synlait™
making more from milk

THE FORMULA

Synlait Milk Limited Annual Report 2015

WE'VE TRANSFORMED OUR BUSINESS TO CREATE AN INTEGRATED SUPPLY CHAIN SOLUTION WITH UNCOMPROMISED QUALITY AT EVERY STEP. FROM ELITE FARMING TO STATE OF THE ART PROCESSING AND PACKAGING AT SOURCE – IT'S AN UNBROKEN CHAIN THAT WE CONTROL FROM START TO FINISH. WE CALL IT THE FORMULA.

SOURCE

MILK SUPPLIERS

MANUFACTURING CAPABILITY

CONSUMER PACKAGING

PEOPLE

CUSTOMERS

SOURCE

OUR UNIQUE CANTERBURY PLAINS LANDSCAPE AND CLIMATE IS ONE OF THE BEST DAIRY FARMING ENVIRONMENTS IN THE WORLD AND PROVIDES US WITH SURETY OF MILK SUPPLY.

MILK SUPPLIERS

BEST PRACTICE FARMING AND THE OPPORTUNITY TO PRODUCE DIFFERENTIATED MILKS ALLOW OUR MILK SUPPLIERS TO MAKE MORE FROM THEIR MILK AND HELP MEET CUSTOMER DEMAND FOR INNOVATIVE AND TRUSTED PRODUCTS.

MANUFACTURING CAPABILITY

WE HAVE ONE OF THE LARGEST INTEGRATED INFANT FORMULA MANUFACTURING SITES IN THE WORLD. THIS SETS US APART AND SUPPORTS US BECOMING THE WORLD LEADER IN INFANT NUTRITIONAL POWDERS.

CONSUMER PACKAGING

OUR ABILITY TO PACKAGE RETAIL-READY PRODUCTS AT SOURCE IN ONE OF THE MOST TECHNICALLY ADVANCED AND QUALITY CONTROLLED PLANTS IN THE WORLD MEANS WE CAN PROVIDE OUR CUSTOMERS THE COMPLETE INFANT NUTRITION SOLUTION.

PEOPLE

OUR STAFF ARE EXPERTS IN THEIR FIELDS AND BRING A WEALTH OF KNOWLEDGE AND EXPERIENCE TO OUR BUSINESS. IT'S OUR EXCEPTIONAL PEOPLE THAT ENABLES US TO BE SUCCESSFUL EVERY DAY.

CUSTOMERS

WE PARTNER WITH LEADING INTERNATIONAL CUSTOMERS AND TOGETHER WE DEVELOP PREMIUM PRODUCTS THAT MEET CONSUMER DEMAND FOR UNCOMPROMISED QUALITY AND SAFETY.

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SAME
CHANCE

KEY PERFORMANCE INDICATORS

Financial metrics					
Currency as stated (in millions)	FY11	FY12	FY13	FY14	FY15
Income statement					
Revenue	298.9	376.8	420.0	600.5	448.1
Gross profit	21.1	46.0	65.1	77.1	71.0
EBITDA	**4.8**	**22.1**	**38.5**	**43.8**	**40.9**
EBIT	0.0	13.4	28.3	32.4	26.3
NPAT	(3.1)	4.4	11.5	19.6	10.6
Underlying NPAT	(3.1)	4.4	11.5	19.6	12.2
Revenue (USD per MT)	3,848	3,644	3,894	5,214	3,610
Gross profit per MT (NZD)	**385**	**594**	**751**	**824**	**726**
EBIT per MT sold (NZD)	0	173	326	346	269
Net cash from / (used in) operating activities	9.2	29.8	(47.1)	58.7	16.4
Balance Sheet					
Net operating assets	159.4	180.9	281.0	353.4	495.6
Return on net operating assets[1]	0.0%	10.4%	12.6%	11.0%	7.9%
Net return on capital employed (pre-tax)	**0.0%**	**8.8%**	**13.1%**	**11.5%**	**6.9%**
Debt / debt + equity (excl derivatives)	53.0%	50.2%	38.9%	45.1%	55.7%
Net debt / EBITDA	17.1	3.9	2.7	3.5	6.4
Earnings per share	(3.21)	5.62	10.21	13.40	7.21
Underlying earnings per share	**(3.21)**	**5.62**	**10.21**	**13.40**	**8.35**
Foreign exchange rate (NZD:USD)	0.729	0.778	0.804	0.813	0.788
Total milk price (kgMS)[2]	7.76	6.22	5.89	8.31	4.54

Operational metrics	FY11	FY12	FY13	FY14	FY15
Sales (MT)					
Ingredients	54,652	77,377	82,048	88,052	89,003
Infant formula and nutritionals	234	4,383	8,864	5,592	8,800
Total sales (MT)	54,886	77,415	86,746	93,644	97,803
Production					
Ingredients	53,811	77,015	82,366	90,089	91,881
Infant formula and nutritionals	604	4,383	8,864	6,404	9,801
Total production (MT)	54,415	81,398	91,229	96,492	101,681
Milk purchases					
Milk purchased from contracted supply	24,934	37,572	42,076	47,903	51,049
Milk purchased from Fonterra and other suppliers	4,524	6,453	4,692	2,033	2,549
Total milk purchases (kgMS in thousands)	29,458	44,025	46,768	49,936	53,598

Certain comparatives within the five year performance indicators have been reclassified for comparative purposes, to ensure consistency with the current year.

[1]Return on net operating assets excludes capital work in progress.

[2]Total milk price for Synlait Milk suppliers on standard milk supply contracts, including average premiums paid.

CHAIRMAN'S REPORT

Graeme Milne
CHAIRMAN

I am pleased to report to shareholders on the seventh year of operation for Synlait.

Our vision is to become the world's most innovative and trusted dairy company. We certainly took major steps in that direction again this year.

In our June 2013 investment statement and prospectus we detailed a number of growth initiatives that we planned to execute over the next few years. In FY14 we built our 22,500m^2 drystore, lactoferrin facility and state of the art blending and consumer packaging facility. During FY15 we brought those assets into production and the consequent products to market while starting construction on the next group of projects. These were our quality testing laboratory and administration building and dryer three (D3), which is a 10.5 metric tonne (MT) per hour infant formula and nutritional capable spray dryer. At year's end these three growth initiatives were nearing completion with full commissioning to occur in FY16.

In summary, FY15 was an extremely busy year where our focus was on operating the existing ingredients and bulk nutritionals business, bringing to market lactoferrin and also finished infant formula products in cans. We also executed the remaining growth initiatives efficiently along with recruiting and training a large contingent of new staff.

Our total sales for the year were $448.1 million, which is a long way back from the $600.5 million achieved in FY14. This decrease is due to the fall in global commodity prices during the year and disguises the increase in value added products that we marketed during the year. Earnings before interest and tax (EBIT) at $26.3 million is below last year's $32.4 million, as is our underlying net profit after tax (NPAT) of $12.2 million, compared to last year's NPAT of $19.6 million.

Our reported NPAT for FY15 is $10.6 million. This was to be expected following a significant one-off product mix benefit in FY14, combined with a year where debt and staffing levels increased significantly as the new initiatives mentioned above were constructed. Additionally, we took the opportunity to increase the relative milk price to our suppliers in what has turned out to be the first of probably two very challenging years on farm.

The distinguishing feature of this year for the international dairy market was the relentless decrease in market pricing throughout the year. International whole milk powder (WMP) prices in February 2014 were approximately US $5,000 per tonne, but thereafter a steady decrease began that saw prices down to US $3,000 per tonne by July 2014 and US $2,000 per tonne by July 2015. Subsequent prices fell even further below the US $2,000 mark, which is unsustainable from a farming perspective. The causes have been well articulated in the media and involve lower oil and gas prices leading to lower ethanol production for transport fuels, which leads to lower grain prices and then higher milk production in the Americas and Europe. Add to the mix the removal of quotas in the European Union from April 2015, the Russian ban on importation of many food substances including dairy products and an increase in Chinese milk production after large investments in the sector (leading to lower imports into that country), we see a near perfect storm of negative factors has eventuated.

Ironically, the introduction of agriculture into the 1995 World Trade Organisation (WTO) agreement, and the consequent reduction of state intervention into international dairy markets, has led to a net improvement in overall terms of trade and also an increase in price volatility. The introduction in the last few years of large volumes of dairy products sold by auction has improved price discovery, but arguably it has increased volatility as well.

The solution will, like in all markets, be provided by the problem - low prices will lead to lower production and increased consumer demand.

The question for our shareholders is how this situation and price volatility impacts our performance.

Fundamentally it doesn't as our business model adds value over the commodity price when prices are low or high. In fact, adding margin over low prices could be argued to be more achievable than the alternative. However, in practice, volatility does bring risk to the business and its results. Negative results would result from selling short in a falling market or going long in a rising market, and of course positive results are generated from the reverse. We have policies designed to keep our team within tightly prescribed boundaries to reduce, but of course not eliminate, the impact of price volatility.

While our top line was definitely impacted by international price volatility, our bottom line was not particularly affected, but this disguises a great amount of work by all staff to achieve our result in a very difficult trading environment. For shareholders the sector's negative sentiment during this period has weighed on our share price. The share price of $3.45 on the 1 August 2014 is a long way from the $2.39 on the closing day of this financial year.

There were no changes to the Board of Directors or to the Senior Leadership Team (SLT) during FY15. The Board has a great mix of skills with local directors Bill Roest, Sam Knowles and Hon. Ruth Richardson complemented by Li Ke, Sihang Yang and Zongbo Dong providing international and specifically Chinese market expertise. The SLT, ably led by Managing Director and Chief Executive Officer John Penno, continue to drive the company forward on our prescribed strategy.

Looking forward our current investment phase is largely complete. The focus for FY16 is on commissioning D3 and continuing to develop our nutritional and infant formula products with key customers. Many new and developing products rely on changed farm practices to ensure that special milks are produced on farm and directed to specific production. You can read about examples of these in Our Partnerships from page 26. With these new products and the facilities to produce them, FY16 will be the first year where we can start to capitalise on the aforementioned growth initiatives programme. We therefore expect, at this stage, that based on the expected increase in volumes from both D3 and our blending and consumer packaging plant, profitability will be in advance of anything achieved to date.

Graeme Milne
CHAIRMAN


RAW MILK INLOAD 2
PATCHELL
TRAILERS

CHIEF EXECUTIVE OFFICER'S REVIEW

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

INCREASING OUR FOCUS

We remain completely focused on making more from milk. In doing so, we believe we will build the world's most trusted and innovative dairy company.

New Zealand only produces 3% of the milk produced and consumed in the world. At 650 million litres / year, our suppliers only produce 3% of New Zealand's milk. With such a small share of the international market we can be very targeted with the customers we choose to partner with and the products we manufacture for them.

Our strategy is to partner with leaders in the infant formula industry and manufacture finished infant formula, infant grade and nutritional powders, ingredient milk powders and special nutraceutical products. We want to differentiate our offerings to create meaningful value for our customers and their consumers.

Our milk supply is increasingly differentiated before it leaves the farm gate to offer the attributes affluent parents - focused on health and wellness - are seeking for their families.

Our products are often distinguished by the milk they are manufactured from and nutraceutical products like our lactoferrin is differentiated by its functional properties.

The past year has seen us grow our sales volumes to our multinational infant formula customers by 59% to 41,979 MT, so they now account for 43% of our total sales. Our sales of infant grade milk powders, nutritional base powders and consumer packaged infant formula has grown by 54% to 43,000 MT and sales volumes for finished infant formula has continued to build strongly through FY15.

INVESTMENT IN CAPABILITY

Having quickly proven the strength of our strategy, we are now coming to the end of a two year period of building capacity.

In July 2014 we commissioned our new blending and consumer packaging facility. A second shift was added in June 2015 and we are now recruiting a third shift to meet rapidly growing demand. This has improved margins through reduced manufacturing costs and we can now blend and package 25,000 MT to 30,000 MT annually of infant formula into 400g and 900g consumer cans.

In April 2014 we commissioned our lactoferrin facility with world-first production processes. While we faced some challenges through commissioning, these have been substantially resolved and we are now executing our strategy to make more from milk as we increase sales volumes.

Our new 22,500m^2 drystore has significantly increased our onsite storage capacity and supported the development of our logistics capabilities. This enabled us to reduce our reliance on external warehousing, which has significantly reduced our domestic freight costs.

With D3 in the final stages of commissioning, we now have spray drying capacity to produce approximately 120,000 MT of infant base powder and infant grade skim and whole milk powder, 20,000 MT of anhydrous milk fat (AMF) and 20 MT of lactoferrin.

From September 2015 our on-site quality testing laboratory, which includes a new product development centre, will be completed.

As a result, we will have one of the largest and highest specification infant formula production sites globally with an integrated supply chain from source to our customers.

MILK SUPPLY GROWING IN SCALE AND SOPHISTICATION

While we are continuing to grow our milk supply base with 173 suppliers contracted for supply in FY16, the largest shift is toward the proportion of our milk supply that is truly differentiated.

Our partnership with The a2 Milk Company™ continues to develop with our manufacturing of a2 Platinum® infant formula supporting their strong growth in the Australian market. Base powder for a2 Platinum® is manufactured using milk sourced exclusively from herds of cows that only produce the A2 beta-casein protein.

We work in partnership with our suppliers to establish these herds on their farms and they receive a premium for the A2 milk they supply. The base powder is then mixed with final minor ingredients and blended before being packaged onsite into retail-ready cans, ready for sale in New Zealand and export to Australia and China.

This model is also behind our recently announced partnership with Munchkin Inc.

Munchkin is the leading brand of infant feeding equipment in the USA and is extending their product range into infant formula. This product, called Grass Fed, will be differentiated on the basis of being manufactured from milk exclusively produced from pasture-fed cows. This product is targeting the growing consumer awareness of the nutritional benefits of milk from animals grazing pasture rather than being farmed indoors on grain based diets.

We have already worked with our suppliers to develop a unique Grass Fed standard that will see them transition away from feeding their herd any grain or concentrate feeds. We currently have 25 suppliers registered for Grass Fed, which will be streamed into the manufacture of this unique product.

We are also continuing to build momentum with Lead With Pride™, our dairy farming best practice certification programme. We now have one third of our suppliers working their way through the programme and have 16 suppliers who have certified their farm at the end of FY15, with at least a further 12 expected to certify before the end of the 2015 calendar year.

With the commissioning of our new infant formula dryer, D3, we have also grown our milk supply by an additional 6 million kgMS of contracted milk from suppliers, taking our total contracted milk supply to 57.1 million kgMS. We now have a total of 173 contracted suppliers at an average distance of 47 kilometres from our processing site in Dunsandel. Combined with the expectation that we will take our full allocation of Dairy Industry Restructuring Act (DIRA) milk in FY16 of 4.3 million kgMS, our total estimated milk supply is 61.4 million kgMS. However, the anticipated low milk price in FY16 may result in some reduction in production from this estimate.

These initiatives allow us to start our differentiated offering inside the farm gate, thereby increasing the value we offer to our suppliers.

> In the coming season more than 50% of our milk supply will attract a premium over our base milk price because they are doing something special on farm to create value for specific customers.

We are continuing to build a strong relationship with our suppliers, and appreciate the difficult financial situation created by the current low international commodity dairy price. While there is little we can do in terms of our milk price, we have paid higher than normal advance payments in a bid to assist the cash flow of suppliers to ultimately protect our suppliers as well as we can. This has placed increased pressure on our working capital during the year, however, we believe this has been important and we will continue to do this while milk prices remain at very low levels.

MAKING SYNLAIT THE BEST PLACE TO WORK

The most important element of building our capacity has been building the team we need to support operations and business development.

Our staff who have been on the journey for some time remain committed to what we are working to achieve and continue to learn and develop, often stepping up into key leadership roles along the way.

Over the past two years we have more than doubled the number of people working in the business and continue to attract people of ever increasing knowledge and experience. Again, this period of capability build is coming to a close and the teams are focusing on increasing performance.

Not only has our team grown in number, but their commitment to what we are building and to excellence every day is growing. Synlait is a great place to work and I thank the whole team for what they do and the way they do it.

At the end of the FY15 we enjoyed a steep change in productivity as our office-based team moved into the new administration office at our Dunsandel site.

This open plan environment was designed to facilitate different teams working as one. It has provided the right mix of individual work stations, informal collaboration areas and more formal meeting spaces.

While it has come at a time when most teams were becoming established, we couldn't have hoped for a better outcome from the new office. The increase in teamwork and productivity is clear and everyone is enjoying their new home.

SIMPLIFYING AND IMPROVING OUR BUSINESS

Just as the last two years have been about building our customer base, our manufacturing capacity and the capability of our team, the next two are about achieving operational excellence and continuing to build volumes of infant formula with our brand partners.

The starting point is a significant rationalisation of the number of products we manufacture on our three large spray dryers, the number of customers we sell to and the number of countries we export to.

Integrating the blending and consumer packaging facility into our infant formula manufacturing process has enabled us to rationalise the number of different infant formula base powders we manufacture by customising the different products on the canning line, rather than at the spray drying step.

This will allow us to gain increased throughput on our spray dryers and enable the team to learn faster as they focus on increasing quality and yield of our highest value products.

The effort that has been focused on building the scale of our business is now firmly focused on several key operational excellence projects. Flagship projects are aimed at improving our sales and operational planning processes and improving the way we collect and use data within the business. These are supported by initiatives to build staff engagement, increase manufacturing quality and yield, and increase inventory accuracy.

With the combination of these initiatives we expect to increase plant utilisation, reduce the amount of downgraded or reworked product and reduce the time from manufacture to shipping thereby reducing inventory and working capital requirements.

ACCELERATING

We are heading into the new financial year with a business that has been geared up to achieve its strategy and is beginning to accelerate.

We now have the customers, people, manufacturing capability and milk suppliers to deliver a significant increase in our overall volumes, particularly the volume of finished infant formula.

Our total sales volume is expected to increase from 97,803 MT in FY15 to 122,500 MT in FY16, with further growth in total volumes in FY17.

While we are experiencing some growth in our infant formula base powder business, it is increasingly clear that finished infant formula in consumer packaging is going to dominate our infant formula production process.

We are expecting a threefold year on year increase in manufacture of consumer packaged infant formula, with some 250 MT already being shipped each week and increased volumes forecast in the second half of FY16.

Finally, I would like to acknowledge the strong support I have had in leading the business from the Board and from my SLT.

Both the Board and SLT have been in place for some time now. They know the business and we agree on where we are going and what we need to do to get there. The company is well served by them and I enjoy working with them every day.

I am personally looking forward to harvesting the benefits of the hard work we have put into building the business as we take performance to a new level in the coming year.

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

FINANCIAL REVIEW

Nigel Greenwood
CHIEF FINANCIAL OFFICER

OVERVIEW

Underlying NPAT for the year was $12.2 million compared to $19.6 million last year. While within market guidance, this was down on initial expectations. This was primarily due to lower lactoferrin sales than anticipated and a Synlait base milk price of $4.48 per kgMS, which is expected to be eight cents higher than the 2014/15 industry's farm gate milk price (FGMP) of $4.40 per kgMS. Combined, this has impacted results by an estimated $6.2 million after tax.

Underlying earnings are the most appropriate reflection of underlying business performance as the measure removes the impact of unrealised foreign exchange losses, in respect of USD debt financing, as discussed in the foreign exchange section later in this review.

$ million	12 months to July 2014	12 months to July 2015
Reported NPAT	19.6	10.6
Unrealised FX losses	-	2.3
Tax effect of FX losses	-	(0.7)
Underlying NPAT	19.6	12.2
Underlying EPS (cents)	13.40	8.35

Reported after tax earnings are a profit of $10.6 million. This includes after tax unrealised foreign exchange losses of $1.6 million, which are further explained above.

FINANCIAL PERFORMANCE

SALES

For the year ended 31 July 2015 our revenue at $448.1 million was down 25.4% on last year's $600.5 million, primarily due to lower international commodity prices. This is demonstrated in Figure 1 below. The average US dollar commodity price in FY15 was USD$2,593 compared with USD$4,532 in FY14.

Ingredient sales volumes in FY15 at 89,003 MT was 1.1% ahead of our FY14 result of 88,052 MT. Infant and nutritional sales volumes, including lactoferrin, in FY15 at 8,800 MT were 57.4% ahead of 5,592 MT in FY14. The growth in infant sales volumes was primarily driven by consumer packaged infant formula sales, which increased by 63% to 4,300 MT. Bulk infant formula sales increased to a smaller extent at 4,300 MT. We sold 7 MT of lactoferrin in FY15 compared to only 2 MT in FY14, however this was well below the 15 MT that we had forecast to sell in FY15.

