloitte nor any officer or employee of Deloitte is intended to be a director, officer, or employee of Synlait Milk.

Deloitte are also the Investigating Accountants in relation to the prospective financial information set out in this Offer Document (and have provided the Investigating Accountant's Report in Section 6.8), and Deloitte have reviewed the interim financial statements and provided the review report set out in Section 6.5.

Deloitte takes no responsibility for, nor has it authorised the issue of, any part of this Offer Document, except for the:

- auditor's report;
- auditors report in respect of the financial statements for the year ended 31 July 2012;
- review report in respect of interim financial information; and
- investigating accountant's report.

29. Signatures required under the Securities Act

This Offer Document has been signed by each director of Synlait Milk Limited (or his or her agent in writing), as issuer and each director of SML New Zealand Limited (or his or her agent in writing) as offeror.

This Offer Document has been signed as follows:

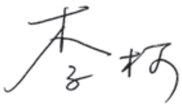
By the directors of Synlait Milk Limited (or by their agent authorised in writing).

Graeme Roderick Milne

John William Penno

Ruth Margaret Richardson

Willem Jan Roest



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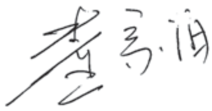

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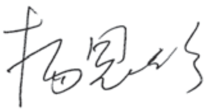


Sihang Yang

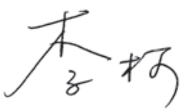
By the directors of SML New Zealand Limited (or by their agent authorised in writing).

Graeme Roderick Milne

John William Penno

Ruth Margaret Richardson

Willem Jan Roest



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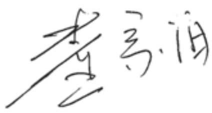

Zongbo Dong

Sihang Yang

GLOSSARY

1H	The six month period ended 31 January
Allotment Date	The date on which Shares will be allotted by Synlait Milk pursuant to the Offer, which will be 23 July 2013 or such other date as determined by Synlait Milk
AMF	Anhydrous milk fat
Ammix	The process applied by Synlait Milk of making butter from an AMF and cream mix of raw materials
Annual Milk Price	An accounting estimate used for calculating the milk price within each year, determined using Synlait Milk's milk pricing model that is benchmarked against the Farmgate Milk Price announcements during the year and against Fonterra's Milk Price Statement when this is released annually
ANZ	ANZ Bank New Zealand Limited
Applicant	An investor whose application for Shares has been received by the Registrar prior to the Closing Date
Application	An application to subscribe for Shares under the Offer
Application Form	The Application Form attached to this Offer Document to subscribe for Shares under the Broker Firm Offer
Application Moneys	The moneys payable on Application
BNZ	Bank of New Zealand
Board or Board of Directors	The board of directors of Synlait Milk
Bookbuild	The process by which the Final Price will be set, as described in Section 7.1 (Details of the Offer)
Bright Dairy	Bright Dairy Holding Limited or Bright Dairy & Food Co., Ltd, as the context requires
Broker Firm Offer	The offer available to New Zealand resident clients of selected NZX Firms who have received an allocation from that NZX Firm
Business Day	A day on which the NZX Main Board is open for trading
Chinese GAAP	Generally accepted accounting practice in China
Closing Date	5.00pm, 19 July 2013, or such later date as set by Synlait Milk, Selldown Co and the Joint Lead Managers
Companies Act	Companies Act 1993
Constitution	The new constitution of Synlait Milk which will be adopted immediately prior to listing
CSN	Common Shareholder Number
Dairy Trading Platform	The auction platform established by Fonterra for internationally-traded commodity dairy products
DIRA	Dairy Industry Restructuring Act 2001 as amended by the Dairy Industry Restructuring Act 2012
Director	A director of Synlait Milk
Directory	The directory set out in this Offer Document
Dryer 1	A GEA MSD 1000 dryer capable of producing Ingredients such as Instant SMP, SMP, WMP, Instant WMP, hi calcium powders, and fortified powders. Dryer 1 has a capacity of 8.1 MT per hour
Dryer 2	A Tetra Pak Magna Tall Wide Body dryer capable of producing both Ingredients and Infant Formula and Nutritionals, such as stage 1, 2 and 3 infant powder, adult nutritional powders, Instant SMP, SMP, WMP, Instant WMP, hi calcium powders and fortified powders. Dryer 2 has a capacity of 10.5 MT per hour for Ingredients and 7–8 MT per hour for Infant Formula and Nutritionals
Dryer 3	Synlait Milk's proposed new 8–10 MT per hour spray dryer capable of WMP, SMP and 5–6 MT per hour of formulated powders. Dryer 3 is intended to be built as part of Synlait Milk's Growth Initiatives and is planned for commissioning in August 2015
DTA	Double tax agreement
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Escrow Period	The period from 21 June 2013 until 8am on the first day after the date on which Synlait Milk releases to NZX its preliminary announcement of its financial results for FY2014F (being the end of the prospective financial information period)
Executive Directors	A non-Independent Director who is also part of Synlait Milk's executive team
Existing Financing Arrangements	The existing financing arrangements of Synlait Milk made available by ANZ and BNZ under a loan facility agreement dated 21 October 2010 (as amended from time to time)

