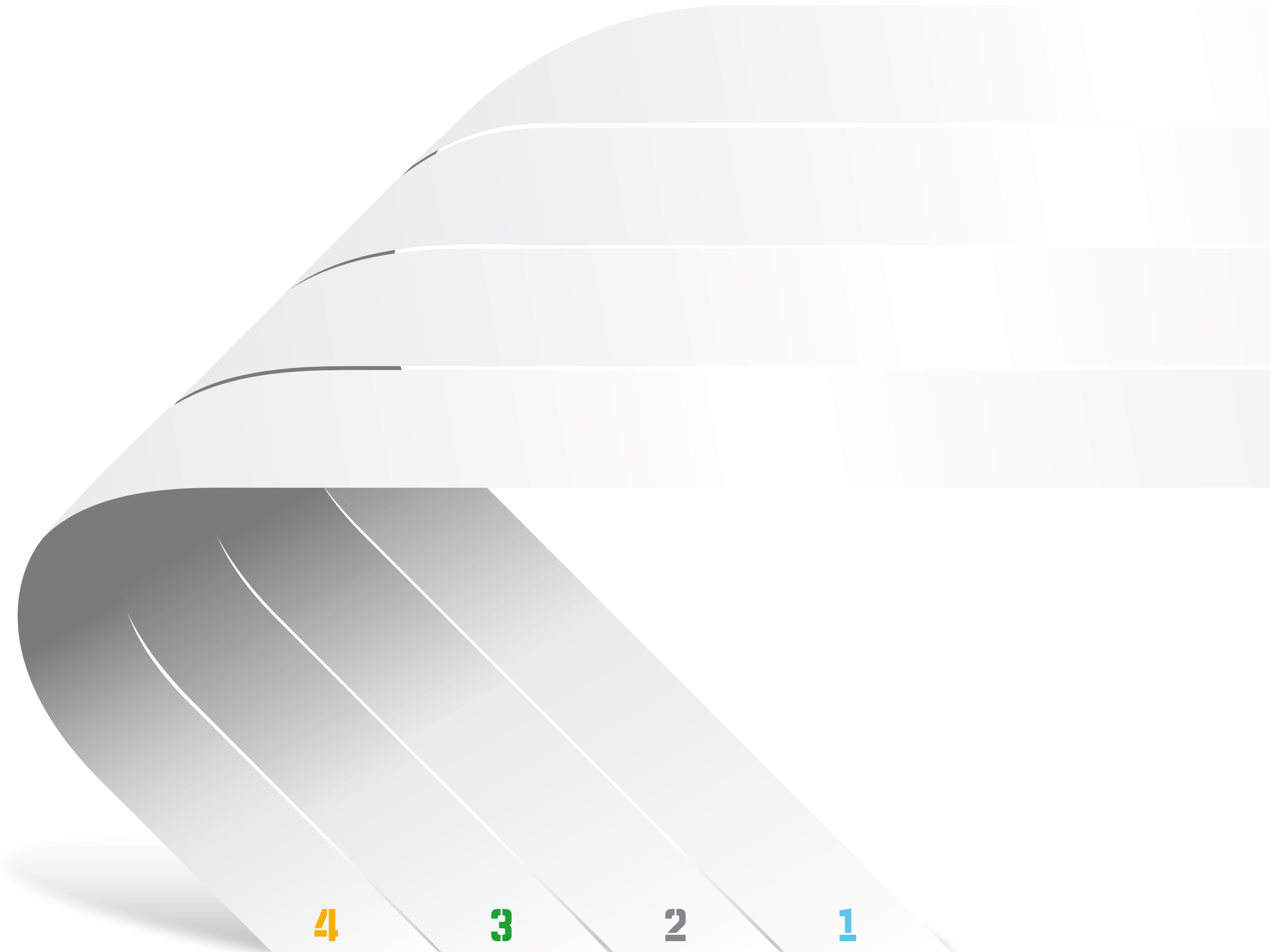
synlait™
making more from milk



ON

Synlait Milk Limited Interim Report 2014

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IT IS OUR CLEAR VISION FOR THE FUTURE THAT KEEPS US ON TRACK.