Figure1. Weighted average auction commodity price

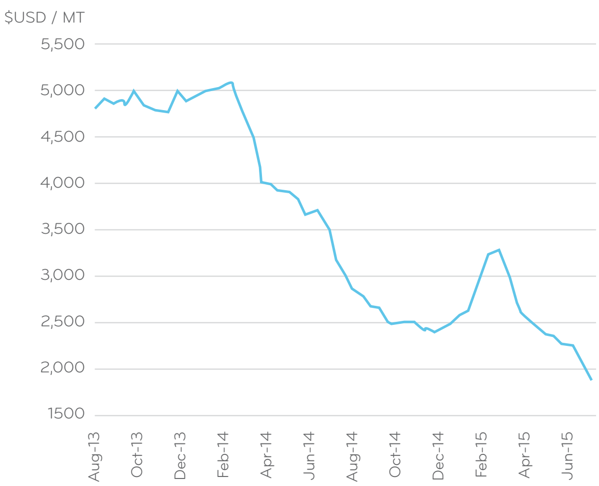
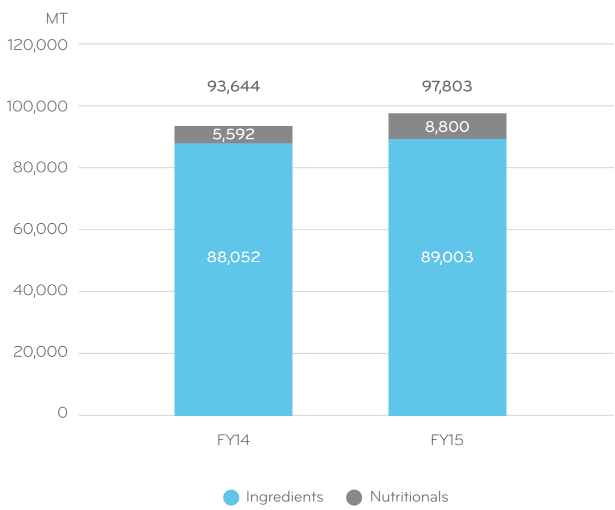
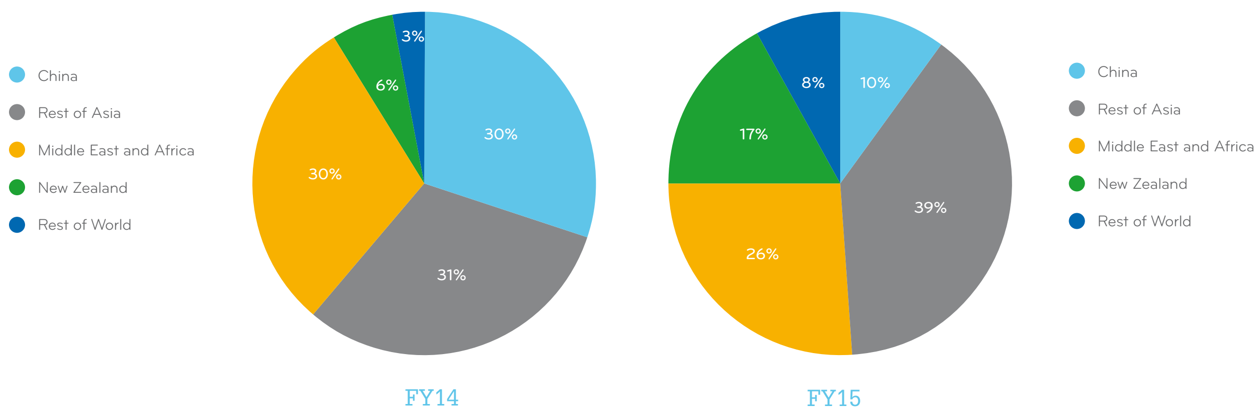


Figure 2. Sales volume by product category



Total volume sold for this period at 97,803 MT was 4.4% above last year's 93,644 MT.

Figure 3. Sales revenue by geographic region



Geographical diversification has been improved in FY15 with a lower proportion of sales to China and increased domestic sales to The a2 Milk Company™.

GROSS PROFIT

Our gross profit for FY15 at $71.0 million decreased 8% on our FY14 result of $77.1 million. This reduction in gross profit from last year does not reflect the underlying improved performance across all of our key product streams, as reflected in Figure 4 below.

The primary cause of the reduction in gross profit between years was the one-off product mix benefit we enjoyed last year of $24.1 million (or $257 per MT). Against this, we increased our earnings from ingredient and nutritional product categories, as described further below.

The increase in ingredients gross profit is due to a number of factors including higher sales premiums over auction pricing, slightly higher sales volumes (up 951 MT) and an estimated gain from a favourable performance against the notional producer model used to determine the industry FGMP. This being offset by marginally higher manufacturing costs.

The increase in nutritionals gross profit is due to higher infant formula base powder and consumer packaged sales volumes (up 3,208 MT), improved margin per MT (due to manufacturing cost efficiencies as a consequence of bringing blending and consumer packaging in house), significantly

Figure 4. Gross profit

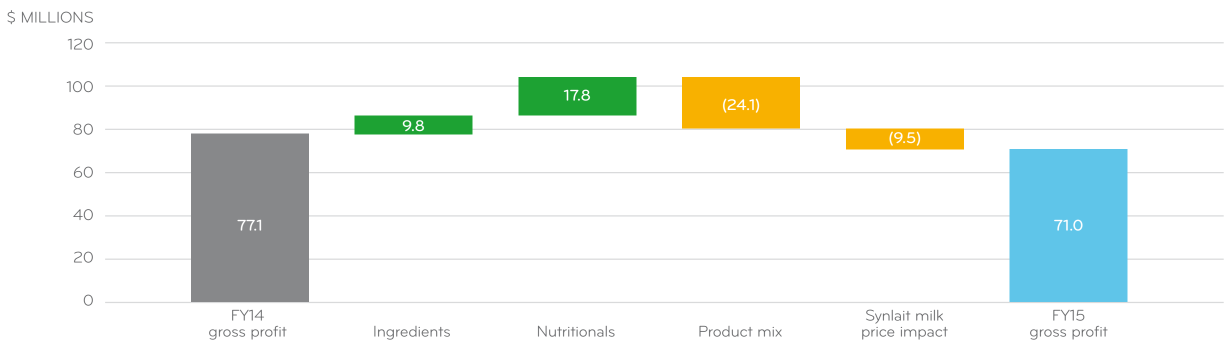


Figure 5. Milk price impacts on gross profit

lower stock provisioning required in FY15 and higher lactoferrin sales volumes (up 5 MT).

Our gross profit per MT at $726 was down $98 on $824 in FY14. As noted earlier, FY14 enjoyed the one-off product mix benefit of $257 per MT. This was partially mitigated by upsides from improved ingredients and nutritionals performances.

As noted above, embedded within our ingredients gross profit for FY15 will be the financial impacts associated with our performance compared to the notional producer model that is used to determine the industry FGMP. It is not practically possible to accurately determine these financial impacts, such as product mix, sales phasing, foreign exchange and lactose pricing until we have received the details applied in the FGMP calculation for FY15, which is set out in the Fonterra Milk Price Statement released in late September 2015. We anticipate being able to provide an update on these financial impacts at the time of our Annual General Meeting in December 2015.

MILK PRICE

Milk purchases remain our most significant cost when determining gross profit. Our final base milk price for FY15 (the 2014/15 dairy season) is $4.48 per kgMS, significantly lower than our FY14 base milk price of $8.27 per kgMS (for the 2013/14 dairy season). In addition, we paid $0.06 per kgMS in seasonal and value added premiums to increase the average total milk price for Synlait suppliers to $4.54 per kgMS, compared with $8.31 per kgMS in FY14. This resulted in our contracted suppliers receiving a total of $3.1 million in additional value added premiums in FY15, compared to $2.0 million in FY14.

At the time we announced our final Synlait base milk price for the FY15 season of $4.48 kgMS, the previously announced FGMP was $4.40 kgMS. Should this remain the final FGMP for the season, then the additional cost of Synlait's base milk price is approximately $3.5 million.

OVERHEAD EXPENDITURE

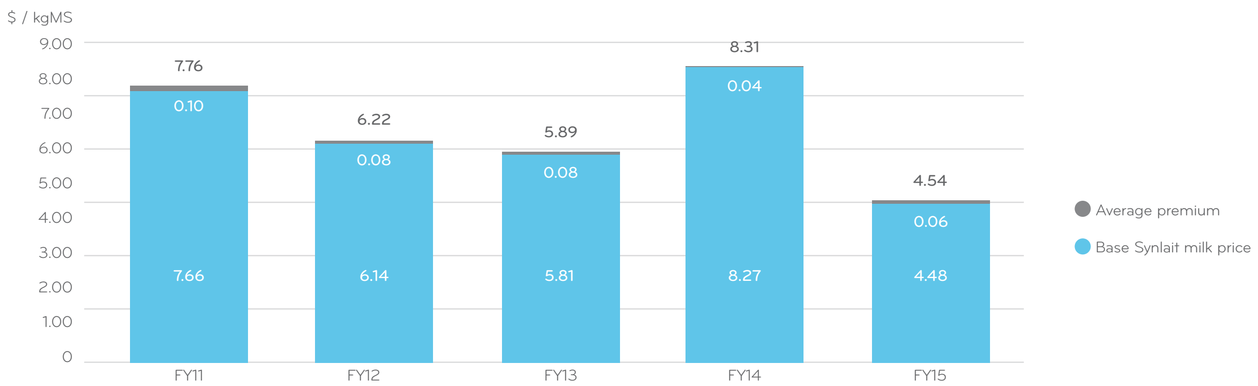
Our overhead expenditure for FY15 at $44.4 million was slightly down on FY14 at $44.7 million. Cost savings were made in domestic freight ($1.7 million), primarily due to the benefits of our new fully integrated 22,500m² drystore facility commissioned in April 2014, as well as negotiated reductions in our export documentation fees ($1.0 million). This has been largely offset by an increase of $2.0 million in our employee benefits expenses over last year.

Included within our overhead expenditure is $8.7 million ($8.6 million in FY14) of export freight costs. These are recovered from our customers through export freight charges that are included in revenue.

SHARE OF LOSS FROM ASSOCIATES

In late January 2015 we acquired a 25% shareholding in New Hope Nutritionals for $2.2 million, which owns and distributes the Akara and Akarola infant formula brands in the China market. Synlait has an exclusive manufacturing and supply agreement for these brands to New Hope Nutritionals. In the period to 31 July 2015 our share of the losses of this company were $378,000. It is expected that this company will make initial losses while it establishes its brand presence in the China market.

Figure 6. Five year Synlait milk price trend



EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA at $40.9 million decreased 6.6% on the FY14 result of $43.8 million, driven by the reduction in gross margin (excluding depreciation) of $3.4 million and partially offset by overhead savings of $0.3 million.

NET FINANCING COSTS

Net financing costs at $8.9 million increased by 68% from FY14's $5.4 million.

$millions	FY14	FY15	Variance
Gross term debt interest	3.9	9.5	5.6
Less capitalised interest	(2.1)	(4.8)	(2.7)
Net term debt interest	1.8	4.7	2.9
Working capital funding interest	3.7	4.5	0.8
Interest received	(0.1)	(0.3)	(0.2)
Loss on derecognition of financial instruments	-	0.0	0.0
Net finance costs	5.4	8.9	3.5

The $3.5 million increase in net financing costs is split between an increase in net interest costs associated with term debt financing of $2.9 million, an increase in net interest costs associated with our working capital financing of $0.8 million and offset by an increase in interest received of $0.2 million.

Gross interest on term debt has increased by $5.6 million to $9.5 million in FY15 as a consequence of increased debt applied to fund the capital spend on D3 and our administration and quality testing laboratory building. While the interest on this increased funding has been capitalised, the previously capitalised interest on debt applied to fund commissioned projects (such as the blending and consumer packaging facility, lactoferrin facility and 22,500m² drystore) is now expensed. Term debt interest, excluding capitalised interest, has increased by $2.9 million to $4.7 million, accordingly.

Interest on working capital funding has increased by $0.8 million to $4.5 million, due to higher debt levels as a consequence of accelerated advance payments to milk suppliers. Savings in working capital interest of $1.1 million were achieved through the introduction of the inventory finance facility with Mitsui & Co. (NZ) Ltd., which is denominated in United States Dollar (USD).

FOREIGN EXCHANGE

The management of foreign exchange exposure is one of the key risks of our business as the majority of product sales to overseas markets primarily creates a USD exposure risk. Our foreign exchange policy seeks to achieve the lowest annual average exchange rate for the year.

The key measure of our performance in our management of this risk is the comparison of our annual average exchange rate to that applied in the industry FGMP model, which determines the benchmark market price for milk. This variance effectively impacts our gross margin as either an upside or downside in the year. In FY14 we achieved an annual average exchange rate of 81.3 cents, while the rate applied in the calculation of the FGMP was 80.9 cents. Therefore the downside associated with our annual average foreign exchange rate being higher by 0.4 cents was approximately $2.0 million.

In FY15 we achieved an annual average exchange rate of 78.8 cents, however we will not be able to determine whether we have achieved a gross profit impact related to our exchange rate performance (relative to the notional producer model) until the Fonterra Milk Price Statement is released in late September 2015.

As at 31 July 2015 unrealised foreign exchange losses associated with our USD inventory financing facility totalled $2.3 million. These unrealised foreign exchange losses are determined by the difference between the year end spot rate and the average delivery rate at the time the USD inventory finance is drawn down, related to the total USD inventory finance liability balance at year end.

These unrealised foreign exchange losses do not qualify for hedge accounting, and therefore must be recognised through the income statement. However, as the associated USD liability is settled with USD revenue in the following accounting period, this unrealised exchange loss is never actually realised.

While the volatility in reported earnings caused by these unrealised foreign exchange gains or losses create additional complexity to our business, significant savings in our working capital financing costs are achieved as a result, as noted earlier.

EARNINGS PER SHARE (EPS) AND RETURN ON CAPITAL EMPLOYED

Our reported basic and diluted earnings per share (EPS) for FY15 was 7.21 cents against 13.40 cents in FY14.

Our underlying basic and diluted earnings per share for FY15 was 8.35 cents against 13.40 cents in FY14.

We also generated a pre-tax return on average capital employed of 6.9% in FY15, compared with 11.5% in FY14. The lower return on capital employed is partially due to the increasing value of unproductive assets under construction that will generate returns in future years.

FINANCIAL POSITION

OVERVIEW

FY15 has been a year where we have focused on the completion of our growth initiative projects with significant capital expenditure and associated growth in our total net debt position.

We commissioned our blending and consumer packaging facility in July 2014 and are nearing full commissioning of our administration and quality testing laboratory building, as well as D3 as we closed out the financial year.

In addition we completed our three yearly revaluation of our land, buildings and plant in line with our accounting policy, which has resulted in an uplift in these asset values.

We have also experienced a significant mark to market derivatives adjustment as a consequence of declining foreign exchange and interest rates, which has impacted other reserves. As a result total equity has dropped to $171.8 million from $183.1 million as at 31 July 2014.

However, with the commissioning of D3 scheduled for September 2015 we will see a significant uplift in earnings and cash flow in FY16 that will result in an improved balance sheet position as at 31 July 2016.

TRADE AND OTHER RECEIVABLES

At $68.1 million, these are significantly down on FY14 at $89.0 million. This reduction is primarily due to the sale of our FrieslandCampina receivables to ANZ using our new receivables assignment agreement. This arrangement is more fully explained in Note 24 (b) in the Financial Statements.

However, we also achieved improved collections on our overdue debtors in this financial year with only $2.5 million overdue at year end, compared to $9.7 million overdue at last year end. Noting that, all but $0.6 million of FY15 overdue balances had been collected within one month of year end.

INVENTORIES

Total inventory at year end at $63.8 million is also down on last year's $71.3 million, however the mix of inventory on hand is quite different.

We have reduced our raw material inventory holdings by $3.8 million to $11.5 million, which are primarily made up of lactose and ingredients for infant formula production. New procurement policies in place are resulting in more efficient levels of raw material holdings.

Finished goods inventory in total has decreased by $3.7 million in FY15 to $52.3 million in FY15. The decrease is due to lower dairy commodity prices that have translated into lower inventory valuation per MT. This is largely offset by a larger volume of product on hand at year end that is subject to committed orders for delivery in the first three months post year end.

We are seeing an increasing volume of product needing to be carried over year end in order to meet regular customer delivery requirements and this is likely to be a continuing requirement in future years. It should be noted that we have very little finished goods inventory on hand that is not subject to a committed customer sales order.

We have reviewed all our sales contracts for the risk that a sales order value lower than the weighted average cost of this product has been created and identified an onerous contracts provision of $0.4 million. We have also performed impairment testing on this inventory, given that declining international commodity prices create an increased impairment risk, and determined that no further impairment provisions are required in addition to existing provisions for distressed inventory and onerous contracts.

Within total finished goods inventory, finished goods at net realisable value have substantially reduced in value to $4.5 million from $26.5 million last year. This shows we have substantially addressed the surplus infant formula product challenges we had in FY14 and is also reflected in the significantly reduced inventory provision of only $3.9 million at year end, compared to $9.9 million as at FY14.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at $436.0 million has increased $137.8 million over FY14's $298.2 million. This significant increase primarily reflects the costs associated with the build of D3 and the administration and quality testing laboratory building. The increase also includes the asset revaluation carried out this year.

Note that more information regarding the revaluation of our assets is included in Note 14 (a) of the Financial Statements.

D3 is on schedule to be commissioned in late September 2015. This will add 40,000 MT of additional infant formula capacity. The new administration building was completed and commissioned in July 2015 at a cost of $10.5 million, while the new quality testing laboratory is due to be commissioned in September 2015 at an estimated cost of $10.1 million.

OTHER INVESTMENTS

Other investments includes our 16.67% shareholding in Primary Collaboration of New Zealand (PCNZ) at a cost of $110,000. This is a Wholly Foreign Owned Enterprise (WFOE) with a shared office based in Shanghai. It was established with the support of New Zealand Trade and Enterprise (NZTE). Other shareholders include a number of other New Zealand primary industry companies. We expect to have staff representatives based from this office during the course of FY16.

As noted earlier we also acquired a 25% shareholding in New Hope Nutritionals in late January 2015 at an initial cost of $2.2 million. After deducting our share of losses since acquisition of $378,000, our current investment value is $1.9 million. This company owns and markets the Akara and Akarola infant formula brands in the China market, which are exclusively manufactured by Synlait.

TRADE AND OTHER PAYABLES

Trade and other payables at $80.4 million is down $36.3 million on last year's balance of $116.7 million. This variance reflects two significant items.

The first is the reduction in milk creditors and accruals which have decreased from $94.9 million in FY14 to only $18.5 million in FY15, a $76.4 million reduction. This reflects the fact that our advance rates paid to suppliers by year end were 96% of our base milk price of $4.48 kgMS, while in FY14 they were only 78% of our base final milk price. The significant increase in advance rate payments in FY15 is due to the rapid decline in milk price during the season and relatively higher advance rates paid earlier in the season.

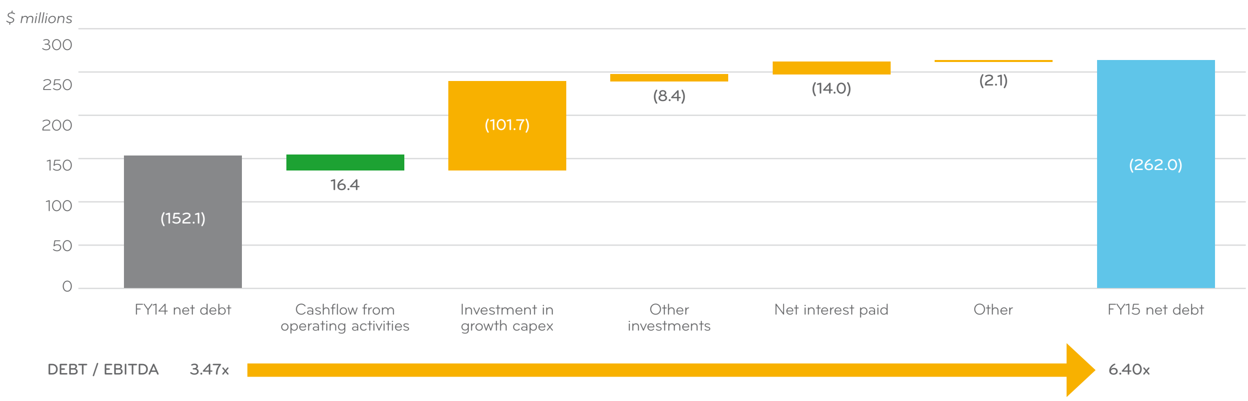
Offsetting this was a significant increase in accrued capital expenditure at year end of $29.4 million, $20.0 million more than FY14, of which $13.3 million is accrued retention payments primarily related to the build of D3. These accrued capital expenditure amounts will be funded by our approved bank term debt funding lines.