GLOSSARY

Existing Offer Shares	Existing ordinary shares in Synlait Milk offered for purchase under the Offer by Selldown Co
Farmgate Milk Price	The base price that Fonterra pays for milk supplied to it in New Zealand for a Season
Farmgate Milk Price Manual	The manual of Fonterra that sets out the policies and methodology for the determination of the Farmgate Milk Price as provided for under DIRA and the constitution of Fonterra
Final Price	The price per Share at which the Shares will be allotted, expected to be determined on or about 10 July 2013
Financing Arrangements	Synlait Milk's Existing Financing Arrangements and New Financing Arrangements
Firm Allocation	A binding commitment pursuant to which the entity accepting a Firm Allocation is bound to submit (i) a valid Application or Applications which in aggregate equals the amount of the Firm Allocation or (ii) if the entity is an NZX Firm, valid Applications by clients bearing the stamp of the NZX Firm or intermediary for their Firm Allocation or, failing that, a valid Application for any shortfall as principal
Fonterra	Fonterra Co-operative Group Limited
FY	Financial year ended 31 July. If this is followed by an 'F', this indicates prospective financial information for a future financial year
GAAP	Generally accepted accounting practice
GDP	Gross domestic product
Glossary	This glossary of key terms
Growth Initiatives	The growth initiatives Synlait Milk wishes to pursue in the near term, including Dryer 3, a lactoferrin plant, an on-site blending and consumer packaging plant, a new dry store, a quality testing laboratory and a butter plant
GST	Goods and services tax chargeable or imposed under the Goods and Services Tax Act 1985
IFRS	International Financial Reporting Standards
Independent Director	An "Independent Director" as defined in the Listing Rules
Indicative Price Range	$2.05 to $2.65 per Offer Share
Infant Formula and Nutritional or Infant Formula and Nutritionals	Synlait Milk's infant formula and nutritional products, comprising infant and adult formula products as well as other special milks specific to customer requirements, such as colostrum and lactoferrin
Ingredient or Ingredients	Synlait Milk's ingredient products, comprising various WMP, SMP, AMF and cream products
Institutional Investors	Investors who the Joint Lead Managers determine are persons to whom an offer or invitation in respect of Shares may be made without the need for a registered or lodged Offer Document
Institutional Offer	The offer available to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions
IPO	The initial public offer of Shares in Synlait Milk pursuant to this Offer Document
Issuing Group	Synlait Milk and its wholly owned subsidiary, Synlait Milk Finance
Joint Lead Managers	First NZ Capital Securities Limited and Goldman Sachs New Zealand Limited
kg MS	Kilograms of milksolids
Listing Rules	The NZSX Listing Rules of NZX in force from time to time
Monthly Milk Price or MMP	An accounting estimate used for calculating the milk price within each month, determined using Synlait Milk's milk pricing model that is benchmarked against the Farmgate Milk Price announcements during the year and against Fonterra's Milk Price Statement when this is released annually
MT	Metric tonne, equivalent to 1,000 kilograms
New Financing Arrangements	The new financing arrangements that Synlait Milk and Synlait Milk Finance intend to enter into during the Offer period, as described in Section 6.9 (Description of Synlait Milk's Financing Arrangements)
New Shares	Ordinary shares in Synlait Milk offered for subscription by Synlait Milk under the Offer
NPAT	Net profit after taxation
NPBT	Net profit before taxation
NRWT	Non-resident withholding tax
NZD or NZ$ or $	New Zealand Dollar
NZ ETS	New Zealand emissions trading scheme
NZ GAAP	Generally accepted accounting practice in New Zealand

