INVESTOR UPDATE

2 February 2015
AGENDA

- Milk Price and Supply
- Capital Investment
- Working Capital Financing
- Results Guidance
MILK PRICE AND SUPPLY
- Market Milk price estimated at $4.40 / KgMS (reduced from $5.00 / KgMS).

- We estimate a modest recovery of prices in the short term for WMP, reaching approx. USD$2,700 / MT compared to other market forecasts of USD$3,500 / MT by July 2015.
  - Fonterra¹: $4.70 / KgMS
  - ANZ²: $4.35 / KgMS
  - BNZ³ $4.50 / KgMS

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¹ Source: Fonterra press release dated 10th December 2014 (incl WMP price analysis)
² Source: ANZ market update 20th January 2015
³ Source: BNZ market update 12th January 2015
- Our view is based on the expected global supply and demand fundamentals:
  - Supply growth from major exporters strongest in 8 years.
  - Competitive pressures from Europe due to weak local currency, weak domestic market and loss of Russian demand (trade embargo).
  - Oil price reduction having significant impact on demand from countries exposed to this risk.
  - China year on year milk production growth estimated as 15%. High inventory levels are still being worked through.
  - Likely continued supply growth coming from Europe (post dairy quota removal in April 2015).
China Whole Milk Powder Imports

- China expected to pick up later in 2015 when excess stocks are worked through.

**Exchange Rate Impact**

- Recent significant decline in the NZD:USD exchange rate.
  - Impact for this season dependent on cover (exposure) still to be placed for FY2015 and amount of optionality in existing contracts.

- If sustained and potentially continued downward trend in foreign exchange – may mitigate softer outlook in commodity prices.

- Reduction in market milk price (to $4.40 / KgMS) and corresponding advance rates will add further pressures on farm.

- Despite market conditions, we are encouraging suppliers to keep production up and take advantage of Autumn Premiums.

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Source: China Customs

Source: RBNZ
- Dry weather likely to have minimal impact on our supply base at this stage.
- Any further reduction in market milk price and corresponding advance rates will add further pressures on farm.
- Most of Synlait farm suppliers have irrigated farms (Opua and Mayfield water schemes likely to be more affected than others).
- Early season strong milk flows will result in overall milk supplied for the season exceeding original budget.
- We continue to monitor the situation with our farm suppliers.
- On target for FY16 milk supply requirements.
- Now looking to increase contracted milk supply for FY2016 in excess of targets in original business case (that supported build of the larger third dryer).
- Still have access to DIRA milk for FY2016 (this will be our last season taking DIRA).
- Secured 55 million KgMS already for FY2016.
- We do not see the introduction of MyMilk™ having any material impact on ability to secure our forecasted milk requirements.
CAPITAL INVESTMENT
# GROWTH INITIATIVE PROJECTS

<table>
<thead>
<tr>
<th>$m</th>
<th>Forecast / Actual</th>
<th>PFI</th>
<th>Variance to PFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blending and consumer packaging facility</td>
<td>29.2</td>
<td>27.5</td>
<td>1.7</td>
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<tr>
<td>Lactoferrin facility</td>
<td>21.9</td>
<td>15.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Dry store 3&lt;sup&gt;1&lt;/sup&gt;</td>
<td>17.0</td>
<td>19.5</td>
<td>(2.5)</td>
</tr>
<tr>
<td>SUBTOTAL (Completed growth projects)</td>
<td>68.1</td>
<td>62.1</td>
<td>6.0</td>
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<tr>
<td>Dryer 3</td>
<td>135.0</td>
<td>103.5</td>
<td>31.5</td>
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<tr>
<td>Quality testing laboratory and administration building</td>
<td>21.0</td>
<td>8.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Butter plant</td>
<td>15.0</td>
<td>15.0</td>
<td>-</td>
</tr>
<tr>
<td>SUBTOTAL (Uncompleted growth projects)</td>
<td>171.0</td>
<td>126.9</td>
<td>44.1</td>
</tr>
<tr>
<td><strong>TOTAL GROWTH PROJECTS</strong></td>
<td><strong>239.1</strong></td>
<td><strong>189.0</strong></td>
<td><strong>50.1</strong></td>
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</tbody>
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<sup>1</sup> Includes dryer 3 and blending and consumer packaging dry stores

**Note:** Figures above reflect build costs only and exclude capitalised HR, finance and commissioning costs
BLENDING AND CONSUMER PACKAGING FACILITY
BLENDBING AND CONSUMER PACKAGING

Commissioned in July 2014

- Scope of plant increased from 18,000 MT per annum as stated in prospectus to potentially as much as 30,000 MT per annum.