1 LEADERSHIP UPDATE

Graeme Milne
CHAIRMAN

John Penno
MANAGING DIRECTOR

The first six months of FY2014 has seen us build on our established milk powder and cream products business.

A favourable product mix and an increasing proportion of product sold into value-added applications will see us outperform our initial public offer projections in FY2014.

Our recently established nutritional powders business had lower than expected infant formula sales, mainly caused by New Zealand's precautionary recall of WPC80 and significant Chinese regulatory changes. It is now clear that we will miss our infant formula volume targets for this financial year, and we have also needed to take up some provisions of stock manufactured for Chinese companies who have withdrawn from the market.

However, we have made encouraging progress with our target first tier multinational infant formula customers. We expect to be supplying infant formula ingredients and finished products to four of our six targeted customers in FY2015; expected to account for as much as 30 percent of our total production next season. Total sales to these companies next season are expected to be 70 percent of production.

We have contracted all additional milk supply required to achieve our FY2015 production targets.

Engagement with targeted companies and strong interest in milk supply from farmers has resulted in increasing the scope of some of our growth initiatives and has brought forward some investments. This will enable greater manufacturing scale in the short term, and prepare us for further expansion in the medium term.

We are continuing to invest heavily in buildings, plant, equipment and operating systems. In addition, we have a strong emphasis on building human capability, to deliver on the growth opportunities we see for the business.

Net profit after tax was $12.1 million for the six months ended 31 January 2014, a 79 percent increase, on the past years $6.8 million. This result is primarily due to milk prices in New Zealand reflecting low casein and cheese returns.

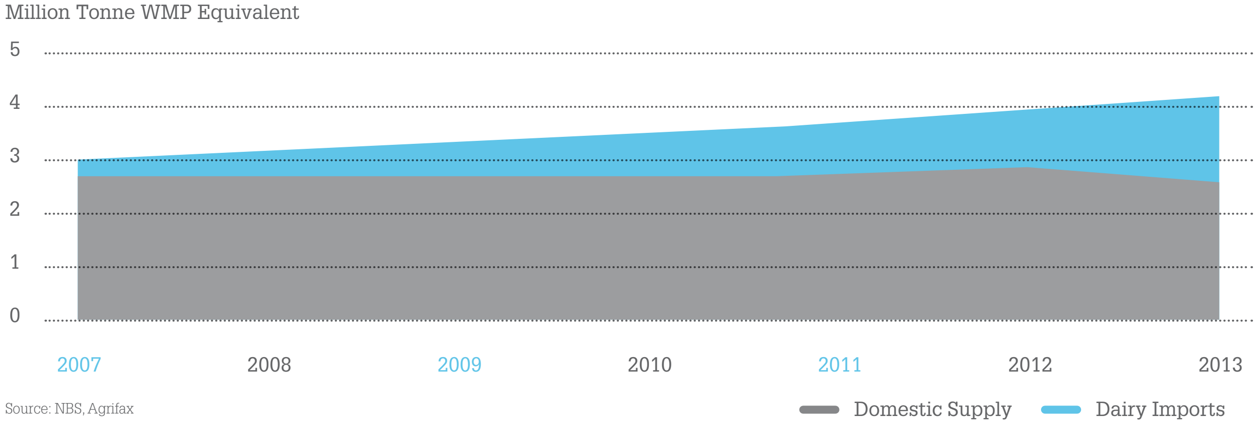
While our full year forecast before tax has benefited by an estimated $31.0 million from our favourable product mix this season, this has been negatively impacted by lower infant formula and nutritional sales than forecast has resulted in an estimated lost margin of $6.8 million, combined with conservative provisioning against infant formula and nutritional inventories of $5.8 million and an estimated negative foreign exchange impact of $3.6 million.

This has resulted in the forecast FY2014 net profit after tax to be revised from $30.0 million to $35.0 million to a range of $25.0 million to $30.0 million, but still ahead of the prospectus forecast of $19.8 million.

MAXIMISING PRODUCT MIX RETURNS

Over the last year international dairy markets have experienced what is probably the longest period of stable high pricing in history. This will result in a record farm gate milk price for this season.