GLOSSARY

NZ IFRS	New Zealand equivalent to International Financial Reporting Standards
NZX	NZX Limited, a registered exchange under the Securities Markets Act 1988
NZX Firm	A sharebroking firm authorised to trade shares on the NZX Main Board
NZX Main Board	The main board equity securities market operated by NZX
Offer	The offer of Shares pursuant to this Offer Document
Offer Document	This combined prospectus and investment statement
Offer Shares	The New Shares and the Existing Offer Shares offered under the Offer
Opening Date	10 July 2013
Reference Commodity Products	The basket of commodity products used to calculate the revenues in the Synlait Milk and Fonterra farmgate milk price models
ROCE	Return on Capital Employed, comprising EBIT / Average (total equity + net debt)
Reverse Osmosis Plant	A GEA Reverse Osmosis Plant capable of processing 1.6 million litres per day of skim milk. Reverse osmosis is utilised to remove water from the milk for either Dryer 1 or Dryer 2 prior to evaporation
RWT	Resident withholding tax
Season	A period of 12 months beginning on 1 June in a year and ending on 31 May in the following year
Securities Act	Securities Act 1978
Securities Regulations	Securities Regulations 2009
Selldown Co	SML New Zealand Limited, which was incorporated with the principal purpose of acquiring and selling the Existing Offer Shares under the Offer
Selling Shareholders	Synlait Limited and those SL Shareholders who elect to sell some or all of their Shares into the Offer via Selldown Co
Shareholder	A shareholder of Synlait Milk
Shares	Ordinary shares in Synlait Milk
Share Registrar	Computershare Investor Services Limited
SL Shareholders	Synlait Limited shareholders to whom Synlait Limited will distribute a portion of its Shares in Synlait Milk
SMP	Skim milk powder
Special Milks Dryer	A highly versatile GEA MSD 50 dryer capable of producing both Ingredient powders and infant formula powders, and with an added milk protein concentrate drying capability. The Special Milks Dryer has a capacity of 0.3-0.4 MT per hour
Synlait Farms	Synlait Farms Limited
Synlait Group	The group of companies that historically comprised Synlait Limited and its two subsidiaries, Synlait Milk and Synlait Farms
Synlait Milk	Synlait Milk Limited
Synlait Milk Finance	Synlait Milk Finance Limited
Takeovers Code	The Takeovers Code Approval Order 2000
Trade Finance Facility	The trade finance facility provided to Synlait Milk by Mitsui & Co NZ Limited under the export agency agreement
Treasury Management Policy	Synlait Milk's Board-approved treasury management policy described in Section 4.2 (Board, Management and Corporate Governance)
United States	United States of America
USD	United States Dollar
US Person	"U.S. person" as defined in Rule 902(k) of the U.S. Securities Act of 1933, as amended
Value Added	Products manufactured by Synlait Milk which we regard as having been differentiated by us from products generally regarded by the market as commodity products
We, our, us	Synlait Milk
WMP	Whole milk powder
Working Capital Facility	The working capital facility provided under the Existing Financing Arrangements that is expected to be replaced with the working capital facility under the New Financing Arrangements after the Offer is completed