TOTAL NET DEBT

Total net debt at year end, including both current and term debt facilities less cash on hand was $262.0 million, an increase of $109.9 million over the FY14 balance of $152.1 million.

The $109.9 million increase in net debt has been primarily due to the build of D3, however it also includes costs related to the build of the new administration and quality testing laboratory building. High advances paid to our milk suppliers have also impacted our current debt in FY15. We estimate that we have paid approximately $40.0 million in cash advances in FY15, higher than our normal advance rate programme.

Figure 7. Net debt



At year end our reported debt/debt plus equity ratio is 60.4%. However, excluding the mark to market derivative impacts within equity of $36.2 million (only $2.1 million in FY14), this ratio improves to 55.7%. This is reasonably in line with expectations given the significant expenditure on growth initiatives over the last two years. Improved earnings and cash flows will primarily flow from this investment in future periods.

DERIVATIVES

As at 31 July 2015 we held US $406 million in foreign exchange contracts, as detailed in Note 23 (d) of the Financial Statements. These have been taken out steadily over a period of depreciating currency and placed across a 24 month future period, in accordance with our treasury policy.

Given the rapidly declining exchange rate over the last six months, in particular, we had a significant mark to market unrealised loss associated with these contracts at year end of $30.8 million after tax. As all of our foreign exchange contracts are fully hedged against future USD receipts, this unrealised loss is recognised in other reserves in equity rather than through the income statement. The impact of these foreign exchange contracts will play out in the periods in which they mature and they will form part of our annual average exchange rate in those periods.

We also have in place $139 million of interest rate swap agreements at year end ($178 million in FY14) at various weighted average interest rates, which generated an unrealised mark to market loss of $5.4 million after tax.

OPERATING CASH FLOWS

Operating cash flows at $16.4 million were $42.3 million down on FY14 at $58.7 million. This significant reduction in operating cash flows for the year was predominantly driven by the accelerated advance rate milk payments of approximately $40.0 million.

While the high advance rate payments made in FY15 have impacted our operating cash flows this year, this is a timing difference and will result in an operating cash flow benefit in FY16.

BANK FACILITIES AND COVENANTS

The company has in place three syndicated bank facilities with ANZ and BNZ:

1. Working capital facility – reviewed annually with a year end facility limit of $70.0 million
2. Revolver facility – matures 1 August 2016 with a facility limit of $75.0 million
3. Dryer three (D3) loan – matures 31 July 2017 with a facility limit of $135.0 million

Our bank facility agreement includes a number of banking covenants. These are an interest cover ratio, minimum shareholders' funds level and working capital ratio.

The company was compliant with our bank covenants at all times during the financial period.

It should also be noted that all unrealised gains or losses associated with both our foreign exchange and interest rate swap derivatives within equity are excluded when determining our compliance with our minimum shareholder's funds bank covenant calculation.

We are currently renegotiating our bank facility arrangements with our bank syndicate and expect to be in a position to advise the market of the outcome of these negotiations when we release our annual result on 22 September 2015.

It should be noted that we also have trade and inventory financing facilities with Mitsui & Co. (NZ) Ltd., which have no prescribed facility limit and no prescribed covenants in place. The security associated with the inventory finance facility is limited to the specific inventory financed by that facility. These facilities expire on 31 July 2017.

Nigel Greenwood

CHIEF FINANCIAL OFFICER

COMPANY PROFILE

WE ARE A NEW ZEALAND MANUFACTURER OF NUTRACEUTICAL, NUTRITIONAL AND VALUE ADDED PRODUCTS.

Operating as a business to business (B2B) company, we build strong relationships with leading customers around the globe to create valuable partnerships for the long term.

We have the largest integrated infant formula site in the world, offering our customers complete supply chain integrity from behind the farm gate to consumer.

Located in the South Island, we employ more than 326 staff. Our Dunsandel site in Canterbury received an average of 610 million litres of milk in FY15 from our contracted milk suppliers located in the same region.

Quality begins on farm with our suppliers who produce excellent milk and are supported to achieve dairy farming best practice through our Lead With Pride™ certification programme.

We process our suppliers' milk with some of the most sophisticated production capability in the world, including three large spray dryers (the third being commissioned in September 2015), a special milks dryer, a state of the art blending and consumer packaging facility and a quality testing laboratory.

From FY16 we will have 140,000 metric tonnes of annual production capacity. Most of our products are exported to customers in Asia (49%), Middle East and Africa (26%) and other regions (8%). New Zealand received 17% of our product in FY15.

Our aim is to annually increase the proportion of nutritional and value added product we manufacture with the aim of these products accounting for 30% of our product mix in FY17.

Our value added capability allows us to produce customised milk powders, infant formula, adult nutritional powders and nutraceutical products such as Synlait Lactoferrin and iNdream[3] in an integrated supply chain with uncompromised quality.

This unbroken chain is controlled from start to finish, giving our customers and their consumers complete confidence in the integrity of the products they consume.

We've been awarded some of New Zealand's top business accolades, including the ANZ Best Business Operating Internationally (Over $50 million) award at the 2015 New Zealand International Business Awards and the Supreme Award at the 2013 HSBC New Zealand China Trade Association China Business Awards.

We listed on the New Zealand Exchange (NZX) in 2013 and our three largest shareholders are Bright Dairy Holding Limited (39.1%), FrieslandCampina (9.9%) and Mitsui & Co. (NZ) Ltd. (8.3%).

BOARD OF DIRECTORS

LEFT TO RIGHT:
BILL ROEST
YANG SIHANG
HON. RUTH RICHARDSON
GRAEME MILNE
LI KE
JOHN PENNO
DONG ZONGBO
SAM KNOWLES

Bill Roest

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

Bill was appointed to the Synlait Milk Board in May 2013.

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

Bill is also a director of Housing Foundation Limited, Metro Performance Glass and Fisher and Paykel Appliances Holdings Limited, where he chairs the Audit Committee.

Bill is a member of Chartered Accountants Australia and New Zealand and is an Association of Chartered Certified Accountants (UK) fellow.

Yang Sihang

BRIGHT DAIRY APPOINTED DIRECTOR

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

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

Yang is currently a director of Synlait Milk Limited and Synlait Milk Finance Limited. He holds a master's degree in food science and engineering.

Hon. Ruth Richardson

NON-EXECUTIVE, BRIGHT DAIRY APPOINTED DIRECTOR, CHAIR OF REMUNERATION AND GOVERNANCE COMMITTEE

A professional company director, Ruth specialises in agribusiness, commercialising innovation, information technology and finance. Ruth joined the Synlait Group as the first independent director in 2004.

Ruth was the Member of Parliament for Selwyn (Synlait's local electorate) from 1981 – 1984 and later New Zealand's Minister of Finance from 1990 to 1993.

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

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

Graeme Milne

CHAIRMAN (INDEPENDENT)

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

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

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

Li Ke

BRIGHT DAIRY APPOINTED DIRECTOR

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

Li has worked for Bright Dairy for over 12 years. During her years at Bright Dairy, Li's sales and marketing expertise has helped the significant growth of many different Bright Dairy brands, including the Bright brand.

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

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

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER (NON-INDEPENDENT)

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

After completing an Agricultural Science degree, John commenced his career in the dairy industry as a consulting officer for the New Zealand Dairy Board before joining Dexcel as a research scientist where he completed a PhD in animal science. As a scientist and research program leader he worked to enable New Zealand dairy farmers to increase productivity and profit.

In 2000, John was appointed General Manager of the NZ National Dairy Industry Extension Program, which serviced farm owners, workers and rural professionals.

John was appointed as Managing Director of Synlait Milk on 21 June 2013. John was the inaugural Chairman of the Dairying and Environment Leadership Group. John is a member of the New Zealand China Council Advisory Board.

In 2009, John received an emerging leader's award from the Sir Peter Blake Trust and the Excellence in Leadership award at the 2015 New Zealand International Business Awards.

Dong Zongbo

BRIGHT DAIRY APPOINTED DIRECTOR

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

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

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

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

Sam Knowles

NON-EXECUTIVE DIRECTOR (INDEPENDENT)

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

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

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

SENIOR LEADERSHIP TEAM

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

Michael Stein

GENERAL MANAGER QUALITY AND TECHNICAL SERVICES

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

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

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

Neil Betteridge

GENERAL MANAGER MANUFACTURING

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

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

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

Natalie Lombe

GENERAL MANAGER CULTURE, CAPABILITY AND STRATEGY

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

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

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

John Penno

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

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 was the inaugural Chairman of the Dairying and Environment Leadership Group. John is a member of the New Zealand China Council Advisory Board.

In 2009, John received an emerging leader's award from the Sir Peter Blake Trust and the Excellence in Leadership award at the 2015 New Zealand International Business Awards.

Mike Lee

GENERAL MANAGER SALES

Mike joined Synlait Milk in September 2011 and leads sales, business development, overall category profitability as well as overseeing marketing and communications. 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 value added 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 from Massey University.

Nigel Greenwood

CHIEF FINANCIAL OFFICER

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

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

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

Matthew Foster

GENERAL MANAGER SUPPLY CHAIN

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

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

OUR PARTNERSHIPS

PROGRESSING UP THE VALUE CHAIN

Our commitment to a customer portfolio with 70% of business from the world's leading multinational infant formula and nutritional brands, 25% from regional market leaders and 5% from uniquely positioned companies remains our focus for FY16.

This strategy directly supports our aim of progressing customers up the value chain, and we anticipate that FY16 will see more customers make this shift.

Increasing the value of our relationships with customers by leveraging our infant formula and consumer powder credentials in FY15 saw us achieve a 59% year on year growth in sales to multinational customers. We also saw the beginnings of uniquely positioned customers providing positive returns to our business through their value added brands successfully disrupting their market.

To support customer progress up the value chain, our aim is to disproportionally grow our business into adding more value for customers, while concurrently growing our overall business. This will increase our average gross margin per tonne and customer development in FY15 focused on increasing infant formula production, consumer-ready applications and new nutraceutical products.

These market sectors accounted for 55% of the total volume of powder sales in FY15, a 15,004 MT increase on FY14.

We were also able to take advantage of product mix differentials in a highly dynamic global market. Sales of skim milk powder (SMP) and anhydrous milk fat (AMF) outperformed whole milk powder (WMP) for most of FY15, allowing us to switch 20% of our WMP business into SMP/AMF and benefit from favourable market conditions.

THE SYNLAIT VALUE CHAIN

VALUE ADDED

Nutraceutical products

Highly specialised and similar to pharmaceutical-grade solutions, these products are created through technical innovation and excellence. Synlait Lactoferrin and night milk ingredient (iNdream[3]) are both Synlait creations.

Nutritional products

Designed to enhance the health and nutrition of consumers, these products include infant formula base powders, adult nutritional powders and infant formula manufactured into retail-ready consumer packaging.

Ingredient products

Customised milk powders made to high specifications including whole milk powder (WMP), skim milk powder (SMP) and anhydrous milk fat (AMF).

END TO END CONFIDENCE FOR CONSUMERS

Our nutritional customers need us to make premium quality infant formula and special milk powders that are safe.

That's why we've transformed our business to create an integrated supply chain solution with uncompromised quality at every step. From elite farming to state of the art processing and packaging at source – it's an unbroken chain.

Synlait Sure™ reflects this standard of excellence and helps make the buying decision easier for consumers.

Synlait Sure™ works in two ways. First, it allows consumers to check their product is genuine and trace it right back to the source. They simply enter the unique code found on the bottom of their infant formula can to access authentication details on their phone, tablet or desktop computer.

They can also access a range of traceability information that lets them explore how our products are made, so they can buy with confidence and peace of mind.

It is another example of how we're creating value for our customers by addressing the needs of their consumers. You can experience Synlait Sure™ by visiting www.synlaitsure.com.

synlait™ SURE NEW ZEALAND

DEVELOPING STRONG PARTNERSHIPS

We have enjoyed developing partnerships with our customers in FY15, and we are seeing the benefits with our international reputation as an innovative and trusted partner of choice growing. It directly led to several new partnerships being established in FY15 with customers both in New Zealand and overseas.

In addition to New Hope Nutritionals, Bright Dairy and The a2 Milk Company™, we were pleased to add Nouriz to our portfolio of blending and consumer packaging customers. Nouriz is a large New Zealand export brand of infant formula exported to China and we recognise their position as an established regional market leader.

We also supported New Hope's marketing-driven launch of Akarola, a new infant formula product range in China targeting the growing e-channel market. Initially bypassing traditional retail environments, Akarola disrupted the established supply chain and used Synlait Sure™ to support consumer confidence in the quality of infant formula sold online.

One new partnership that was well received by our suppliers was with Munchkin Inc, a well established and innovative baby products manufacturer based in the United States (U.S.).

We will exclusively manufacture their uniquely positioned Grass Fed infant formula product, Grass Fed responds to increasing demand from U.S. consumers for products that originate in traditional, outdoor farming environments with healthy and well-cared for cows. Indoor barns are commonplace in the U.S., as are all-grain diets and overcrowded feeding.

Munchkin expects to launch Grass Fed into the U.S. and China in FY16, leveraging their extensive retail distribution network in those regions. You can read more about how milk for Grass Fed will be produced on page 31.

CUSTOMER PROFILES

Danone Nutricia - A multinational partner

Danone Nutricia's early life nutrition is a global leader in standing by mums to nurture new lives in their first 1,000 days. Nutricia's brands include Karicare, Nutrilon, Aptamil and Dumex. Despite being headquartered in Europe, Nutricia generates 60% of its sales outside of Europe by adapting to local market needs with an entrepreneurial spirit, employing more than 12,000 people. Nutricia produces more than 800,000 MT of product annually.

We have been pleased to significantly develop and deepen our supply relationship of ingredients for use in infant formula and children's products in Asia with Nutricia. Despite the scale of Nutricia, we have particularly enjoyed working with the distinctive company culture based on commitment, agility, openness, sharing and pragmatism.

Nouriz - A regional market leader

Nouriz is an Auckland-based company with major operations in Shanghai, which includes the marketing and distribution of dairy products. With a long history of exporting infant formula from New Zealand to China as a premium product, Nouriz is an established market leader.

We've partnered with Nouriz to exclusively manufacture their infant formula range using cows' milk from our Canterbury suppliers and our state of the art manufacturing process. This partnership helps to build our credentials as a nutritional business and the volume increases our reputation as a leading infant formula manufacturer. Nouriz will be joining the Synlait Sure™ traceability programme to share the benefits of our 'cow to can' supply chain with their consumers. Their product will be finished in our blending and consumer packaging facility and exported in retail-ready infant formula cans.

The a2 Milk Company™ - A uniquely positioned company

We partnered with The a2 Milk Company™ in 2013 to launch a world-first infant formula based on the A2 protein in cow's milk, which is similar to the protein found in human breast milk. The a2 Platinum® range of infant formula disrupted the market in New Zealand, Australia and China as a product naturally containing only the A2 beta-casein protein and completely free from the A1 protein.

In the last year we have seen this customer gain significant momentum with their infant formula business and we also began producing a new whole milk powder product for the Australasian market. Their growth indicates they will soon be a leading infant nutrition and powdered milk brand in the marketplace and we're pleased to have increased our milk supply in FY15 in response to their success.

CREATING VALUE INSIDE THE FARM GATE

We partner with 173 suppliers in the Canterbury region with the aim of differentiating milk inside the farm gate, creating value both on farm and also at our Dunsandel site, through our Lead With Pride™ and special milk programmes.

Lead With Pride™

Lead With Pride™ is our flagship best practice dairy farming programme, with a total of 16 supply farms being certified at the end of FY15.

Our strategy is to have sufficient volumes of certified Lead With Pride™ milk by the end of FY16 to offer customers another option to create value in the marketplace.

Our dedicated milk supply team have been working alongside suppliers to support them through the Lead With Pride™ certification process. We held two focus days and themed our annual supplier conference around Lead With Pride™ in FY15. These events gave suppliers working through their certification access to specialist knowledge and expertise around best practice dairy farming.

We will continue to work closely with our suppliers in FY16 to increase the number of certified Lead With Pride™ suppliers and also to maintain the high standards set by certified suppliers.

Special milk programmes

Our suppliers have the ability to create more from their milk before it leaves their farm through our special milk programmes. The programmes are created in partnership with customers who want to produce unique dairy-based products.

Each programme requires suppliers to create value in a certain way, such as genetics for The a2 Milk Company™ or specific diets for Grass Fed. We recognise the commitment this differentiation requires and premium payments – in addition to our milk price – reward suppliers for creating the value on their farm.

In FY16 we expect more than half of our suppliers will participate in at least one special milk programme, resulting in some form of premium payment to more than half of our supply base. Additionally, the increased participation in these programmes has lifted the average value of premiums paid in FY15 to $0.06 per kgMS ($0.04 per kgMS paid in FY14).

The a2 Milk Company™ is the customer behind one of our strongest special milk programmes. We are the exclusive producer of their a2 Platinum® range of infant formula.

LEAD™ WITH PRIDE

CERTIFIED BEST PRACTICE DAIRY FARMING

In response to their growth we will have more than 30 suppliers providing milk for The a2 Milk Company™ in FY16, up from 17 in FY15, with further growth expected in FY17. Our A2 suppliers have identified and separated cows that express the A2 protein into A2 herds. This ensures milk used to manufacture products for The a2 Milk Company™ only contains the A2 protein, which is similar to the protein found in human breast milk.

Our newest special milk programme with Munchkin, is a new unique infant formula product called Grass Fed.

Made from cows exclusively grazed on pasture and crop-based diets, suppliers must adhere to a Grass Fed standard that requires, among other requirements, that cows must never be kept indoors and are not fed any grain, or feed grown outside New Zealand.

We believe Canterbury is the best area in New Zealand to consistently maintain an all grass system, so our suppliers are well placed to benefit from this opportunity. We have already received commitments from 25 suppliers to provide milk for Grass Fed in FY16.

SYNLAIT SUPPLIER CONFERENCE

Our 2015 annual Synlait Supplier Conference was well attended again with more than 300 suppliers, rural professionals and other guests present.

A unique industry event, we connect suppliers with our staff, customers, rural and financial professionals to learn from leaders in their field and access insights that drive value and practical applications on farm.

This year the theme was Inspire and each keynote speaker presented a delivery that inspired suppliers to perform at the leading edge whilst connecting to a Lead with Pride™ pillar.

Gerard Hickey from Firstlight Foods discussed how Leading With Greatness can be achieved with high quality, premium products while Dr Scott McDougall from Cognosco reinforced the need for strong animal health and welfare practices through his focus on Leading With Care. How to develop high performing teams through Leading With Integrity was outlined from Canterbury Crusaders's Richard Smith and Dave Anderson from Icebreaker highlighted how Leading With Foresight can help create environmentally conscious and sustainable businesses in the primary industry.

This year's Conference announced our partnership with Munchkin. DairyNZ's Principal Scientist, John Roche, supported the launch with a domestic focus on the virtues of grass feeding. ANZ Chief Economist Cameron Bagrie provided strong insight into the global dairy market, adding further perspective around the benefits of partnerships with businesses like Munchkin and how suppliers can make more from milk.

The day event was followed by an awards dinner that included the 2015 Dairy Honours ceremony, rewarding supplier achievements throughout the 2014 / 2015 season around milk quality, special milks and Lead With Pride™.

QUALITY RAW MATERIALS

As a large scale purchaser of various goods and services, we develop strong relationships with our ingredient, primary packaging and other suppliers to ensure all material we procure meets the stringent standards and specifications set by our customers.