- Forecasting to have approximately 6,000 MT’s of canned product in the first year of operations (exceeds original business case of 4,400 MT).

- Current forecast volumes represent four customers we are working with.

- Currently working with additional four major customer opportunities to secure future significant growth in volumes.
LACTOFERRIN EXTRACTION AND PURIFICATION

Commissioned in April 2014

- Higher capital cost related to increased scope and complexity of plant.
- Has unique intellectual property within development.
- Currently on track to manufacture a minimum of 15 MT of product this financial year.
- Contracted sales secured for in excess of half this product.
- Deliveries forecast for shipment primarily in the second half of this financial year.
- Year 2 sales orders expected to exceed business case.
22,500m² DRYSTORE
22,500m² DRYSTORE

Commissioned in April 2014

- Combined build of 10,000m² drystore, D3 drystore and blending and canning drystore into single build.

- Resulted in savings of $2.5 million.
DRYER 3

- Increased size of plant and capability of plant due to customer demand and more flexibility.

- Plant size increased to 10.5 MT / hour which is an approx. 25% increase in volume capacity compared to original business case.

- Business case suggested an IRR in excess of 20%.

- Bank approved increased dryer 3 loan to fund the plant.
QUALITY TESTING LABORATORY AND ADMINISTRATION BUILDING

- Significant increased in the scope of the laboratory, primarily driving increased spend
  - Tier 1 customers expectations of on-site lab.
  - Increased savings in third party costs.
  - Will undertake at least 80% of testing, currently done by third parties.
  - Substantial savings, providing business case IRR in excess of 20%.

- Significant benefits of having our highly skilled staff on-site, interacting with our NPD, quality and manufacturing teams.

- Funded with approved bank revolver facility.
GENERAL

- Butter plant decision has been deferred to FY2016 to keep capital spend down in FY2015.

- While increased capital spend does increase net debt in FY2015, we are forecasting to remain comfortably within our banking covenants.
WORKING CAPITAL FINANCING
INVENTORY FINANCING THROUGH MITSUI

- USD financing of product as produced at contract sales value related to our tier 1 customers:
  - Represents approximately 40% - 45% of sales by volume.
  - Funding sales contract value therefore includes the margin element in addition to stock cost.
- Based on a fixed margin over libor, with no additional facility / line fee.
- Favourable interest cost savings compared to current working capital facility fees.

USD EXPOSURE

- Funding in USD creates a USD liability on our balance sheet.
- No USD asset – therefore we’re temporarily exposed to currency fluctuations.
- However, when product shipped and invoiced to customer a USD asset (debtor) is created eliminating exposure.
- Inventory finance converted into trade debtor finance with Mitsui on exactly the same terms.
- Therefore any mark to market FX impact at a reporting date, which could be either a gain or a loss, is only a temporary difference and never actually crystallised.
- It does not impact our underlying earnings for the business.
RECEIVABLES ASSIGNMENT PROCESS

- Receivables assignment negotiated with our primary bank – ANZ.

- Enables us to assign certain receivables associated with our Tier 1 customers on a non recourse basis. Major benefit is that it will allow us to improve our net debt position and our working capital ratios.

- We must first obtain written confirmation from each of these customers to allow this assignment (currently in discussions with 4 of our major customers to obtain their approval).

- Financing cost slightly cheaper than the funding provided by the Mitsui Trade Finance facility therefore only small savings in interest costs anticipated.

- Anticipate having this in place with customers by end of March 2015.
RESULTS GUIDANCE
Maintaining full year results guidance, however expect interim result to be substantially lower than last year.

- Majority of higher margin nutritional and lactoferrin product sales are planned to be in second half of this financial year.

- As a result of these timing differences we expect our interim result to be substantially lower than last year but not reflective of our full year forecast result.

- Interim result will include mark-to-market foreign exchange adjustment associated with inventory financing and a material foreign exchange adjustment associated with certain instruments. These are timing variances and factored into our full year forecast.

- For the full year result improvements in returns through increased sales of infant formula and nutritionals products will be largely offset by increased operating and funding costs.
THANK YOU

Media or investor queries can be directed to:

Daniel Walraven  
Communications Advisor  
Synlait Milk Limited  
P: +64 3 373 3069  
E: daniel.walraven@synlait.com  
www.synlait.com

Michael Wan  
Marketing and Communications Manager  
Synlait Milk Limited  
P: +64 27 2888 253  
E: michael.wan@synlait.com  
www.synlait.com