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Application instructions
Your form must be received by 5:00pm 19 July 2013

You should read this Offer Document carefully before completing this Application Form. An application will constitute an irrevocable offer by the applicant to subscribe for and acquire the aggregate value of Shares specified on the Application Form (or such lesser amount which Synlait Milk may determine) on the terms and conditions set out in this Offer Document and this Application Form.

There is no general public offer. Any Application Form that is not made under the Broker Firm Offer (ie without a stamp from an NZX Firm that has a Firm Allocation) will not be accepted.

An Application cannot be withdrawn or revoked by the Applicant once it has been submitted.

STEP 1

Application details

Enter your FULL NAME(S). Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per Application. The table below shows the correct form of name to use. Applications using the wrong form of name may be rejected.

Enter your POSTAL ADDRESS. All communications to you from Synlait Milk will be mailed to the person(s) at the address as shown (unless you provide an email address on the Application Form). For joint applicants, only one address is to be entered. Provide your TELEPHONE NUMBER(S) so that the Registrar or Synlait Milk can contact you in relation to your Application if required.

By supplying your email address, Synlait Milk will be able to deliver your investor correspondence to you electronically where possible. This is a much more environmentally friendly, cost effective and timely option than paper-based investor mail outs.

STEP 2

Application amount

Enter the number of Offer Shares you wish to apply for. The minimum application amount is 2,000 Offer Shares (except for employees of Synlait Milk which are subject to a minimum of 800 Offer Shares), with multiples of 100 Offer Shares thereafter.

Enter the Final Price. You must obtain the Final Price as announced on 10 July 2013 prior to completing this section. The Final Price will be announced on 10 July 2013 and will be available at www.synlait.com, www.nzx.com or by contacting your NZX Firm.

Multiply the number of Offer Shares you wish to apply for by the Final Price, and enter this number as the Total Consideration.

Tick the relevant box for your chosen payment method.

Option 1

If you choose the direct debit option, you must tick the box authorising the Share Registrar to direct debit the bank account nominated on the Application Form on any day after the Application Form is received by the Share Registrar for the amount applied for on the Application Form. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- **sufficient funds in the bank account for direct debit are available on the day the Share Registrar receives the Application Form;**
- the person(s) giving the direct debit instruction has / have the authority to operate the account solely / jointly; and
- **the bank account you nominated is a transactional account eligible for direct debit transactions.**

If you are uncertain, you should contact your bank or financial institution. Should your direct debit fail, your application will be rejected. The Share Registrar will not be able to process your direct debit if you do not sign and date the Application Form. If requested, the Share Registrar will provide you with a direct debit authority form.

Option 2

Cheques must be drawn on a New Zealand registered bank from a New Zealand dollar bank account and must be made in New Zealand dollars. Cheques must be made payable to "Synlait Milk Share Offer" and crossed "Not Transferable". **Cheques must not be post-dated as they will be banked on receipt.** The banking of Application Moneys does not constitute confirmation of allotment of any Shares or acceptance of an offer to subscribe for Shares. If your cheque is dishonoured, your application will be rejected and Synlait Milk may cancel your allotment of Shares and pursue any other remedies available to it at law.