All goods and services are procured through a rigorous selection programme, fair and transparent negotiating and a clear procurement governance structure.

We are committed to a robust audit programme of all raw material and primary packaging suppliers.

It allows us to understand our suppliers' capabilities and provides opportunities to audit their facilities. We work closely with our suppliers to ensure all audit observations are actioned appropriately to protect the quality of what we procure from them.

In FY15 we completed 49 site audits across five continents, and we will continue with our audit programme in FY16. Once a complete review of all of our audited suppliers has been undertaken, we will determine the frequency of re-visits and audits for each approved supplier.

LOGISTICS PARTNERSHIP DELIVERS VALUE

We have partnered with Canterbury-based transport company Hilton Haulage since our site was commissioned in 2008. Tailored logistical support in milk collection, raw material and finished product storage, shipping container movements and finished product transportation provides supply chain confidence and year on year benefits for us and Hilton Haulage.

In FY15 our milk collection costs, per 1,000 litres of milk transported from suppliers to our site, reduced for the third successive year. More efficient collection scheduling, on-site servicing facilities for the tanker fleet and completion of a project to make the entire tanker fleet capable of maximising loadings under the road transport regulations contributed to this.

Hilton Haulage's ability to integrate their scheduling processes to our transport demands enable us to optimise the movement of containers to and from our 22,500m^2 drystore in Dunsandel. Throughout FY15, 99% of container truck movements were transporting goods as they arrived and as they departed, virtually eliminating any costly empty movements.

Newly introduced truck and trailer units in FY16 are expected to halve the cost of moving standard 20ft shipping containers as two full containers will be able to be transported to Lyttelton Port by the new units.

By having the best people, up-to-date product handling equipment and modern facilities at Synlait and access to Hilton Haulage's expertise, we make sure our logistical operation enhances the supply chain from farm to our customers.

OUR PLACE

OUR PRODUCTION CAPABILITY

The addition of our third large scale spray dryer, D3, increases our annual production capacity from 90,000 MT to 140,000 MT.

Almost identical to dryer two (D2), both are capable of producing seven MT per hour of nutritional product, infant formula or special milk powders.

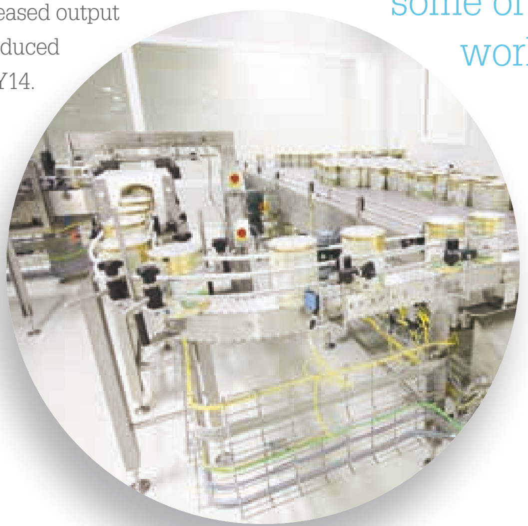
Together with dryer one (D1), our anhydrous milk fat (AMF) plant and special milks dryer (SMD), we have some of the most sophisticated equipment in the world that can manufacture a range of products for our customers.

Our ability to manufacture, test and package product seamlessly in a single process gives us total quality control throughout manufacturing.

Combined with our in-house research expertise, the regulatory environment, packaging and export, we have a nutritional capability that has earned the confidence and trust of our customers.

PACKAGING SUCCESS

With more than six million cans of infant formula manufactured in FY15, our state of the art blending and consumer packaging facility has increased output significantly from the 40,000 cans produced following its commissioning in late FY14.



Increased demand from our customers in FY15 resulted in a second shift being recruited and a third shift will be added in early FY16. The facility is capable of packaging 120 cans per minute and the response from customer audits has continued to be positive.

Throughout the first year of operation we have made operational improvements to increase productivity and assist staff as they work with different size formats of product cans.

TECHNICAL CENTRE OF EXCELLENCE

Our new quality testing laboratory will significantly strengthen our onsite quality and technical capability.

In addition to the world class quality testing laboratory, several other capabilities contribute to a technical centre of excellence at Synlait.

We will have greater control and visibility of the quality testing process, as well as improved testing turnaround times and faster release of products to customers, allowing us to meticulously monitor product quality throughout the manufacturing process.

From international experts to experienced dairy and food scientists and enthusiastic graduates, we have recruited some of the best people to work in our new centre.

A product development laboratory will allow for formulation development and the evaluation of new ingredients. A pilot scale plant will provide the capability to evaluate new recipes at a small scale, utilising new and existing processing technologies and providing assurances that these products can be successfully made on a commercial scale. The centre will also provide capability to evaluate sensory attributes and assess the stability of product over time to guarantee product performance and ensure consumer satisfaction.

It is expected to be completed in September 2015 and following building handover it will undergo the rigorous process of validation and accreditation.

We will work closely with International Accreditation New Zealand (IANZ) in FY16 to secure accreditation for our test methods, ensuring we not only meet regulatory requirements but can be trusted by our customers to deliver accurate and valid testing results for their products.

Additionally, the quality testing laboratory will also be certified to ISO/IEC 17025 standards, the globally recognised standard designed specifically for testing laboratories.

RESPONSIBLE MANUFACTURING

We're conscious of our environment in Dunsandel, which is why we're actively involved with regional and local environmental affairs to ensure our interests are well represented.

We have developed two further wastewater fields with neighbouring farms to receive process wastewater from D3 production as irrigation water. We treat all process wastewater onsite to an acceptable quality for irrigation, and it is then irrigated thinly over a large area to manage farm conditions responsibly.

In FY15 we concluded a three year process with the Selwyn District Council to rezone our site as a subset under the Rural zone to a Dairy Processing Management Area (DPMA).

The DPMA is unique and will enable sustainable development of our site in the future, in line with community and local government expectations discussed throughout the process. As a result, we now have pre-approved processes to approach future developments, addressing cost and time inefficiencies experienced under the previous Rural zone.

Environment Canterbury (ECAN), the regional council for Canterbury, introduced the Land and Water Regional Plan (LWRP) in 2014 to specify how land and water resources in Canterbury must be used. Variations to the LWRP have been created for each catchment in the region, and we have been actively involved with Variation 1 that sets out further conditions for the Selwyn district in which our Dunsandel site is located. Throughout FY15 we contributed to the public consultation process on Variation 1 and were able to help refine the conditions to sustainably support our presence in the Selwyn area. We will continue to engage with Variation 1 in FY16 as it continues to progress through the consultation process.

OUR PEOPLE

BEST PLACE TO WORK

Our goal is to become the best place to work by offering a collaborative workplace where staff feel they make a difference and are encouraged and supported to be their best.

We continued our focus on engagement leadership, collaboration and communication as key elements of our people strategy in FY15 to achieve this goal.

We revisited our purpose, vision, values and behaviours in FY15 to further develop our culture, improve employee engagement and overall business performance.

All four elements were considered and debated through an intensive staff consultation process. This also provided a vehicle to communicate our key strategic objectives, and resulted in a refreshed purpose, vision, new values and behaviours developed by and for our staff.

Following on from this initiative staff were provided with Game Plan 16. The plan outlines our operational and financial targets for FY16 and gives staff clear visibility of how their work will directly contribute to our success.

Another key milestone in FY15 was the delivery of our new administration office on 27 July 2015. Having outgrown our original administration office and being located in different buildings around our Dunsandel site, we wanted a single office that would cater for staff, facilitate teams working together, build relationships and get things done through easier communication and collaboration.

DEVELOPING GREAT PEOPLE

The significant increase in staff numbers and staff promotions in FY15 has been underpinned with a focus on capability development to ensure we remain agile and responsive in a fast-paced environment.

The 37% growth in staff from 238 in FY14 to 326 in FY15 was primarily to support our blending and consumer packaging facility, the operation of dryer three and our quality testing laboratory.

In FY15 we again awarded two Outward Bound Scholarships and two scholarships to the two year NZ Diploma in Dairy Processing.

LEADING FROM THE FRONT

Building leadership capability and confidence as a key area of competency is a priority for Synlait.

Our overall leadership framework is a combination of elements from Blanchard's Situational Leadership II™ (SLII) programme; our vision, values and behaviours and the Gallup Engagement Pyramid.

We continue to offer SLII as our core leadership programme. It is facilitated by certified in-house trainers and 16 People Leaders and emerging leaders participated in this programme in FY15.

Supporting SLII to build a high performance organisation is our Gallup Strengths programme. We have assessed the strengths of more than 50 staff using this programme in FY15, equipping them with knowledge around how to work to their strengths as individuals and as teams. Two in-house coaches will continue implementing this programme throughout FY16 to support increased engagement and team collaboration.

In May 2015 we ran our second annual Leadership Conference with 61 People Leaders, concentrating on what it means to be a Synlait leader. Throughout the conference we focused on the roles and responsibilities of being a leader and how to facilitate cross functional relationships among People Leaders.

For the second year we have also offered the NZQA Certificate of Business to emerging leaders, with 16 graduating with a Certificate in People Leadership in FY16.

EVERYONE HOME SAFE, EVERY DAY

We recognise the importance of keeping our staff, contractors and visitors safe and in FY15 we implemented the first year of our four year Safety Strategy, which is framed to ensure we are prepared for anticipated legislative changes.

Key activities for the year included reviewing all safety business plans and updating health and safety responsibilities across position descriptions, the employee handbook and standard operating procedures. As part of this review, we also developed the Synlait *Safe Work Behaviours* to act as a guide for working safely in a consistent way.

Health monitoring was introduced in high risk areas of our business to ensure current controls remain effective.

Broader participation in health and safety across the site was achieved with a renewed Health and Safety Committee.

We also undertook our third Accident Compensation Corporation (ACC) Workplace Safety Management Practices (WSMP) audit in FY15, resulting in being awarded tertiary status. Tertiary is the highest level and recognises we operate a continuous improvement framework for workplace health and safety management.

MEET SOME OF OUR PEOPLE

LEFT TO RIGHT;
MATTHEW STEVEN
CHRIS FRANCE
KELLY ANDERSON
JAISHREE RAVINDRAN
ALAN MORRIS
PHIL O'MALLEY

Matthew Steven

DRYER THREE (D3) PRODUCTION MANAGER

Matthew joined Synlait in January 2015 to oversee production in our newest spray dryer – D3. Based primarily in Switzerland, but also with a stint in the Philippines, Matthew's ten years with a leading multinational dairy and nutrition business equipped him with a range of management, process optimisation and product development skills. His experience in manufacturing and corporate research and development roles build on his PhD in Food Science from Cornell University. With D3 set to be commissioned in September 2015, his focus is to have his team operating D3 to a world-class standard while also supporting their individual development.

Chris France

CHIEF INFORMATION OFFICER

In a newly created role, Chris is charged with harnessing the vast amount of data and information generated at Synlait so our leaders can make informed decisions consistently and effectively. He brings more than 20 years of management consulting experience in Canterbury to the role. Drawing on his expertise in information technology, strategic planning and project management, Chris' aim is to support Synlait in making decisions that contribute to operational excellence.

Kelly Anderson

QUALITY MANAGER

Kelly leads our quality team, who ensure we comply with the rules and regulations high-grade food manufacturers must follow. Having worked in the industry since 1995, Kelly has built on her Masters Degree in Veterinary Microbiology with auditing and risk management roles at dairy and beverage companies in Australasia, as well as overseeing dairy auditing in New Zealand for a well-established food safety and quality agency. With systems and processes in place to monitor product quality at all stages of the manufacturing process, Kelly and her team work with staff to ensure products meet the high standards demanded by Synlait customers.

Jaishree Ravindran

LACTOFERRIN DEVELOPMENT TECHNOLOGIST

Jaishree brings a wealth of research and technical expertise to the team behind our unique nutraceutical lactoferrin product. With a Masters Degree in Dairy Science and Technology, Jaishree is an innovator at heart and a pioneer with specialist knowledge on commercialising research and development trials. Using her experience from private business and academic environments in both New Zealand and Australia, Jaishree is developing new processes and products for lactoferrin to meet current and future customer needs.

Alan Morris

CANNING BUSINESS MANAGER

Our world-class blending and consumer packaging facility is overseen by Alan, who joined Synlait in 2010. Alan contributed two decades of infant formula packaging experience with medium and large multinational businesses to help bring Synlait's value added strategy to life. Alan's current focus is making sure our canning and blending facility continues to meet the rigorous standards of our nutritional customers and also to maximise productivity and efficiencies.

Phil O'Malley

MANUFACTURING MANAGER

Phil works closely with managers of the teams behind our three world-class spray dryers, AMF plant and packing function. He supports our production teams to deliver results against our internal key performance indicators (KPIs), as well as customer standards for high quality products. Joining Synlait in 2010, Phil's engineering background and 25 years' experience in both the New Zealand and international dairy industries has been well utilised. Phil has an influential role helping our production staff and operational processes adapt to the increasing scale of our nutritional capability.

OUR GOVERNANCE

OVERVIEW

We continue to focus on ensuring we have the best people, frameworks and processes in place to ensure that Synlait Milk Limited's owners – our shareholders – are well represented through excellent governors.

Since our listing on the NZX on 23 July 2013 (see the code "SML" on www.nzx.com or visit our Investor Relations Centre on our website (www.synlait.com/investors/), we have been fortunate to retain the services of our current Directors. Bill Roest was re-elected as a Director at the AGM on 2 December 2014, and the Chairman of the Board (Graeme Milne), Chair of the Remuneration & Governance Committee (Hon. Ruth Richardson) and Chair of the Audit & Risk Committee (Bill Roest) were all unanimously reappointed for a further term on 27 March 2015.

This continuity of our Board has enabled us to build on the last two years of our public listing to ensure even better governance and oversight is delivered for our shareholder owners.

Governance highlights from FY2015:

- With the release by the Financial Markets Authority (FMA) of "Corporate Governance in New Zealand: Principle and Guidelines", we performed a complete review of every Charter, Policy and Standard to ensure we complied with the FMA's principles and guidelines. We are pleased to report that we do meet all of the FMA's criteria, and this is outlined in more detail below.
- We refreshed our purpose, vision, values and behaviours with all staff through extensive consultation. This confirms and ties into our Corporate Strategy.
- We launched a new health and safety reporting tool for the Board and Senior Leadership Team. This has greatly increased the instant visibility of reported incidents, their causes and what is being done to mitigate their reoccurrence.
- We have developed a performance questionnaire for Directors and Management to assess the performance of our auditors (Deloitte). In relation to audit and internal controls, an enterprise-wide internal audit review was commenced with a questionnaire to staff to identify whether there were any audit control gaps and any other areas to further review. We also reviewed accounts payable data for errors and fraud.
- Director and Senior Management succession planning was advanced, with individual Director performance being assessed, and induction programmes created for the Board and each of our two Board Committees. Further Director training and development is to be the major focus for FY16.
- Our Risk Management Framework continued to be embedded throughout the organisation and a culture of risk management now exists. This has led to better reporting and identification of potential business risks, and we are well placed in relation to crisis and incident management. We review high and emerging risks at each Board meeting.
- We undertook a major review of Directors' Fees – commissioning a report from Strategic Pay Ltd. looking into New Zealand boards' remuneration generally. This lead to the realignment of present Directors' Fees and the recalibration of future reviews to a 12 monthly cycle (previously fee reviews had been conducted once every two years, potentially causing a "lead or lag" result). This was passed by shareholders at our Annual General Meeting (AGM) in December 2014, and applied from 1 April 2015.
- The Board held two workshops during the year (in December 2014 and March 2015), where the Board reviewed in detail our vision and values, strategic objectives / FY16 key targets and initiatives and the associated five year financial forecast.
- The Board reviewed and approved the Company's Capital Structure Strategy.

We believe we have a strong governance team going forward, and our shareholders can be proud of the Board and its achievements this year.

OUR BOARD

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

We are a non-standard Company in terms of NZX listing requirements, with certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in our 'Statutory Information' section of this Annual Report (page 102), but generally the waivers concern the appointment of our Directors.

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

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

All of our Directors are profiled on page 22 of this Annual Report, and also on our website (www.synlait.com/about/key-people/board-of-directors) . A third of our independent Directors will retire each year, and Bright Dairy may appoint their Directors as they wish (but one must always be a New Zealand resident, experienced Director).

As mentioned in 2014 at our last AGM, Bill Roest retired and was re-appointed in accordance with our Constitution. At our upcoming AGM in December 2015, Graeme Milne our Chairman will retire and is eligible for re-election. The following retirements are scheduled for 2016 (Sam Knowles), 2017 (Bill Roest) and 2018 (Graeme Milne). All of these positions are able to be re-appointed by shareholders, subject to the individual Director wishing to stand at that time.

More details can be found in our Constitution on our website (www.synlait.com/site/uploads/2013/07/Synlait-Milk-Limited-Constitution.pdf).

The Directors held the following meetings during the year:

- Board: six meetings, four conference calls and two workshops.
- Audit & Risk Committee: five meetings
- Remuneration & Governance Committee: four meetings

Overall Director attendance at all meetings, calls and workshops was over 90%, with five Directors having a perfect attendance record.

OUR COMMITTEES

We have the following permanent Board Committees:

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

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

We also have a permanent Standing Committee:

- Continuous Disclosure Committee – chaired by the Managing Director (other members being the Chief Financial Officer, with either the Chairman of the Board or the Chair of Audit & Risk Committee). It monitors compliance by the Company and staff in relation to our Share Trading Policy and Guidelines, and ensures that all "material information" that is required to be disclosed to the market under the NZX Listing Rules is immediately disclosed.

OUR CORPORATE GOVERNANCE REPORT

In accordance with the FMA's "Corporate Governance in New Zealand: Principles and Guidelines" we have reviewed all our Charters, Policies and Guidelines for compliance. We can confirm that we comply with all nine principles and the associated guidelines as outlined in the FMA's Corporate Governance Handbook.

The following is the commentary of how we comply with these FMA criteria.

1. ETHICAL STANDARDS

High ethical standards are demanded from all staff and Directors at Synlait Milk Limited.

We have two separate Codes of Ethics – one covers our Directors (Board Charter), and the other covers all our staff (Synlait Standards). Both of these documents are available on our website (www.synlait.com/investors/corporate-governance).

These Codes have very explicit expectations of the expected behaviours from our people, and any transgression would be seriously dealt with. These Codes for our staff also need to be read in accordance with our applicable Employment Agreements and our Employee Handbook – which contains detailed whistle-blower provisions.

These Codes have been circulated and presented to all Directors and staff, and are also available on our intranet portal. We have a schedule for reviewing the content of the Codes through our Remuneration & Governance Committee, as well as reinforcing the Codes' core messages through our regular internal team meetings and Board meetings.

We have reviewed compliance of our Board with the Board Charter this year, and plan to review compliance with our Synlait Standards for all staff in FY2017 (as we only launched our Synlait Standard in March 2015).

2. BOARD COMPOSITION AND PERFORMANCE

As mentioned above, under our Constitution, we have a specific structure and appointment regime for our Directors.

We are a non-standard Company in terms of NZX listing requirements, with certain waivers from the NZX to this effect. More details on the NZX waivers are detailed in our Statutory Information section in this Annual Report (page 102), but generally the waivers concern the appointment of our Directors.

Our Constitution, as approved by the NZX, outlines the composition of the Board of Directors as follows (provided that Bright Dairy continues to hold at least 37% of our shares):

- There must be a minimum of three Directors and a maximum of eight Directors
- Four Directors may be appointed by Bright Dairy (1 of whom must be New Zealand resident and experienced as a Director of a listed company in New Zealand)
- There must be at least three Independent Directors
- The Chair must be an Independent Director (and the Chair of the Audit & Risk Committee)
- The Board must appoint a Managing Director who cannot be one of the Bright Dairy appointed Directors.

At each AGM, one third of the Independent Directors must retire and are eligible for re-election by the shareholders. The longest serving Independent Director must be the one to stand down.

Each of our Independent Directors meets the criteria required to be classed as "independent".

The Board has its own Charter, and this is available on our website (www.synlait.com/investors/corporate-governance). It sets out the formal delegations, and this is then enshrined in our internal Delegated Authorities Policy.