The Growth of Milk Powder Imports to China



Source: NBS, Agrifax

However, the last year has also seen unprecedented price differentials between the different manufactured dairy products, driven primarily by the increase in whole milk powder demand from China. Imported whole milk powder fills the widening gap between local milk production, and the increasing demand for manufactured consumer dairy products such as UHT liquid milks, yoghurt and infant formula in that market.

This has resulted in long periods of time when whole milk powder has outperformed skim milk powder and cream products, and substantially out performed cheese and casein that are not part the demand profile of China.

The difference between local milk supply and consumer demand in China will continue to drive growth in import volumes.

This is likely to continue to hold prices at relatively high levels and support seasonal pricing differentials until the increase in milk powder manufacturing capacity exceeds the demand for additional product.

For this very reason, all of our processing capacity is in milk powder products.

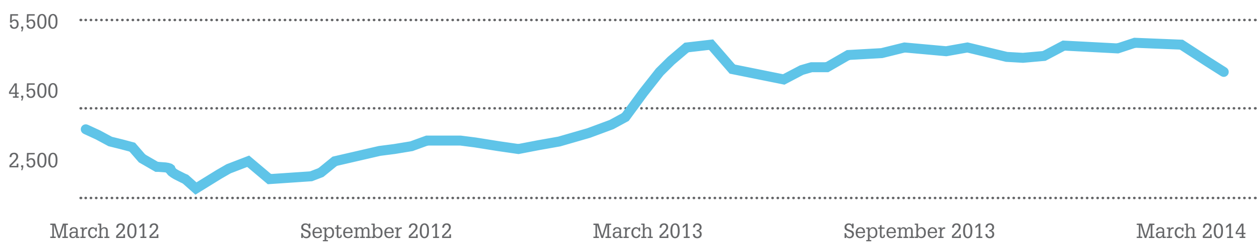
However, this does not restrict our ability to maximise revenue through optimising product mix. Within our milk powders we have the ability to manufacture whole or skim milk powders and anhydrous milk fat.

To continue to improve our returns with product mix we are executing three projects.

1. A third large scale infant formula spray dryer. Significantly lifting our peak milk processing capacity and providing greater flexibility in our choice of milk powder manufacture.
2. A butter manufacturing plant. To optimise cream returns as pricing of butter and anhydrous milk fat move relative to each other.
3. A new planning tool. Enabling optimised sales and manufacturing programs to ensure maximised returns.

Optimising our product mix is core to our profitability and we expect this to continue as we develop our value-added milk powder business focused on the nutritional and infant formula milk powder market.

Dairy Trading Platform - Weighted Average Price US$/MT



ADDING-VALUE TO THE PRODUCT MIX

Six multinational companies account for approximately 60 percent of the global infant formula market. From the outset, we believed that we would be able to establish relationships with these first tier companies, and in time we hope to have them all on our customer list.

To develop relationships with these companies we have focused on manufacturing the highest standard skim and whole milk powders for blending into infant formula products. This has allowed us to develop our business relationship with them while supplying significant volumes of premium priced milk powders. More importantly, it starts the journey towards the manufacture of more sophisticated ingredient and finished infant formula products with each of them.

Over the past six months we have moved from manufacturing for two, to manufacturing for four of our six target first tier customers.

This allows us to create price premiums for skim and whole milk powders and provides us with confidence that we will achieve our long term volume and margin targets in the nutritional powders category.

We have become increasingly focused on manufacturing larger volumes for fewer customers, and we anticipate our first tier multinational customers will account for 70 percent of our business in the near future. The nature of these customers and the volumes they require has reinforced our strategy on continuing to drive manufacturing volume growth.

We have confidence in our ability to attract new milk supply as our Dunsandel headquarters and manufacturing site grows. We have secured 20 new suppliers who are expected to supply over 6.0 million kilograms of milk solids in FY2015 which will fully replace our ending Oceania contracts. This milk has been recruited closer to the factory and will help us maintain relatively low raw milk collection costs.

Our Lead With Pride™ initiative has over 30 supplying farms working towards becoming ISO 65 certified. This has become central to our business plan. It is seen as an important innovation by our customers and it is helping us recruit new milk suppliers.

The faster than anticipated development of our target customer base, and growing support from local dairy farmers wanting to supply raw milk, has led to us expanding the scope of some of our key growth initiatives.