Future dividend payments

All future dividend payments will be made to the account specified on this Application Form. If you do not select the direct debit option (option 1) or

Type of Investor	Correct Way to Write Name	Incorrect Way to Write Name
Individual person	JOHN ALFRED SMITH	J A SMITH
More than one person	JOHN ALFRED SMITH MICHELLE JANE SMITH	J A & M J SMITH
Company	ABC LIMITED	ABC
Trust	JOHN ALFRED SMITH <JOHN SMITH FAMILY A/C>	JOHN SMITH FAMILY TRUST
Partnership	JOHN ALFRED SMITH MICHAEL FREDERICK SMITH <JOHN SMITH AND SONS A/C>	JOHN SMITH & SONS
Club or Unincorporated Association	JANE ANNABEL SMITH <SMITH INVESTMENT CLUB A/C>	SMITH INVESTMENT CLUB
Superannuation fund	JOHN SMITH LIMITED <SUPERANNUATION FUND A/C>	JOHN SMITH SUPERANNUATION FUND

you wish to nominate a separate bank account to receive dividends, you must provide your bank account details so that Synlait Milk can direct credit your dividend payments into your nominated bank account.

STEP 3

Common Shareholder Number

If you have a Common Shareholder Number (**CSN**), you must enter it in the box provided. The name and address details on your Application Form must correspond with the registration details under that CSN. If you do not provide a CSN, it will be deemed that you do not have a current CSN and a CSN and FIN (Authorisation Code) will be allocated to you prior to allotment of the Shares.

STEP 4

IRD number or tax exempt

Enter your IRD number if you have one. For joint Applicants, please fill in the IRD number of the first named Applicant or a trustee of the trust (for an Application by a trustee or trustees).

Please also confirm whether you have a RWT exemption certificate, are GST-registered for the purposes of the Goods and Services Tax Act 1985, or are a non-resident for the purposes of the Income Tax Act 2007 by ticking the appropriate boxes.

STEP 5

Signature of applicants

Read the declaration and the terms and conditions on the back of the Application Form carefully and SIGN and DATE the Application Form. An Application Form must be signed by the Applicant(s) personally, or by two directors of a company (or one director if there is only one director, whose signature must be witnessed), or in either case by a duly authorised attorney or agent.

If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney section on the back of the Application Form. If the Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agent section on the back of the Application Form.

Joint applicants must each sign the Application Form.

STEP 6

Closing date and delivery

Applicants receiving a Firm Allocation under the Offer from a NZX Firm or approved financial intermediary must return a completed Application Form (with payment) **to the office of that NZX Firm** or financial intermediary in time to enable forwarding to the Share Registrar before 5.00pm on the Closing Date, Friday 19 July 2013.

For Primary Market Participants, the address details of the Share Registrar are:

Computershare Investor Services Limited
Postal address:
Private Bag 92119
Auckland 1142

Physical address:
Level 2
159 Hurstmere Road
Takapuna
Auckland 0622

Please lodge your Application Form AS SOON AS POSSIBLE. Applicants should remember that the Closing Date may be changed at the sole discretion of Synlait Milk.

Synlait Milk reserves the right to accept Applications which are received by the Share Registrar after the relevant Closing Date, but has no obligation to do so.

CORPORATE DIRECTORY

Directors of Synlait Milk Limited

Graeme Roderick Milne
John William Penno
Ruth Margaret Richardson
Willem Jan Roest
Ke Li
Zongbo Dong
Sihang Yang

Issuer

Synlait Milk Limited
1028 Heslerton Road
RD13
Rakaia
Phone: (03) 373 3000
Website: www.synlait.com

Legal Advisers to Synlait Milk

Minter Ellison Rudd Watts
Level 20, Lumley Centre
88 Shortland Street
Auckland 1010

Auditor and Investigating Accountant

Deloitte
50 Hazeldean Road
Christchurch 8024

Joint Lead Managers and Bookrunners

First NZ Capital Securities Limited
Level 39, ANZ Centre
23-29 Albert Street
Auckland 1010

Goldman Sachs New Zealand Limited
Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Retail Affiliate of the Joint Lead Managers

JBWere (NZ) Pty Limited
Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92119
Auckland 1142
Phone: +64 9 488 8777
Email: enquiry@computershare.co.nz