We operate a formal review of all Directors (including our Chairman), their performance, tenure plans, capacity and training once every three years. In FY16 ongoing Director training is a key area of focus, and the training programme is a mix of corporate governance training, specialist skills (tax, treasury management, health & safety management, financial reporting), NZX Rules training and industry awareness.

We have induction programmes and succession plans at Board and Committee levels. Due to our smaller size relative to many other publicly listed entities, we do not have a standing Nomination Committee.

The Directors profiles are on our website (www.synlait.com/about/key-people/board-of-directors), and are detailed on page 22 of this Annual Report.

3. BOARD COMMITTEES

As mentioned above, both of our Committees have formal Charters, which are reviewed for compliance each year. These Charters can be found on our website along with membership details (www.synlait.com/investors/corporate-governance).

We have an active company secretariat which takes minutes and makes all information available to Directors as required. We use on online portal tool "Board Papers" managed and securely hosted by Pervasent Inc. This means our Directors not only have the latest Board or Committee papers available to them, but also a library of reference material, past meeting minutes, resolutions and background papers available through the portal at any time.

Each Committee's recent proceedings are reported back to the full Board at each Board meeting. Our Audit & Risk Committee is chaired by Independent Director Bill Roest – who is a member of the Chartered Accountants Australia and New Zealand, and a fellow of the Association of Chartered Certified Accountants (UK). The majority of the Committee are Independent Directors, but Dong Zongbo who is a Bright Dairy appointed Director also is a member. Mr Dong brings a wealth of experience to the Committee, and is a member of the Institute of Public Accountants (Australia).

Our Remuneration & Governance Committee is chaired by the Bright Dairy appointed Director Hon. Ruth Richardson. The majority of the Committee are Independent Directors. Our Strategic Remuneration Policy is available on our website (www.synlait.com/investors/corporate-governance).

Each of the Directors individual experience and qualifications are set out on our website (www.synlait.com/about/key-people/board-of-directors).

4. REPORTING AND DISCLOSURE

Our Board has a rigorous process to ensure the quality and integrity of our Financial Statements.

On a monthly basis the full Board is presented with a very detailed Business Performance Report (BPR), which looks at the financial performance of the organisation and identifies any risks, issues and opportunities, and attempts to quantify the upsides and downsides should any of these items eventuate. Bridges are also presented showing forecasts against actuals, and the reasons for any variances – including whether these are temporary timing differences or permanent variances.

At each Board meeting, the BPR is reviewed in detail to understand the overall business performance.

In respect of the financial reporting for the Interim and Annual Financial Statements, the process is first governed by the Audit & Risk Committee. This Committee is charged with reviewing in significant detail the Financial Statements and accompanying material.

The Committee starts this process by receiving a report from Management – the "Detailed Management Report". This Report considers the accounting policies used, preparation of the Financial Statements, accounting estimates, significant transactions, significant balances, additional disclosures, banking covenants and post-balance date events. There is a separately tabled "FAQs" on the applicable Financial Statements to assist Directors in getting quickly to the core issues, in relation to the financial reporting process, accounting policies and Financial Statements themselves.

Specific specialised reports are also presented to the Committee for review, along with the complete set of draft Financial Statements (including notes to the accounts). For example, these reports may be in relation to treasury management functions and policies, stock and inventory provisions and underlying earnings.

An audit report also accompanies the Financial Statements from our auditors (who are currently Deloitte).

Finally, to support the robustness of the Financial Statements, Management provide written representations to the Directors in order for them to be satisfied with the internal systems and compliance within the organisation, which underlay the Financial Statement production.

After approval by the Audit & Risk Committee, then the complete set of Financial Statements is submitted for approval by the full Board with the recommendation of the Committee. Each Director is then obliged to form a view on the quality, accuracy and integrity of the Financial Statements and give their approval (or not).

In order to assist the Board reach a conclusion on the robustness and accuracy of our financial statements, several projects in relation to internal controls have been conducted in FY15 or are planned for FY16. These include a full data analytics project being completed to ensure our payment processes are robust and accurate, the integrity and stability of our IT systems being tested and confirmed, an internal controls survey completed across the organisation, and the establishment of an integrity testing policy for our key financial models. These initiatives will be continued and expanded in FY16.

In relation to our obligations of continuous disclosure under the NZX Rules, we have a Continuous Disclosure Policy. This Policy is on our website (www.synlait.com/investors/corporate-governance).

Under that Policy, as mentioned above, the Board formed a Continuous Disclosure Committee chaired by our Managing Director and CEO. Other members are the CFO and either the Chairman of the Board or the Chair of the Audit & Risk Committee. A co-opted member is our General Counsel and Company Secretary.

It is a standing committee, and meets as required to promptly and without delay consider whether an item of information identified is "material" and requires immediate disclosure. Meetings typically occur by email or phone as required, and have been very flexible and effective in considering issues of disclosure.

The Board takes very seriously its obligation of ensuring there is a timely release of material information by Synlait Milk Limited to the NZX notifications platform. The Board can confirm during the FY15 that the continuous disclosure obligations were complied with.

At each Board meeting, a detailed Compliance Report is presented to the full Board (and also considered separately by the Audit & Risk Committee). This report looks at regulatory matters and updates, continuous disclosure obligations around core headings and topics, earnings forecasts by analysts, core policy compliance, NZX disclosures issued during the period between meetings and a summary of where Synlait Milk Limited has been mentioned in the news.

As previously mentioned, all our Charters, Policies and Standards are available on our website (www.synlait.com/investors/corporate-governance).

In addition, on our website we have all our previous financial statements readily available for our shareholders (www.synlait.com/investors/annual-interim-reports), including all our analyst briefings and investor presentations (www.synlait.com/investors/presentations).

Analysts are strictly dealt with according to our published Analyst & Media Policy, also on our website (www.synlait.com/investors/analysts-media-policy).

5. REMUNERATION

Our Strategic Remuneration Policy is on our website (www.synlait.com/investors/corporate-governance).

This Policy is reviewed each year to ensure it meets the strategic policy objective of attracting, rewarding and retaining staff with the requisite skills and capabilities to ensure our successful business outcomes. The Board has a structured approach to remuneration, focusing on performance equity, internal equity and external equity. In addition, any change to remuneration is based on the consideration of the five factors of job size, market movement, an individual's position in relation to the salary range, individual performance and eligibility for review.

The Remuneration & Governance Committee oversees the operation of our Remuneration Policy, and monitors the overall budgets for all employees. The Committee also recommends to the Board, for approval, the remuneration and bonus arrangements for our Senior Leadership Team and the Managing Director and CEO.

Our Senior Leadership Team and our employees' remuneration details (including the Managing Director and CEO's) are set out in the 'Statutory Information' section of this Annual Report at page 102. We also assess our Senior Leadership Team's performance and the Directors' Fees annually.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We have the following share incentive plan in place for our senior staff:

Senior employee IPO incentive scheme

We are in the final year of a three year IPO Incentive for 18 senior staff. This scheme provides the opportunity of an award of shares based on the successful achievement against a number of performance hurdles. Targets for years one and two have not been met and as such no award has been granted. The remaining maximum value opportunity per senior staff participating in the scheme is 25% of their base remuneration as at 1 August 2013. They can receive up to a maximum value of 25% of their base salary, by way of rights to shares valued at the IPO price, which will only vest at the end of the three year period, post IPO, on the condition that they are still employed at Synlait Milk and that the share price at that point is above the IPO price.

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

TSR	Annual entitlement as a % of base salary
20% or more	25.00%
15%	18.75%
12%	6.25%
Less than 12%	-

If the performance hurdles are met for FY16 the approximate cost would be $502,000.

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

For employees below the Senior Leadership Team (SLT) level the short term incentive opportunity ranges from 5% to 15% of the base remuneration and is based on a mixture of Company profit, team and individual objectives.

At part of the Senior Leadership Team, the short term incentive opportunity ranges from 20% of based remuneration for direct reports to the Managing Director and CEO, and 40% of base remuneration for the Managing Director and CEO. This short term incentive is awarded based on exceeding budgeted NPAT (70%), and personal performance objectives (30%).

We participate in Kiwisaver, and pay the employer contribution of 3% to all employees participating in the Kiwisaver scheme as part of their fixed remuneration.

Our Directors' remunerations (including our Managing Director and CEO's remuneration) is set out in the 'Statutory Information' section of this Annual Report on page 102.

6. RISK MANAGEMENT

As previously mentioned, we have a robust Risk Management Framework, which is well embedded in the organisation after being launched last year.

The Framework consists of the:

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

We have rigorously tested our Crisis Management Plan on several occasions, and it was used extensively and very successfully to manage our response to the recent 1080 terrorist threat in New Zealand.

At each Board meeting, the Board receives a Risk Report – noting the top risks and emerging risks – which not only summarises the issue, but also rates the potential impact if it were to occur, trend data and the risk mitigation steps for the Directors. This is then discussed in detail by the Board with senior Management.

Three to four times a year the full Risk Register is presented to the Audit & Risk Committee, looking in detail of the top and emerging risks in each functional area of the business, potential impact, controls in place, mitigation options, whether or not it is insurable (and whether insurances are held) and trends.

Internal controls have been a focus in FY15, with this detailed in Principle 4: Reporting and Disclosure.

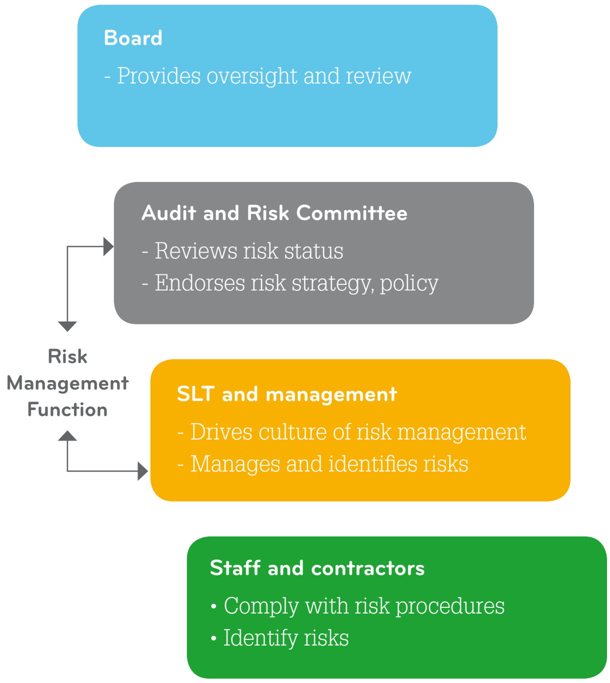
Our Risk Management Strategy focuses around controlling and managing risks around seven key categories within our business:

- **Food safety:** Affecting quality of products to such an extent to be hazardous to human health
- **Site event:** Impacting on physical plant, equipment or manufacturing operations
- **Health and safety event:** Harming our employees, contractors or visitors
- **Environmental event:** Causing environmental damage or harm, breaching consents or statutory obligations
- **Supply event:** Impacting supply of milk or raw materials for manufacture
- **Product / market development:** Risks associated with new capital projects, new products or processes
- **Financial event:** Loss or damage to financial systems, fraud or other financial loss

As part of our Risk Management Strategy, our Board has assessed the Company's appetite for risk (from zero to limited tolerance), and this drives the risk assessment placed on any particularly identified event or series of related events – in terms of risk likelihood / probability (frequency) and risk impact (consequences).

Our ability to effectively manage risk is also dependent on having an appropriate risk governance structure with well-defined role and responsibilities.

Our risk management structure is as follows. This structure illustrates that risk management is not the sole responsibility of one individual or a series of individuals, but rather occurs and is supported at all organisational levels.



To enable the Board to properly assess our risks within our business, we have a formalised reporting structure to capture enterprise-wide risks and also recognise the inter-dependencies between different functional areas in terms of risk management.

The risk management reporting responsibilities are summarised as:

GROUP	RESPONSIBILITIES
Board	› Review reports
	› Communicate risk information issues back to the Company
	› Identify new and emerging risks
Audit & Risk Committee	› Review reports
	› Communicate risk information issues back to the Company
	› Communicate key risk issues to the Board
	› Identify new and emerging risks
SLT and Management	› Review reports
	› Communicate key risk issues to the Audit & Risk Committee
	› Closely monitor extreme risks
	› Identify new and emerging risks
Risk owners	› Monitor and review the risks which they own
	› Prepare reports for the risks which they own
	› Provide their respective managers with information on the risks which they own
	› Identify new and emerging risks
Risk Management Committee	› Prepare reports
	› Gather risk information from the relevant Company people, for example, Risk owners
	› Identify new and emerging risks
Staff and contractors	› Provide risk information to those that request it
	› Monitor and review risks within their areas
	› Identify new and emerging risks

7. AUDITORS

As previously mentioned, our external auditors are presently the firm of Deloitte, with our lead audit partner Michael Wilkes (based in the Christchurch Deloitte office).

Deloitte was originally appointed prior to the first AGM to provide auditing services to us as they are also the auditors used by Bright Dairy in China, and there are significant savings and administrative advantages in having both firms contracted in New Zealand and China, as Bright Dairy performs a consolidation of our accounts for their reporting purposes on the Shanghai Stock Exchange.

We have this year put in place a review process for assessing the performance of our external auditors by both Directors and senior Management, which will be conducted annually starting in FY16. This survey looks at all aspects of the audit performance, relationship management and professional services supplied by Deloitte to us.

Both Management and the Board have a strict policy to carefully review any services provided by Deloitte outside of their audit function. The Chair of the Audit & Risk Committee is consulted by Management where there may be a perception that independence could be threatened. Where there is any doubt or risk to the appearance of independence, then the required work is provided by another firm.

Semi-annually during FY15, Deloitte provided us with an Independence Report, where all fees charged to Synlait Milk Limited were examined in detail to ensure there has been no threat to the independence, integrity and objectivity of their role as our external auditor. These confirmations have not highlighted any areas for concern.

The work performed by Deloitte during FY15 is as follows:

AREA	OVERVIEW OF WORK INVOLVED	BASIS OF DECISION TO INVOLVE DELOITTE	INVOICED FEES
Taxation	› Various engagements including GST review, assistance with the IRD audit and tax depreciation work	› These services are compliance in nature and are not inconsistent with Deloitte's role as auditor.	$95,000
Consulting	› Review of the advance planning and advance scheduling system › Advisory support in respect of the development of an IT strategy › Assistance with Commerce Commission submissions › Accounting advice on the early adoption of NZ IFRS 9 › Performing analytical procedures to identify potentially fraudulent transactions	› The Audit & Risk Committee is satisfied that these assurance and advisory services are not inconsistent with Deloitte's role as auditor.	$148,000
Modelling	› Limited scope financial model review	› This work was not inconsistent with Deloitte's role as auditor	$27,000

All matters were closely examined by Management and the Chair of the Audit & Risk Committee to make sure the Committee was satisfied that the objectivity and independence of Deloitte as our external auditor was not compromised.

Deloitte operate a policy of rotating its lead audit partner every five years. Michael Wilkes (Deloitte Christchurch) is retiring from the engagement, and should Deloitte be reappointed at the next AGM in December 2015, then a new audit partner will be appointed by the Board in conjunction with the Audit & Risk Committee.

The relationship between the Audit & Risk Committee (on behalf of the Board) and Deloitte is very healthy, and separate sessions are held with just the Directors and the audit partner to ensure there is no undue pressure or other issues in relation to the conduct of the audit engagement and reporting. If there were any complaints from our auditors, then these can be directly raised with the Board or the Audit & Risk Committee, and do not have to be elevated through Management.

Our auditors attend every Audit & Risk Committee meeting which is considering our Financial Statements, and also are asked to attend our AGM each year. Shareholders can ask our auditors any questions during the open AGM forum.

All fees paid to our auditors are also disclosed in our financial statements, and are in summary as follows (1 August 2014 to 31 July 2015):

Audit work	= $127,000
Non-audit work (as set out in the above table)	= $270,000

In accordance with section 207T of the Companies Act, Deloitte will be automatically appointed at the AGM in December 2015 unless the there is a resolution to the contrary. Our shareholders will be asked at the AGM whether or not they approve the Board to fix the auditor's fees and expenses for the following financial year (FY16) in accordance with section 207S of the Companies Act.

8. SHAREHOLDER RELATIONS

We have an Investor Relations Centre on our website (www.synlait.com/investors).

Here shareholders will find:

- A live feed of our NZX listed share price, with historical pricing and trading data
- A complete set of all announcements and releases made by us to the NZX or general media
- Key dates in the investor schedule, such as our AGM, financial statements release dates, planned announcements or updates
- Copies of all our Annual Reports and Interim Reports (including our initial offer document)
- All investor presentations
- Shareholder information relating to our share register and how to contact our registry service provider (ComputerShare)
- Our Corporate Governance section – with all our key governance documents available
- Our analyst and media policy
- FAQs
- Contact details for investor matters

This area is regularly updated by our Marketing and Communications team.

Our AGM is held each year (in November or December), usually in the early afternoon, in the Christchurch area, unless otherwise advised. All shareholders are warmly invited to attend and actively participate in the Meeting.

As mentioned above, our auditors are requested to attend the AGM and shareholders are given an opportunity to ask any questions of our auditors.

From FY15, we are also hosting an annual on-site visit for our shareholders at our plant in Dunsandel, Christchurch. In FY16 this will be scheduled around the AGM, which will also be held on our site for the first time.

9. STAKEHOLDER INTERESTS

As a publicly listed company, we have important relationships with our investors, employees, customers, suppliers, creditors, our local community where we are based and the wider region in which we operate.

We have policies governing all our interactions with these various stakeholders, and this is enshrined at Board level within our Board Charter (Directors Code of Conduct – Appendix 1) and for all our employees in our Synlait Standards. Copies of both documents are on our website (www.synlait.com/investors/corporate-governance).

The Board assesses compliance with these policies annually.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OUR FINANCIAL STATEMENTS

SYNLAIT MILK LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2015

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DIRECTORS' DECLARATION

AS AT 31 JULY 2015

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements for Synlait Milk Limited and its subsidiary set out on pages 59 to 98 for the year ended 31 July 2015.

The Directors are responsible for ensuring that the financial statements present fairly the financial position of Synlait Milk Limited and its subsidiary (together 'the Group') as at 31 July 2015 and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

For and on behalf of the Board.

Graeme Milne
CHAIRMAN
21 September 2015

John Penno
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
21 September 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 JULY 2015

		Group	
		Year ended	
		2015	2014
	Notes	$'000	$'000
Revenue	7	448,136	600,518
Cost of sales	8	(377,100)	(523,430)
Gross profit		71,036	77,088
Other income	7	99	65
Share of loss from associates	28	(378)	-
Sales and distribution expenses	8	(25,330)	(27,760)
Administrative and operating expenses	8	(19,082)	(16,954)
Earnings before net finance costs and income tax		26,345	32,439
Finance expenses	9	(9,161)	(6,516)
Finance income	9	311	1,172
Loss on derecognition of financial assets	24	(37)	-
Net finance costs	9	(8,887)	(5,344)
Unrealised foreign exchange losses		(2,326)	-
Profit before income tax		15,132	27,095
Income tax expense	10	(4,580)	(7,492)
Net profit after tax (NPAT) for the year		10,552	19,603
Earnings per share			
Basic earnings per share (cents)	19	7.21	13.40

Supplementary Information		Group	
		Year ended	
		2015	2014
	Notes	$'000	$'000
Profit for the period		10,552	19,603
Underlying adjustments			
Unrealised foreign exchange losses	5	2,326	-
Adjustments before tax		2,326	-
Tax credit on underlying adjustments		(651)	-
Underlying net profit after tax	5	12,227	19,603
Underlying net profit per share (cents)		8.35	13.40

Underlying net profit after tax is a non-IFRS financial performance measure that represents net profit after tax stated in compliance with NZ IFRS after excluding unrealised foreign exchange losses. It is presented to enable stakeholders to make an assessment and comparison of the Group's underlying performance across different accounting periods. Further information can be found in note 5 to the financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2015

		Group	
		Year ended	
		2015	2014
	Notes	$'000	$'000
Profit for the period		10,552	19,603
Items that may be reclassified subsequently to profit and loss			
Revaluation of property, plant and equipment		16,810	-
Effective portion of changes in fair value of cash flow hedges		(48,368)	1,875
Net change in fair value of cash flow hedges transferred to profit and loss		985	(2,249)
Income tax on other comprehensive income	10	8,726	104
Total items that may be reclassified subsequently to profit and loss		(21,847)	(270)
Other comprehensive income for the year, net of tax		(21,847)	(270)
Total comprehensive (loss) / income for the year		(11,295)	19,333

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2015

Group	Notes	Share capital	Employee benefits reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2013		172,548	-	(1,833)	8,008	(14,685)	164,038
Profit or loss for the year		-	-	-	-	19,603	19,603
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	1,875	-	-	1,875
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(2,249)	-	-	(2,249)
Income tax on other comprehensive income		-	-	104	-	-	104
Total other comprehensive income		-	-	(270)	-	-	(270)
Share issue costs	19	(301)	-	-	-	-	(301)
Employee benefits reserve		-	60	-	-	-	60
Total contributions by and distributions to owners		(301)	60	-	-	-	(241)
Equity as at 31 July 2014		172,247	60	(2,103)	8,008	4,918	183,130
Profit or loss for the year		-	-	-	-	10,552	10,552
Other comprehensive income							
Revaluation of property, plant and equipment		-	-	-	16,810	-	16,810
Effective portion of changes in fair value of cash flow hedges		-	-	(37,270)	-	-	(37,270)
Movement in time value hedge reserve		-	-	(11,098)	-	-	(11,098)
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	985	-	-	985
Income tax on other comprehensive income		-	-	13,268	(4,542)	-	8,726
Total other comprehensive income		-	-	(34,115)	12,268	-	(21,847)
Employee benefits reserve	20	-	11	-	-	-	11
Total contributions by and distributions to owners		-	11	-	-	-	11
Equity as at 31 July 2015		172,247	71	(36,218)	20,276	15,470	171,846

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2015

		Group	
		2015	2014
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents		1,529	2,393
Trade and other receivables	11	68,141	89,046
Goods and services tax refundable		1,240	8,880
Income accruals and prepayments		2,225	786
Inventories	12	63,804	71,262
Derivative financial instruments	24	178	1,632
Total current assets		137,117	173,999
Non-current assets			
Property, plant and equipment	14	436,038	298,186
Intangible assets	15	4,651	4,589
Other investments	13	1,976	70
Derivative financial instruments	24	-	42
Total non-current assets		442,665	302,887
Total assets		579,782	476,886
Current liabilities			
Loans and borrowings	17	85,646	63,113
Trade and other payables	16	80,367	116,730
Current tax liabilities		137	2,618
Derivative financial instruments	24	33,677	2,916
Total current liabilities		199,827	185,377
Non-current liabilities			
Loans and borrowings	17	177,921	91,376
Deferred tax liabilities	18	13,600	16,525
Derivative financial instruments	24	16,588	478
Total non-current liabilities		208,109	108,379
Total liabilities		407,936	293,756
Equity			
Share capital	19	172,247	172,247
Reserves	21	(15,872)	5,965
Retained earnings		15,471	4,918
Total equity attributable to equity holders of the Company		171,846	183,130
Total equity and liabilities		579,782	476,886

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2015

		Group	
		Year ended	
		2015	2014
	Notes	$'000	$'000
Cash flows from operating activities			
Cash receipts from customers		479,763	568,266
Cash paid for milk purchased		(311,877)	(362,551)
Cash paid to other creditors and employees		(157,823)	(141,077)
Goods and services tax refunds / (payments)		7,640	(5,963)
Income tax refunds		(1,327)	-
Net cash inflow from operating activities	22	16,376	58,675
Cash flows from investing activities			
Interest received		305	130
Acquisition of property, plant and equipment		(106,982)	(95,876)
Proceeds from sale of property, plant and equipment		119	133
Acquisition of intangible assets		(993)	(1,508)
Purchases of equity instruments		(2,284)	(70)
Net cash outflow from investing activities		(109,835)	(97,191)
Cash flows from financing activities			
Costs of issue of shares (net)		-	(301)
Repayments of borrowings		(18,075)	(17,699)
Receipt of borrowings		102,488	80,638
Net movement in working capital and trade finance facilities		22,533	(16,890)
Interest paid		(14,351)	(7,204)
Net cash inflow from financing activities		92,595	38,544
Net increase / (decrease) in cash and cash equivalents		(864)	28
Cash and cash equivalents at the beginning of the financial year		2,393	2,365
Cash and cash equivalents at end of year		1,529	2,393

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

1 REPORTING ENTITY

Synlait Milk Limited (the 'Company') and its subsidiary (together 'the Group') is domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Company is a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act.

Synlait Milk Limited is primarily involved in the manufacture and sale of dairy products.

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

2 BASIS OF PREPARATION

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

The financial statements were authorised for issue by the directors on 21 September 2015.

Basis of Measurement

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

- Financial assets and liabilities (including derivative instruments) at fair value
- Land, buildings, plant and equipment

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(a) Principles of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary. A subsidiary is a controlled entity over which the Group has power, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. Synlait Milk Finance Limited is set up primarily for holding all banking facilities for the Group and related interest rate swaps. Funds are loaned to Synlait Milk Limited and interest is charged at market rates.

(b) Segment reporting

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

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

(c) New Accounting Policy

Investments in subsidiaries, associates and joint ventures

Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest, and has significant influence. Investments in associates are accounted for using the equity method and are measured in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets. Goodwill relating to associates and joint ventures is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

(d) Changes in accounting policies

NZ IFRS 9 – Financial Instruments (2013)

The Group has changed its accounting policy with respect to financial instruments and hedge accounting following the early adoption of NZ IFRS 9 (2013) as described in note 3(t). The application of NZ IFRS 9 and associated accounting policy changes has resulted in additional disclosures but has not had any material impact on the amounts recognised in these financial statements.

(i) Impact on financial assets and financial liabilities

NZ IFRS 9 establishes principles for the classification of financial assets, using a single approach to determine whether a financial asset is classified and measured at amortised cost or fair value.

As a result of the early adoption of NZ IFRS 9, the Group has changed its accounting policy for financial instruments from 1 August 2014. The change did not result in a change in carrying value of any of the financial instruments on transition date.

(ii) Impact on hedge accounting

NZ IFRS 9 changes the qualifying criteria to be able to hedge account. The stringent NZ IAS 39 effectiveness testing thresholds have been replaced with a principles based requirement to demonstrate that there is an economic relationship between the hedged item and hedging instrument. Moreover, the 'hedged ratio' used to form the economic relationship of the hedged item and hedging instrument has to be the same or similar as that resulting from the actual quantities of hedged items and hedging instruments the Group uses for risk management purposes.

Furthermore NZ IFRS 9 changes the treatment of the time value of options, with gains and losses being recognised through other comprehensive income, rather than the income statement under NZ IAS 39. This permits the cost of vanilla options to be treated as a cost of hedging.

The Group has reassessed all of its existing hedging relationships that qualified for hedge accounting under NZ IAS 39 and these have continued to qualify for hedge accounting under NZ IFRS 9.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(b) Revenue recognition

(i) Sales of goods

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

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

(ii) Interest income

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

(c) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised in relation to the revaluation of land. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation group

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

(d) Goods and Services Tax (GST)

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

(e) Leases

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

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

(f) Impairment of non-financial assets

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

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

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

Impairment losses recognised in 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) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and cash held on trust by Tax Management New Zealand Ltd.

(h) Trade and other receivables

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

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

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

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

(i) Inventories

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

(j) Financial Instruments

Classification

The Group classifies its financial assets in three categories: at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The classification of financial assets depends on the business model within which the financial asset is held and its contractual cash flow characteristics.

The Group classifies its financial liabilities in two categories: at amortised cost and at fair value through profit or loss.

(i) Financial instruments at amortised cost

Financial assets are classified as measured at amortised cost if the Group's intention is to hold the financial assets for collecting cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The Group currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable and other receivables as financial assets measured at amortised cost.

Financial liabilities are classified as measured at amortised cost using the effective interest method, with the exception of those classified at fair value.

The Group currently classifies its accounts payable, accrued liabilities (excluding derivatives) and term debt as financial liabilities measured at amortised cost.

(ii) Financial instruments at fair value through other comprehensive income (FVOCI)

The Group has elected to designate certain investments in equity instruments that are not held for trading as FVOCI at initial recognition and to present gains and losses in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

(iii) Financial instruments at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for classification as measured at either amortised cost or FVOCI are classified as FVPL.

Derivative financial instruments that are not in an effective hedge relationship are classified as FVPL.

Recognition and measurement

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not classified at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss component of the statement of comprehensive income.

Where financial assets are subsequently measured at amortised cost, interest revenue, credit losses and foreign exchange gains or losses are recognised in profit or loss. On derecognition, any gain or loss is recognised in profit or loss. Financial liabilities subsequently measured at amortised cost are measured using the effective interest method.

Where investments in equity instruments are designated as FVOCI, fair value gains and losses are recognised in other comprehensive income. Dividends earned from such investments are recognised in profit or loss.

Where financial assets are subsequently measured at FVPL, all gains and losses are recognised in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

Fair value estimation

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

As the Group's financial instruments are not traded in active markets their fair value is determined using valuation techniques. The Group use a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are master netting agreements in place for derivative financial instruments held, however these instruments have not been offset in the balance sheet as they do not currently meet the criteria for offset.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired, with the exception of assets that are fair valued through profit or loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets.

(k) Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date the derivative contact is entered into and are subsequently remeasured to fair value at each reporting date. For derivatives measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognised in earnings immediately, unless the derivative is designated and effective as a hedging instrument. Hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments are designated as cash flow hedges by the Group.

The full fair value of a hedging derivative is classified as a current asset or liability when the remaining term of the hedged item is 12 months or less from balance date, or when cash flows arising from the hedged item will occur within 12 months or less from balance date. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and no cash flows will occur within 12 months of balance date. Trading derivatives are classified as a current asset or liability.

(i) Hedge accounting

The Group designates certain hedging instruments in respect of foreign currency risk and interest rate risk as cash flow hedges. Hedges of risk on firm commitments and highly probably transactions are accounted for as cash flow hedges.

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

(ii) Cash flow hedge

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationships, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for 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.

The Group separates the intrinsic value and time value of vanilla option and collar contracts, designating only the intrinsic value as the hedging instrument. The time value, including any gains or losses, is recognised in other comprehensive income until the hedged transaction occurs and is recognised in profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

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

(l) Property, plant and equipment

Recognition and measurement

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

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

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

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

Revaluations

Land, buildings and plant and equipment are carried at fair value. Any increase in the fair value of land, buildings, plant and equipment is recognised in other comprehensive income and presented in the revaluation reserve in equity unless it offsets a previous decrease in value recognised in the profit or loss, in which case it is recognised in the profit or loss. A decrease in value is recognised in the profit or loss where it exceeds the increase previously recognised in equity.

Fair value estimation

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

Subsequent costs

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

Depreciation

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

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

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

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

- Buildings	10-50 years
- Plant and equipment	3-33 years
- Fixtures and fittings	2-14 years

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

(m) Intangible assets

(i) Patents, trademarks and other rights

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

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of 3 to 10 years.

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

(n) Trade and other payables

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

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

(o) Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

(p) Share capital

Ordinary shares are classified as equity.

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

(q) Earnings per share

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

(r) Borrowing costs

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 August 2015 or later periods but which the Group has not early adopted:

- NZ IFRS 9 (2014) 'Financial Instruments' (effective 1 January 2018). NZ IFRS 9 (2014) consolidates previous issuances of NZ IFRS 9 and introduces a new expected loss impairment model that replaces the incurred loss impairment model in NZ IAS 39. The Group is considering adopting this standard in the 2016 financial year and is currently assessing the impact of adoption.
- NZ IFRS 15, 'Revenue from Contracts with Customers' (effective 1 January 2018). NZ IFRS 15 will be effective from the Group's 2019 financial year. The impact of this standard has not yet been determined.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(t) Standards, amendments, and interpretations effective in 2015

- NZ IFRS 9 (2013) 'Financial Instruments'. The Group has early adopted NZ IFRS 9 (2013) effective from 1 August 2014. This standard replaces NZ IAS 39 Financial Instruments: Recognition and measurement ('NZ IAS 39') and previous versions of NZ IFRS 9. The standard provides revised guidance on the classification and measurement of financial assets and liabilities, adding guidance on general hedge accounting. This standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements. In accordance with the transitional provisions of NZ IFRS 9, the group has not restated prior periods. The adoption of this standard did not have a material impact on the Group's financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Key sources of estimation uncertainty relate to assessment of impairment of inventory, standard costs used for measuring inventory, the industry FGMP, the fair value of land, buildings, and plant and equipment, and the derecognition of financial assets.

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

A key management estimation in determining inventory cost is the Monthly Milk Price which is derived from a forecast milk price for the year. The Monthly Milk Price forms a key component of the product standard cost through the year.

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

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

A key management judgement is the assessment that substantially all the risks and rewards of ownership have been transferred in the derecognition of financial assets as described in note 24(b).

5 UNDERLYING NET PROFIT AFTER TAX

Underlying net profit after tax reflects the underlying performance of the business for the relevant period after excluding from net profit after tax unrealised foreign exchange gains or losses arising from the revaluation of USD denominated inventory financing arrangements that do not qualify for hedge accounting.

The Board does not believe that net profit after tax is reflective of underlying performance where these unrealised gains or losses occur in different periods to the underlying transactions.

The unrealised foreign exchange losses for the period were as follows:

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Mitsui & Co. (NZ) Ltd. inventory finance facility revalued to NZD	(2,326)	-
Total unrealised foreign exchange losses	(2,326)	-

In November 2014 the Company negotiated and contracted a new financing facility with Mitsui & Co. (NZ) Ltd. to fund part of the Company's finished goods inventory. The facility is denominated in USD and is secured against committed USD customer purchase orders. The revaluation of the drawn down facility to NZD at the reporting date results in unrealised foreign exchange gains or losses that must be recognised in profit and loss in accordance with NZ IAS 21. The finished goods inventory will be invoiced in USD in a future reporting period and will convert to a USD debtor and USD trade financing facility which will create a natural hedge relationship.

6 SEGMENT INFORMATION

(a) Description of segments

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

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

Revenues of approximately 40% (2014: 52%) are derived from the top three external customers.

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

	Group	
	Year ended	
	2015	2014
China	10%	30%
Rest of Asia	39%	31%
Middle East and Africa	26%	30%
New Zealand	17%	6%
Rest of World	8%	3%
	100%	100%

In the financial statements for the year ended 31 July 2014 the Group presented proportional sales based on volume. For the year ended 31 July 2015 the Group has presented proportional sales based on revenue and has updated the comparatives accordingly. The Group has also updated the geographical segment grouping for the year ended 31 July 2015, reclassifying the New Zealand and Middle East regions from the Rest of World group.

7 REVENUE

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Dairy products	448,136	600,518
Other sundry income	99	32
Management fees	-	33
	448,235	600,583

8 EXPENSES

	Group	
	Year ended	
	2015	2014
	$'000	$'000
The following items of expenditure are included in cost of sales		
Kiwisaver contributions	325	221
Depreciation and amortisation	12,039	9,406
Employee benefit expense	13,708	9,245
Repairs and maintenance	4,426	2,774
Increase / (decrease) in inventory provision	(6,002)	2,523
The following items of expenditure are included in sales and distribution		
Kiwisaver contributions	131	96
Depreciation and amortisation	1,318	879
Donations	3	14
Employee benefit expense	6,759	3,953
Export freight[1]	8,702	8,565
Rent expense	371	1,676
Repairs and maintenance	783	332
Research and development	352	326
The following items of expenditure are included in administrative and operating expenses		
Kiwisaver contributions	179	183
Depreciation	1,246	1,092
Directors fees	451	440
Employee benefit expense	6,838	7,561
Repairs and maintenance	129	41
Share based payments expense	11	60

Deloitte services included in administrative and operating expenses		
Statutory audit fee	100	105
Half year accounts review	27	22
Taxation advice	95	69
Financial modelling	27	205
Accounting advice and other consulting	148	95
Total	397	496

[1]Export freight costs are recovered from our customers. This recovery is included in the revenue line of the consolidated income statement.

9 FINANCE INCOME AND EXPENSES

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Interest income on bank deposits	305	130
Settlement of ineffective portion of cash flow hedges	6	1,042
Total finance income	311	1,172
Interest and facility fees	(14,120)	(8,768)
Capitalised borrowing cost	4,959	2,252
Total finance costs	(9,161)	(6,516)
Loss on derecognition of financial assets	(37)	-
Net finance costs	(8,887)	(5,344)

10 INCOME TAX

	Group	
	Year ended	
	2015	2014
	$'000	$'000
(a) Income tax expense		
Current tax:		
Current tax on profits for the year	-	(2,618)
Current tax on prior period adjustments	(137)	-
Total current tax	(137)	(2,618)
Deferred tax:		
Temporary differences	(4,464)	(693)
Tax losses utilised	-	(4,298)
Tax losses to carry forward	110	-
Adjustment to prior year tax losses brought forward	-	(84)
Other prior year adjustments	(89)	201
Total deferred tax (note 18)	(4,443)	(4,874)
Income tax (expense) / benefit	(4,580)	(7,492)

10 INCOME TAX (CONTINUED)

	Group	
	Year ended	
	2015	2014
	$'000	$'000
(b) Reconciliation of effective tax rate		
Profit before income tax	15,132	27,095
Income tax using the Group's domestic tax rate – 28%	(4,237)	(7,587)
Other non deductible costs	(136)	(22)
	(4,373)	(7,609)
Adjustment to prior year tax losses brought forward	-	(84)
Other prior year adjustments	(207)	201
	(207)	117
Income tax expense	(4,580)	(7,492)

	Group	
	Year ended	
	2015	2014
	$'000	$'000
(c) Imputation credits		
Imputation credits available directly and indirectly to the shareholders of the parent company	1,416	2,618

(d) Income tax recognised in other comprehensive income

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

	Before tax	Tax (expense)/ benefit	After tax
	$'000	$'000	$'000
31 July 2015			
Revaluation of property, plant and equipment	16,810	(4,542)	12,268
Cash flow hedges	(47,632)	13,268	(34,364)
Other comprehensive income	(30,822)	8,726	(22,096)
31 July 2014			
Cash flow hedges	(373)	104	(269)
Other comprehensive income	(373)	104	(269)

11 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Group	
	2015	2014
	$'000	$'000
Trade receivables	68,380	88,585
Provision for doubtful receivables	(635)	(100)
Net trade receivables	67,745	88,485
Other receivables	396	561
Total receivables	68,141	89,046

The decrease in trade receivables is predominantly due to the first time receivables assignment to ANZ during the reporting period. The impact of lower sales prices as a consequence of lower dairy commodity prices is largely offset by a higher proportion of infant formula sales in July 2015 relative to July 2014.

(a) Impaired receivables

As of 31 July 2015, trade receivables of $2.5m were overdue but not impaired (2014: $9.7m). These relate to a number of independent customers for whom there is no recent history of default. The majority has since been collected but $0.6m remains unpaid which is expected to be collected in the 2016 financial year.

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

	Group	
	2015	2014
	$'000	$'000
0 to 30 days	1,735	7,079
30 to 60 days	80	1,508
Over 60 days	698	1,142
Total trade receivables	2,513	9,729

(b) Allowance for bad and doubtful receivables and anticipated credit notes

The Group have recognised a loss of $79,000 (2014: $100,000) in respect of bad and doubtful trade receivables during the year ended 31 July 2015. The Group has also recorded a provision of $456,000 during the year as an allowance for credit notes to be raised for Bright Dairy and Food Co Ltd, after balance date, in order to resolve a disputed invoice.

(c) Trade and other receivables

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

Receivables denominated in other currencies other than the functional currency comprise NZ$57.8m (2014: $81.2m) of USD denominated trade receivables.

12 CURRENT ASSETS – INVENTORIES

	Group	
	2015	2014
	$'000	$'000
Raw materials at cost	11,542	15,348
Finished goods at cost	47,725	29,422
Finished goods at net realisable value	4,537	26,492
Total inventories	63,804	71,262

The total provision as at reporting date was $3.9m (2014 $9.9m) with $1.4m relating to infant formula. The provision has reduced from July 2014 as a consequence of estimated losses being realised during the financial year.

13 NON-CURRENT ASSETS – OTHER INVESTMENTS

	Group	
	2015	2014
	$'000	$'000
Equity securities	110	70
Investment in associates (note 28)	1,866	-
Total other investments	1,976	70

In December 2014, an additional capital contribution was made by all shareholders of Primary Collaboration New Zealand Limited in proportion to their shareholding, with Synlait Milk Limited contributing $40,000.

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Group	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
Cost	3,047	31,460	186,656	2,409	7,526	231,098
Revaluation	170	1,760	10,272	-	-	12,202
Balance at 1 August 2013	3,217	33,220	196,928	2,409	7,526	243,300
Additions	-	-	-	-	98,126	98,126
Reclassification / transfer	-	27,894	44,893	1,099	(73,886)	-
Disposals	-	-	(287)	(74)	-	(361)
Balance at 31 July 2014	3,217	61,114	241,534	3,434	31,766	341,065
Additions	-	-	-	-	134,822	134,822
Reclassification / transfer	452	13,615	5,680	557	(20,304)	-
Disposals	-	-	(136)	(1)	-	(137)
Revaluation	587	(4,324)	(33,533)	-	-	(37,270)
Balance at 31 July 2015	4,256	70,405	213,545	3,990	146,284	438,480
Accumulated depreciation						
Cost	-	4,244	25,077	1,453	-	30,774
Revaluation	-	270	1,475	-	-	1,745
Balance at 1 August 2013	-	4,514	26,552	1,453	-	32,519
Depreciation	-	1,208	8,266	430	-	9,904
Revaluation depreciation	-	90	509	-	-	599
Disposals	-	-	(70)	(74)	-	(144)
Balance at 31 July 2014	-	5,812	35,257	1,809	-	42,878
Depreciation	-	2,028	10,409	634	-	13,071
Revaluation depreciation	-	(7,840)	(45,636)	-	-	(53,476)
Disposals	-	-	(30)	(1)	-	(31)
Balance at 31 July 2015	-	-	-	2,442	-	2,442
Carrying amounts						
At 31 July 2014	3,217	55,302	206,276	1,625	31,766	298,186
At 31 July 2015	4,256	70,405	213,545	1,548	146,284	436,038

(a) Valuations of land and buildings

Land, buildings, and plant and equipment were independently valued as at 31 July 2015 by Jones Lang LaSalle using either the depreciated replacement cost method (for buildings and plant and equipment) or market based valuation (for land). The policy in respect of revaluations is described in note 3(l). Management uses its judgement to assess the appropriateness of key valuation techniques and inputs for fair value measurement.

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

The valuation for land is also a level 3 valuation under the fair value hierarchy as there are unobservable inputs. While the valuation has been completed by reference to transactions which have been observed in the market, there is variation in the fair value of these transactions and the land transacted is not directly comparable to that of the Group. The fair value determined in the valuation assumes that there is a willing, but not anxious buyer and seller; a reasonable period within which to negotiate the sale, having regard to the nature and situation of the land and the state of the market for land of the same kind; no account is taken of the value of other advantages or benefit additional to market value to the buyer incidental to ownership of the property being valued; and the Group has sufficient resources to negotiate an agreement for the sale of the land. The key sensitivity to the market based valuation is the observable market transactions on which the valuation is based. It is impractical to provide numerical sensitivities for such valuations.

In 2014 the land valuation was classified as level 2. On review of the 2015 valuation report we consider that it fits within level 3.

Land, buildings, and plant and equipment were valued at $288.2m as at 31 July 2015. If the cost model had been used, the carrying value of land, buildings and plant and equipment would have been $3.5m, $65.5m and $193.1m respectively, at reporting date.

(b) Impairment

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

(c) Capital work in progress

Assets under construction includes capital expenditure projects, until they are commissioned and transferred to fixed assets. Capital work in progress of $146.3m at balance date is predominantly constituted of the project to date spend ($132.5m) on the construction of the third dryer.

(d) Capitalised borrowing costs

During the year, the Group has capitalised borrowing costs amounting to $5.0m (2014: $2.3m) on qualifying assets. Interest has been capitalised at the rate in which borrowing has been specifically drawn to fund the qualifying asset as disclosed in note 17.

15 NON-CURRENT ASSETS – INTANGIBLE ASSETS

Group	Computer software	Patents, trademarks and other intangibles	Intangibles in progress	Total
	$'000	$'000	$'000	$'000
Year ended 31 July 2014				
Opening net book amount	2,470	311	1,271	4,052
Additions	-	4	1,504	1,508
Development costs recognised as an asset	683	-	(683)	-
Disposals	-	(97)	-	(97)
Amortisation charge	(754)	(120)	-	(874)
Closing net book value	2,399	98	2,092	4,589
Year ended 31 July 2015				
Opening net book value	2,399	98	2,092	4,589
Additions	-	-	993	993
Development costs recognised as an asset	1,627	90	(1,717)	-
Amortisation charge	(919)	(12)	-	(931)
Closing net book value	3,107	176	1,368	4,651

Intangibles in progress of $1.4m at balance date is predominantly constituted of project to date spend on operational systems development.

16 TRADE AND OTHER PAYABLES

	Group	
	2015	2014
	$'000	$'000
Trade payables	29,961	69,523
Accrued expenses	48,558	45,628
Employee entitlements	1,848	1,579
Total trade and other payables	80,367	116,730

Payables denominated in other currencies other than the functional currency comprise NZ$1.8m (2014: $0.5m) of USD, AUD, EUR and CAD denominated trade payables and accruals.

The large decrease in payables and accruals from July 2014 has been driven by the decreased milk price and proportionately higher advance payments during the financial year.

17 LOANS AND BORROWINGS

	Group	
	2015	2014
	$'000	$'000
Current liabilities		
Working capital facility	25,370	12,500
Trade finance facility	36,181	50,613
Inventory finance facility	24,095	-
	85,646	63,113
Non-current liabilities		
Bank loans	178,274	91,535
Loan facility fees	(353)	(159)
	177,921	91,376

(a) Terms of loans and borrowings

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

The Group facilities include:

- A secured revolving credit facility of $75m that matures on 1 August 2016
- A secured term facility of $135m that matures on 31 July 2017 to fund the construction of Dryer 3
- A secured working capital facility of $70m that matures on 31 October 2015 (Management are currently finalising the level of this facility required during the 2016 financial year at which point this facility will be extended to October 2016)
- An unlimited and unsecured finance facility from Mitsui & Co. (NZ) Ltd. that matures on 31 July 2017
- A USD denominated finance facility secured against inventory from Mitsui & Co. (NZ) Ltd. that matures on 31 July 2017

The Group is subject to capital requirements imposed by its bank through covenants agreed as part of the lending facility arrangements. The Group has met all externally imposed capital requirements for the twelve months ended 31 July 2015 and 31 July 2014.

	Nominal Interest rate %	Financial year of maturity	Carrying amount 2015	Carrying amount 2014
Secured term loan facility (D3) – ANZ / BNZ	4.51%	2017	103,280	16,678
Secured revolving credit facility – ANZ / BNZ	4.48%	2017	74,994	74,857
Secured working capital facility – ANZ / BNZ	4.28%	2016	25,370	12,500
Trade finance facility – Mitsui & Co. (NZ) Ltd.	1.79%	2017	36,181	50,613
Inventory finance facility – Mitsui & Co. (NZ) Ltd.	1.79%	2017	24,095	-

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

18 DEFERRED TAX ASSETS AND LIABILITIES

	Group	
	2015	2014
	$'000	$'000
The balance comprises temporary differences attributable to:		
Assets		
Derivatives	14,085	817
Other items	1,186	3,128
Tax losses carried forward	110	-
Total deferred tax assets	15,381	3,945
Liabilities		
Property, plant and equipment	(28,865)	(20,460)
Other items	(116)	(10)
Total deferred tax liabilities	(28,981)	(20,470)
Total deferred tax	(13,600)	(16,525)

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

	Balance 1 Aug 2014	Recognised in profit or loss	Recognised in other comprehensive income	Prior year adjustment	Balance 31 July 2015
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	(20,460)	(3,898)	(4,542)	35	(28,865)
Derivatives	817	-	13,268	-	14,085
Other items	3,118	(655)	-	(1,393)	1,070
Tax losses carried forward	-	110	-	-	110
Total	(16,525)	(4,443)	8,726	(1,358)	(13,600)

19 SHARE CAPITAL

	2015	2014	2015	2014
	Shares	Shares	$'000	$'000
(a) Share capital				
Ordinary shares				
On issue at beginning of period	146,341,197	146,341,197	172,247	172,548
Share issue costs	-	-	-	(301)
	146,341,197	146,341,197	172,247	172,247

The weighted average number of shares during the year of 146,341,197 (2014: 146,341,197) is used to calculate the Earnings per Share.

(b) Ordinary shares

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

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

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

(c) Capital risk management

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

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

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

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

20 SHARE BASED PAYMENTS

The Group operates an equity settled share based incentive plan for senior management. The plan is designed to enhance the alignment between Shareholders and the management of the company.

(a) IPO Incentive Scheme

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

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

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

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

TSR growth target	Options granted (% of base salary)
20% or more	25.00%
15%	18.75%
12%	6.25%
Less than 12%	-

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

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

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

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

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

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

As some of the prerequisite conditions for this scheme were not satisfied during 2015, some of the options granted have been forfeited as summarised below.

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

	Group	
	Year ended	
	2015	2014
Outstanding 1 August	1,043,139	-
Granted during the year	-	1,564,709
Forfeited during the year	(547,734)	(521,570)
Outstanding 31 July	495,405	1,043,139

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

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

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

(b) Expenses arising from share based payment transactions

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

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Expenses for equity settled share based payment transactions	11	60

21 RESERVES AND RETAINED EARNINGS

(a) Nature and purpose of reserves

(i) Property, plant and equipment revaluation reserve

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

(ii) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments and the cost of cash flow hedging instruments. Cash flow hedging instruments relate to hedged transactions that have not yet occurred.

(iii) Employee benefits reserve

The employee benefits reserve is comprised of the cumulative share based payment expense for share options not yet vested.

(b) Dividends

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

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

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Profit for the year	10,552	19,603
Non cash and non operating items:		
Depreciation and amortisation of noncurrent assets	14,603	11,377
(Gain) / loss on sale of fixed assets	(13)	84
Write off intangibles	-	97
Share of loss from associate	378	-
Non cash share based payments expense	11	60
Interest costs classified as financing cash flow	9,167	5,474
Interest received classified as investing cash flow	(311)	(130)
Loss on derecognition of financial assets	37	-
Deferred tax	5,731	4,874
Gain / (loss) on derivative financial instruments	1,053	(2,249)
Unrealised foreign exchange losses	2,326	-
Movements in working capital:		
(Increase) / decrease in trade receivables	20,739	(29,395)
(Increase) / decrease in other receivables	166	(517)
(Increase) / decrease in prepayments	(1,439)	(216)
(Increase) / decrease in inventories	7,458	(6,237)
(Increase) / decrease in other current assets	7,640	(5,963)
(Decrease) / increase in trade and other payables	(59,241)	59,195
(Decrease) / increase in current tax liabilities	(2,481)	2,618
Net cash inflow from operating activities	16,376	58,675

23 FINANCIAL RISK MANAGEMENT

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on its sales, which are predominantly denominated in US dollars. The Group is also exposed to foreign currency risk on the purchase of raw materials for production and capital equipment purchases from overseas. The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency risk. These instruments include forward exchange contracts, option collars and vanilla options. These instruments enable the Group to mitigate the risk the variable exchange rates present to future cash flows for sales receipts or purchases by fixing or limiting the exchange rate at which these cash receipts or payments are exchanged into NZ dollars.

The Group has a Board approved treasury policy that sets the parameters under which foreign exchange cover is to be taken. This policy requires a decreasing proportion of future cash receipts to have the Group's exposure to foreign exchange movements either fixed or capped. As foreign exchange contracts are entered into based on forecast cash receipts or payments, variability in the expected timing or amounts of future cash flows can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows. Additionally the Group's policy is that the proportion of risk exposure to be hedged changes on a monthly basis in response to the movement in market rates. As at 31 July 15, the Group has hedged 44% of its exposure to foreign exchange risk over the following 2 years.

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

	2015		2014	
	USD	Euro	USD	Euro
	$'000	$'000	$'000	$'000
Statement of financial position exposure before hedging activities				
Trade receivables	38,037	-	67,147	1,393
Trade payables	1,092	-	-	-
Trade finance facility	24,785	-	40,255	1,397
Inventory finance facility	15,919	-	-	-

The Group's exposure to foreign currency in the period ended 31 July 2015 is limited to its sales of dairy products, purchases of raw materials for production and capital equipment purchases. As at the reporting date, the Group had the following foreign exchange derivative instruments outstanding in respect of future sales transactions:

	2015		2014	
	Weighted average exchange rate	Nominal Balance	Weighted average exchange rate	Nominal Balance
		USD $'000		USD $'000
Less than 1 year	0.7084	235,941	0.8485	151,500
1 to 2 years	0.6541	170,200	--	

(ii) Interest rate risk

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

The Group manages its interest rate risk by using interest rate swaps to convert a portion of its floating rate debt to fixed interest rates. As interest rate swaps are entered into based on forecast debt levels, variability in future cash flows and debt levels can lead to ineffective hedging. To mitigate the risk of ineffectiveness the Group's policy is to hedge a decreasing proportion of the risk exposure the further into the future the exposure exists given the increasing uncertainty of cash flows.

The Group has a Board approved treasury policy that sets the parameters to the extent of the cover taken. The policy requires the Group to hedge 30% to 80% of its exposure to interest rate risk that matures within 3 years, 20% to 60% of the risk that matures between 3 and 5 years, and 0% to 40% of the risk that matures between 5 and 10 years.

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

	2015		2014	
	Weighted average interest rate	Nominal Balance	Weighted average interest rate	Nominal Balance
	%	$'000	%	$'000
Less than 1 year	4.60%	129,000	4.85%	68,583
1 to 2 years	4.71%	116,500	4.60%	129,000
2 to 3 years	4.73%	94,000	4.71%	116,500
3 to 4 years	4.76%	71,750	4.73%	94,000
4 to 5 years	4.82%	50,000	4.76%	71,750
5 to 6 years	4.82%	35,000	4.82%	50,000
6 to 7 years	4.85%	25,000	4.82%	35,000
7 to 8 years	4.85%	19,167	4.85%	25,000
8 to 9 years	4.86%	15,000	4.85%	19,167
9 to 10 years	-	-	4.86%	15,000

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

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

(iii) Sensitivity analysis

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

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

	Group			
	2015		2014	
	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000
1% increase in interest rate	-	5,027	-	3,692
1% decrease in interest rate	-	(5,299)	-	(3,902)
5% increase in exchange rate	192	17,793	(1,630)	(5,404)
5% decrease in exchange rate	(212)	(20,508)	1,475	4,675
Total increase/ (decrease)	(20)	(2,987)	(155)	(939)

(b) Credit risk

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

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group also retains a minimal amount of late payment risk in the derecognition of financial assets, as described in note 24(b).

Synlait Milk Limited guarantees all facilities held by Synlait Milk Finance Limited.

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis and uses a variety of facilities to manage liquidity risk. The Group has negotiated banking facilities sufficient to meet its medium term facility requirements and has also contracted two facilities with Mitsui & Co. (NZ) Ltd. to fund part of the Group's working capital: an unlimited and unsecured trade finance facility and a financing facility secured against inventory.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries. The total repayments and associated maturity of financial liabilities as at balance date is reported below.

Group	Less than 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
At 31 July 2015					
Working capital facility	25,377	-	-	-	25,377
Trade and other payables	80,367	-	-	-	80,367
Trade finance facility	36,245	-	-	-	36,245
Inventory finance facility	24,159	-	-	-	24,159
Loans and borrowings	8,009	182,936	-	-	190,945
Derivative financial instruments	32,055	11,317	4,487	2,406	50,265
Total	206,212	194,253	4,487	2,406	407,358
At 31 July 2014					
Working capital facility	12,513	-	-	-	12,513
Trade and other payables	116,730	-	-	-	116,730
Trade finance facility	50,666	-	-	-	50,666
Loans and borrowings	4,449	79,306	17,519	-	101,274
Derivative financial instruments	2,916	88	263	127	3,394
Total	187,274	79,394	17,782	127	284,577

(d) Cash flow hedges

The Group enters into cash flow hedges of highly probable forecast transactions and firm commitments, as described in note 23(a).

Hedging instruments used in cash flow hedges	Nominal amount	Carrying amount		Hedge accounted amounts in cash flow reserve		Total cash flow hedge reserve
At 31 July 2015		Assets	Liabilities	Intrinsic value	Time value	
	'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Foreign exchange risk						
Forward exchange contracts	USD 122,941	2	17,495	17,493	-	17,493
Foreign currency options	USD 5,000	176	-	-	42	42
Foreign currency collars	USD 278,200	-	25,238	14,182	11,056	25,238
Interest rate risk						
Interest rate swaps	NZD139,000	-	7,532	7,532	-	7,532
Total		178	50,265	39,207	11,098	50,305

Upon realisation of the hedged transaction, the intrinsic value and time value of vanilla options at that date will be reclassified to profit or loss. As foreign currency collars are zero cost collars their time value will be nil upon realisation of the hedged transaction and the intrinsic value is reclassified to profit or loss.

Hedging instruments are located within the derivative financial instruments line items in the statement of financial position, classified as assets or liabilities, current or non-current.

Effects of cash flow hedges on statement of comprehensive income At 31 July 2015	Hedging gains / losses recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss
Foreign exchange risk		
Forward exchange contracts	(17,567)	-
Foreign currency options	(574)	-
Foreign currency collars	(23,566)	-
Interest rate risk		
Interest rate swaps	(6,661)	6
Total	(48,368)	6

Hedge ineffectiveness is included within the finance expenses line of the consolidated income statement.

The Group has reclassified $991,000 of net losses from the cash flow hedge reserve to profit and loss upon realisation of hedged transactions during the reporting period. This reclassification is included within the revenue line of the consolidated income statement.

24 FINANCIAL INSTRUMENTS

(a) Financial instruments by category

Financial assets	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total	Original category under NZ IAS 39
	$'000	$'000	$'000	$'000	
Group					
At 31 July 2015					
Cash and cash equivalents	1,529	-	-	1,529	Loans and receivables
Derivative financial instruments	-	-	178	178	Derivatives used for hedging
Trade and other receivables	68,141	-	-	68,141	Loans and receivables
Investments in equity	-	110	-	110	Available for sale financial assets
Total	69,670	110	178	69,958	
At 31 July 2014					
Cash and cash equivalents	2,393	-	-	2,393	Loans and receivables
Derivative financial instruments	-	-	1,674	1,674	Derivatives used for hedging
Trade and other receivables	89,046	-	-	89,046	Loans and receivables
Investments in equity	-	70	-	70	Available for sale financial assets
Total	91,439	70	1,674	93,183	

Financial liabilities	At amortised cost	At fair value through profit or loss	Total	Original category under NZ IAS 39
	$'000	$'000	$'000	
Group				
At 31 July 2015				
Derivative financial instruments	-	50,265	50,265	Derivatives used for hedging
Working capital facility	25,370	-	25,370	Amortised cost
Trade finance facility	36,181	-	36,181	Amortised cost
Inventory finance facility	24,095	-	24,095	Amortised cost
Trade and other payables	80,367	-	80,367	Amortised cost
Borrowings	177,921	-	177,921	Amortised cost
Total	343,934	50,265	394,199	
At 31 July 2014				
Derivative financial instruments	-	3,394	3,394	Derivatives used for hedging
Working capital facility	12,500	-	12,500	Amortised cost
Trade finance facility	50,613	-	50,613	Amortised cost
Inventory finance facility	-	-	-	Amortised cost
Trade and other payables	116,730	-	116,730	Amortised cost
Borrowings	91,376	-	91,376	Amortised cost
Total	271,219	3,394	274,613	

All derivative financial instruments are designated in effective hedge relationships.

Carrying amounts are unchanged as a result of early adoption of NZ IFRS 9. For instruments held at amortised cost, carrying amount is considered a reasonable approximation for fair value.

(b) Derecognised financial assets

The Group has derecognised trade receivables that have been sold to the bank under the terms of a receivables purchase agreement entered into during July 2015. The Group has assessed the terms of the agreement and has determined that substantially all the risks and rewards have been transferred to the bank. Receivables selected for assignment are with customers with strong credit ratings and good payment histories. This minimises the risk (and therefore consequences of late payment or default) as well as resulting in little volatility in the present value of future cash flows in relation to assigned receivables under the various scenarios detailed in the terms of the agreement. An evaluation of external evidence of credit risk has also been performed for each customer.

The Group has assessed its continuing involvement in the assigned receivables and determined that the fair value of continuing involvement is immaterial. The Group reassesses the facility for qualification for derecognition at each reporting date, when the terms of the facility are amended, and assesses each new customer at the initial assignment of a receivable.

If the Group's customers defaulted on all trade receivables that have been derecognised at balance date, the Group would be required to pay a late payment charge of $570 per day for each day that these receivables remain overdue, assuming that market conditions remain unchanged from reporting date. The likelihood that debtors will fall overdue or remain overdue for a long period of time is small, given the strong credit ratings and good payment histories of the customers whose receivables have been selected for assignment.

The loss arising from derecognition of assigned receivables is $37,000 for the period.

(c) Fair value estimation

The methods of determining the fair value of financial instruments are categorised into three different valuation levels, defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

All financial instruments held at fair value are included in level 2 of the valuation hierarchy. As financial instruments are not traded in an active market their fair value is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required to fair value an instrument are observable, financial instruments are all included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument will be included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance date, with the resulting value discounted back to present value
- The fair value of the forward foreign exchange options are valued by projecting the cash flows that will occur and then discounting the cash flows to the valuation date using a zero coupon yield curve. The future cash flows have been determined using an implied forward rate calculated with reference to exchange rate volatilities
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

25 CONTINGENCIES

As at 31 July 2015 the Group had no contingent liabilities or assets (2014: $nil).

26 COMMITMENTS

(a) Capital commitments

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

	Group	
	2015	2014
	$'000	$'000
Dryer 3	3,815	78,322
Administration and laboratory building	2,472	11,946
Transport yard	-	775
Other	-	266
Total	6,287	91,309

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

(b) Operating lease commitments – group as lessee

	Group	
	2015	2014
	$'000	$'000
Less than one year	610	69
Between one and five years	306	120
Total	916	189

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

27 RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity is Bright Dairy Holding Limited and the ultimate parent is Bright Dairy and Food Limited which is domiciled in the Peoples Republic of China. Bright Dairy Holding Limited hold 39.12% of the shares issued by the Company (2014: 39.12%)

(b) Other related entities

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

In January 2015, the Group acquired 25% of the shares of New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the "Akara" and "Akarola" infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited.

Investments in subsidiaries and associates are set out in note 28.

(c) Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other benefits paid or due to directors and executive officers as at 31 July 2015. The total short term benefits paid to the key management and personnel is set out below.

	2015	2014
	$'000	$'000
Short-term benefits	2,859	3,538
Share based payments expense (note 20)	7	34

(d) Other transactions with key management personnel or entities related to them

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

(i) Loans to directors

There were no loans to directors issued during the period ended 31 July 2015 (2014: $nil).

(ii) Other transactions and balances

Directors of the Company control 3.7% of the voting shares of the company at balance date (2014: 3.8%)

(e) Transactions with other related parties

	Group	
	Year ended	
	2015	2014
	$'000	$'000
Purchase of goods and services		
Bright Dairy and Food Co Ltd – Directors fees	99	161
Sale of goods and services		
Bright Dairy and Food Co Ltd – Sale of milk powder products	7,199	22,210
Bright Dairy and Food Co Ltd – Reimbursement of costs	(70)	(64)
Sichuan New Hope Nutritional Foods Co. Ltd – Sale of milk powder products	10,761	-

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

(f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

	Group	
	2015	2014
	$'000	$'000
Current receivables (sales of goods and services)		
Bright Dairy and Food Co Ltd – Sale of milk powder products	4,185	1,336
Bright Dairy and Food Co Ltd – Reimbursement of costs	(88)	(64)
Sichuan New Hope Nutritionals Ltd – Sale of milk powder products	1,175	-

28 INVESTMENTS IN OTHER ENTITIES

The Company held interests in the following entities at the end of the reporting period:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2015	2014
			%	%
Synlait Milk Finance Limited (Subsidiary)	New Zealand	Ordinary	100	100
Sichuan New Hope Nutritional Foods Co. Ltd (Associate)	China	Ordinary	25	-

Subsidiaries

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

The consolidated financial statements incorporate the assets, liabilities and results of this subsidiary in accordance with the accounting policy described in note 2(a).

Associates

In January 2015, the Group acquired 25% of the shares of New Hope Nutritionals, an infant formula company registered in China. This company owns and markets the "Akara" and "Akarola" infant formula brands in the Chinese market, which are exclusively manufactured by Synlait Milk Limited.

The investment is not individually significant to the Group. The Group's share of this equity accounted investment is as follows:

	2015	2014
	$'000	$'000
Loss from continuing operations	(378)	-
Other comprehensive income	-	-
Total comprehensive income	(378)	-

The carrying value of the investment in New Hope Nutritionals was $1.9m at balance date (2014: $nil):

	2015
	$'000
Opening balance	-
Investment cost	2,244
Share of losses	(378)
Carrying value of investment	1,866

As New Hope Nutritionals does not prepare NZ IFRS financial statements, the following summary information for New Hope Nutritionals has been prepared based on the most recent management financial statements presented to the Group:

	2015
	$'000
Summary income statement for New Hope Nutritionals	
Revenue	3,943
Net loss after tax	(2,486)
Summary statement of financial position for New Hope Nutritionals	
Total current assets	17,956
Total non-current assets	1,287
Total current liabilities	(17,826)
Total non-current liabilities	-
Net assets of New Hope Nutritionals	1,417

29 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Synlait Milk Limited and its subsidiaries ('the Group') on pages 59 to 98, which comprise the consolidated statement of financial position as at 31 July 2015, and the consolidated income statement, 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.

This report is made solely to the company's shareholders, as a body. 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 CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements.

AUDITOR'S REPORT CONTINUED

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

Other than in our capacity as auditor and the provision of taxation advice, financial modelling services and accounting advice and other consulting services, we have no relationship with or interests in Synlait Milk Limited or its subsidiary.

OPINION

In our opinion, the consolidated financial statements on pages 59 to 98 present fairly, in all material respects, the financial position of Synlait Milk Limited and its subsidiary as at 31 July 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand.

Deloitte

Chartered Accountants

21 September 2015

Christchurch, New Zealand

This audit report relates to the consolidated financial statements of Synlait Milk Limited for the year ended 31 July 2015 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 consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated 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 consolidated financial statements and related audit report dated 21 September 2015 to confirm the information included in the audited consolidated 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.


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STATUTORY INFORMATION

STATUTORY INFORMATION

STOCK EXCHANGE LISTING

Our shares are listed on the Main Board operated by NZX Limited (NZX).

SHARES ON ISSUE

As at 31 July 2015:

Register	Sub-register	Current Holders	Zero Holders	Units
New Zealand	FASTER	2,615	1,806	146,341,197
	Class Total	2,615	1,806	146,341,197

Our issued share capital has not changed since we listed on 23 July 2013. On 31 July 2014 we had 2,884 current holders.

TOP 20 SHAREHOLDERS

Our top 20 shareholders as at 31 July 2015 are as follows:

Rank	Name	Units at 31 July 2015	% of Units
1.	Bright Dairy Holding Limited	57,247,647	39.12
2.	FNZ Custodians Limited	16,713,244	11.42
3.	Mitsui & Co Limited	7,373,331	5.04
4.	John Penno	5,423,817	3.71
5.	Mitsui & Co.(Australia) Limited	4,915,556	3.36
6.	Ben McFarlane Dingle	4,543,666	3.10
7.	Munchkin Inc.	4,452,883	3.04
8.	HSBC Nominees (New Zealand) Limited – NZCSD	3,839,498	2.62
9.	FNZ Custodians Limited	3,593,702	2.46
10.	Citibank Nominees (New Zealand) Limited – NZCSD	2,509,550	1.71
11.	National Nominees (New Zealand) Limited – NZCSD	1,494,113	1.02
12.	Juliet Maclean	1,298,212	0.89
13.	New Zealand Superannuation Fund Nominees Limited -NZCSD	1,202,156	0.82
14.	Custodial Services Limited	1,100,143	0.75
15.	Paul Leslie Lancaster + Bronwyn Anne Lancaster	1,098,723	0.75
16.	BNP Paribas Nominees (NZ) Limited – NZCSD	906,619	0.62
17.	Horo Holdings Limited	902,292	0.62
18.	Therese Roche	900,000	0.62
19.	Accident Compensation Corporation – NZCSD	790,000	0.54
20.	BNP Paribas Nominees (NZ) Limited – NZCSD	781,605	0.53
Totals: Top 20 holders of Ordinary Shares		121,086,757	82.74
Total Remaining Holders Balance		25,254,440	17.26

STATUTORY INFORMATION CONTINUED

SUBSTANTIAL PRODUCT HOLDERS

As required under section 293 of the Financial Markets Conduct Act 2013, the Substantial Product Holders of the Company as disclosed under section 280(1)(b) of that Act as at 31 July 2015 are as follows:

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

As at 31 July 2015, there were 146,341,197 fully paid ordinary shares on issue.

DISTRIBUTION OF SHAREHOLDERS

As at 31 July 2015, our shareholding is distributed as follows:

Range	Total holders	Units	% of Issued Capital
1 – 99	4	261	0.00
100 – 199	27	3,422	0.00
200 – 499	103	33,088	0.02
500 – 999	188	127,229	0.09
1,000 – 1,999	419	529,485	0.36
2,000 – 4,999	999	2,760,617	1.89
5,000 – 9,999	470	2,977,049	2.03
10,000 – 49,999	336	6,168,662	4.22
50,000 – 99,999	19	1,177,084	0.80
100,000 – 499,999	27	5,592,623	3.82
500,000 – 999,999	11	7,312,680	5.00
1,000,000 – 999,999,999	12	119,658,997	81.77
Rounding Total	2,615	146,341,197	100.00

VOTING RIGHTS

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

More detail on voting can be found in our Constitution on our website (www.synlait.com/investors/corporate-governance/).

TRADING STATISTICS

Synlait Milk Limited listed on NZX on the 23 July 2013 at an initial share price of $2.20.

The trading range for the period 1 August 2014 to 31 July 2015 are as follows:

	2014	2015
Minimum:	$2.60	$2.39 (29 July 2015)
Maximum:	$4.20	$3.73 (9 October 2015)
Range:	$2.60 – $4.20	$2.39 – $3.73
Total Shares Traded:	34,131,443	27,861,688

STATUTORY INFORMATION CONTINUED

DIVIDEND POLICY

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

– Current and forecasted earnings
– Internal capital requirements
– Availability of tax imputation credit
– Synlait's debt / equity position

Any dividend can only be declared by the Board if the requirements of the Companies Act 1993 are also satisfied. The Board has determined no dividend will be payable in the period ending 31 July 2015.

NZX WAIVERS

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

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

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors (and past Directors) for services to the Company and the Subsidiary* for the year ended 31 July 2015 were as follows (including comparative figures for 2014):

Director	Class	Position	Retired / Appointed	2015 – Total Remuneration[2]	2014 – Total Remuneration
Graeme Milne	Independent	Chairman		100,333	96,500
Bill Roest	Independent	Audit and Risk Committee Chair	Retired & Reappointed	62,000	60,000
Sam Knowles	Independent	Director		56,667	55,000
John Penno[1]	Board Appointed	Managing Director		804,308	871,861[3]
Hon. Ruth Richardson	Bright Appointed	Remuneration and Governance Chair		62,000	60,000
Li Ke	Bright Appointed	Director		56,667	55,000
Yang Suhang	Bright Appointed	Director		56,667	55,000
Dong Zongbo	Bright Appointed	Director		56,667	55,000

[1] Note: As Managing Director, John Penno does not receive Director's Fees. His remuneration received in the year to 31 July 2015 listed above constitutes payment for his position as Managing Director and Chief Executive Officer.

[2] Note: An increase in Director Fees was approved at the AGM on 2 December 2014 effective from 1 April 2015, so these reflect the 4 months until balance date. Full year Director Fees at the new rates are as follows: Chairman $108,000; Chair of Committee $66,000 and Director $60,000.

[3] Note that in FY14 we incorrectly stated the Managing Director's total remuneration at $661,000, as we omitted a bonus that was paid during the relevant period. The correct figure for 2014 is now shown in the table, along with the figure for FY15.

STATUTORY INFORMATION CONTINUED

*The Directors do not receive any additional remuneration as Directors of the Subsidiary (Synlait Milk Finance Limited).

DIRECTORS' INTERESTS

In addition to the disclosures made elsewhere in this Annual Report, the Directors have disclosed under section 140(2) of the Companies Act 1993 the following interests in the Interests Register of the Company and the Subsidiary (Synlait Milk Finance Limited) as at 31 July 2015:

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

Deed of Indemnity and Access from Synlait Milk Limited

Bill Roest

Director of Fisher & Paykel Appliances Ltd

Director of Housing Foundation Ltd

Trustee of New Zealand Housing Foundation

Trustee of WJ & IJ Family Trust

Director of Metro Performance Glass Ltd

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

Shareholder in Synlait Milk Limited

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Li Ke

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

Member of Executive Committee of Tnuva Food Industries, Agricultural Co-Operative Association in Israel Ltd

Member of Executive Committee of Tnuva Central Co-Operative for the Marketing of Agricultural Products in Israel Ltd

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Dong Zongbo

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

Yang Sihang

Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited

Member of Executive Committee of Tnuva Food Industries, Agricultural Co-Operative Association in Israel Ltd

Member of Executive Committee of Tnuva Central Co-Operative for the Marketing of Agricultural Products in Israel Ltd

Receipt of Directors' Fees from Synlait Milk Limited at approved rate

Insurance cover arranged by Synlait Milk Limited

Deed of Indemnity and Access from Synlait Milk Limited

John Penno

Trustee of John Penno Trust

Shareholder in Purata Limited

Director of Purata Limited

Managing Director of Synlait Milk Limited

Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Director of the Lincoln Hub
Director of Sichuan New Hope Nutritional Foods Co., Ltd
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited
Sam Knowles
Director of Trustpower Ltd
Director of Rangatira Ltd
Chairman of Umajin Ltd
Chairman of Partners Life Ltd
Chairman of OnBrand Ltd
Chairman of Adminis Ltd
Director of Magritek Ltd
Director of SLI Systems Ltd
Trustee of Te Omanga Hospice
Trustee of United World College NZ
Director of Angel HQ Inc
Director of Com Investments Ltd
Director of Growthcom Ltd
Director of Habourside Rentals Ltd
Trustee of Com Trust and Ian Samuel Knowles Children's Trust
Director of Synlait Milk Limited
Director of Synlait Milk Finance Limited
Shareholder in Synlait Milk Limited
Receipt of Directors' Fees from Synlait Milk Limited at approved rate
Insurance cover arranged by Synlait Milk Limited
Deed of Indemnity and Access from Synlait Milk Limited

DIRECTORS' SHAREHOLDING IN SYNLAIT

The Directors' respective shareholding in Synlait as at 31 July 2015 is as follows, with comparative figures for 2014:

	2015	2014
	Directly Held	Directly Held
John Penno	5,423,817	5,423,817
Graeme Milne	59,526	59,526
Hon. Ruth Richardson	46,000	46,000
Sam Knowles	45,000	45,000
Bill Roest	22,750	22,750

STATUTORY INFORMATION CONTINUED

SUBSIDIARY COMPANY DIRECTORS

The following Companies were subsidiaries of Synlait Milk Limited as at 31 July 2015.

1. Synlait Milk Finance Limited

Directors: John Penno, Graeme Milne, Willem Roest, Sam Knowles, Hon. Ruth Richardson, Li Ke, Dong Zongbo, Yang Sihang. This remains unchanged since 2014.

DIVERSITY

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

In accordance with NZX requirements, our reported gender breakdown at Senior Leadership Team and Board level as at 31 July 2015 is:

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

Our reported gender breakdown as at 31 July 2014 was the same:

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

In addition, we have the following alternative measures of diversity which may be of interest to investors. As at 31 July 2015:

Ethnicity: Based on the place of birth

	New Zealand	Asia	Other
Board	4	3	1
Senior Leadership Team	3	-	4

Domicile: Based on the place of current residence

	New Zealand	Asia	Other
Board	5	3	-
Senior Leadership Team	7	-	-

Languages spoken

	English only	Two languages	Three or more languages
Board	3	4	-
Senior Leadership Team	5	2	-

Highest qualifications held

	Bachelor degree	Post-graduate degree
Board	2	6
Senior Leadership Team	6	1

Years of relevant work experience

	Total	Average per member
Board	212	26.5
Senior Leadership Team	160	22.9

EMPLOYEE REMUNERATION

During the year ended 31 July 2015 the following employees and former employees received individual remuneration over $100,000 (with comparative figures for 2014) for Synlait Milk Limited. Note that its Subsidiary (Synlait Milk Finance Limited) has no employees of its own.

Remuneration range	2015	2014
	Number of employees	Number of employees
$100,000 – $110,000	7	7
$110,000 – $120,000	5	6
$120,000 – $130,000	7	3
$130,000 – $140,000	5	9
$140,000 – $150,000	4	3
$150,000 – $160,000	3	2
$160,000 – $170,000	4	4
$170,000 – $180,000	3	2
$180,000 – $190,000	0	2
$190,000 – $200,000	1	0
$200,000 – $210,000	0	0
$210,000 – $220,000	0	1
$220,000 – $230,000	1	1
$230,000 – $240,000	1	0
$240,000 – $250,000	0	1
$250,000 – $260,000	0	0
$260,000 – $270,000	1	0
$270,000 – $280,000	0	0
$280,000 – $290,000	1	0
$290,000 – $300,000	0	0
$300,000 – $310,000	1	2
$310,000 – $320,000	0	0
$320,000 – $330,000	0	0
$330,000 – $340,000	1	0
$340,000 – $350,000	1	0
$350,000 – $360,000	0	0
$360,000 – $370,000	0	1
$370,000 – $380,000	1	1

One employee was between $800,000-$810,000 in 2015; and one employee was between $870,000-$880,000 in 2014.

STATUTORY INFORMATION CONTINUED

DONATIONS

For the year ended 31 July 2015 we donated $3,000 to charitable and community organisations.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

CURRENCY

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

CREDIT RATING

We do not have a credit rating.

ANNUAL SHAREHOLDER MEETING

Our annual shareholders meeting will be held on 8 December 2015 at our plant at 1028 Heslerton Road, RD13, Rakaia 7783, unless otherwise notified.

We will confirm the details for the meeting by notice to all our shareholders nearer to that date.

ANNUAL REPORT

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

We will email our Annual Report to those shareholders who have opted for e-communication with us and our share registry. We prefer to communicate with our shareholders by email without using up valuable printing resources and postage costs, but any shareholder who does request a hard copy of our Annual Report will be sent one in the regular post.

FURTHER SHAREHOLDER INFORMATION ONLINE

This Annual Report, all our core governance documents (our Constitution, most of our key Policies and all relevant Charters), our Investor Relations policies and plan, and all our Announcements can be viewed on our website: (www.synlait.com/investors/corporate-governance).

DIRECTORY

REGISTERED OFFICE

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

BOARD OF DIRECTORS

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

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

Ian Samuel (Sam) Knowles – Independent Director

John William Penno (Managing Director) – Board Appointed Director

Li Ke – Bright Dairy Director

Dong Zongbo – Bright Dairy Director

Yang Sihang – Bright Dairy Director

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

SENIOR LEADERSHIP

John Penno – Chief Executive Officer and Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Supply Chain

Natalie Lombe – General Manager Culture, Capability and Strategy

Mike Lee – General Manager Sales

Neil Betteridge – General Manager Manufacturing

Michael Stein – General Manager Quality and Technical Services

AUDITOR

Deloitte
151 Cambridge Terrace
Christchurch 8013
New Zealand

LAWYERS

Minter Ellison Rudd Watts
Lumley Centre
88 Shortland St
Auckland 1010

Duncan Cotterill
Duncan Cotterill Plaza
148 Victoria Street
Christchurch 8013

BANKERS

ANZ Bank New Zealand Limited
The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited
Goldman Sachs New Zealand Limited

SHARE REGISTRAR

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

MANAGING YOUR SHAREHOLDING ONLINE

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

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

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

OTHER INFORMATION

Please visit us at our website www.synlait.com

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