Last year we announced that we would be expanding the scale of the drystore build, to now account for future products manufactured from our pending third dryer.

Our third dryer will be larger than originally planned in order to meet customer demand. The infant formula capable spray dryer will have 25 percent greater capacity than was anticipated at the time of the initial public offering.

The Board of Directors has committed to $6.0 million additional expenditure to prepare the site for an eventual fourth large scale spray dryer on the same site as the dryer three development.

The combination of committing to both a larger dryer and some expenditure in preparation for the next dryer has meant that the final budget for dryer three is $135.0 million.

DEVELOPING OUR INFANT FORMULA BUSINESS

Sales of infant formula in China flipped from being 70 percent local production to 70 percent imported product following the melamine crisis of 2008.

This demand drove the development of small scale, low cost infant formula manufacturers and the importation of retail product purchased from other markets, resulting in the proliferation of infant formula brands in the Chinese market.

With the New Zealand and China free trade agreement in place, and New Zealand's strong dairy reputation, much of this new brand activity occurred from New Zealand. By early 2014 there were over 200 brands of infant formula registered with the Ministry for Primary Industries for export to China.

Recently, Chinese authorities have been developing new policies to regulate the market. This will mean fewer brands, manufactured by companies with world class facilities and strong supply chain integrity. In our view, the policy is also designed to favour Chinese manufacturers.

In China, regulations have been implemented to ensure all manufacturers have the key components for infant formula manufacture on a single site. Under these regulations this is deemed to include; committed milk supply, wet blending and spray drying, dry blending and consumer packaging, supported by appropriate quality, traceability and analytical capability.

It is our understanding that over time these same requirements will be imposed on international manufacturers exporting product to China. This will result in a reconfiguration of the multinationals' businesses as they realign their processing capacity to ensure that they have the approved supply chain structure for the Chinese market.

We believe that this is partly responsible for the increased interest we are receiving from multinationals as they look to use contract manufacture to replace product they now need to send to China.

Many infant formula customers without fully integrated manufacturing facilities are exiting the market. Some of these had been purchasing from us base infant formula milk powders for finishing in the market, including some important Chinese customers we had been developing.

China will remain an important market to us due to growing consumer demand; however the policy changes have proved more disruptive than we had been expecting. For this reason we now forecast that our infant formula volumes this year will be similar to those achieved last year.

With the expected reduction in brands in the Chinese market due to the regulatory changes we expect surviving brands to perform well.

We have seen sound progress with our strategy of establishing partnerships with strong counterparts to produce branded infant formula for the Chinese market. With our supply chain integrity and the nature of the companies we are working with, we expect these products to perform well in the coming years.

We have continued to work with Bright Dairy to produce and grow the market share of Pure Canterbury™ infant formula. Bright has placed an enhanced focus on this product.

After a two year development program the akara™ range of infant formula products was launched in January this year by Sichuan New Hope Nutritional Foods, a subsidiary of the New Hope Dairy in China. We are very pleased to be working with New Hope, the fourth largest dairy company in China and part of the New Hope Group based in Chengdu, South Western China.

We are also pleased to have begun production of the a2 Platinum™ range of infant formula products for A2 Infant Nutrition, a subsidiary for A2 Corporation. This product is now available in New Zealand, Australia and China. a2 Platinum™ has unique selling proposition based on milk only containing A2 type casein,which is more comparable to the predominant casein in human breast milk than A1/other bovine caseins.

ONGOING COMPANY DEVELOPMENT

The magnitude of the challenge and the opportunity that lies in front of the Company has become increasingly clear as we have witnessed the impact of New Zealand's precautionary recall of WPC80, the rapid development of our relationships with our target first tier customers and the changes within the Chinese market. Earlier in this report we have pointed to the need to continue to build scale to take advantage of these opportunities.

More important than scale, is working to position ourselves as technical leaders. Our knowledge of our products, technical advances in product performance and quality outcomes must be second to none.

To this end, we have continued to invest in people, processes, buildings and equipment to build technical capability ahead of our market development. This has resulted in building the team faster than anticipated and significantly expanding the scope of the laboratory and new product development facility that we had proposed.

We are committed to having everyone on the single site as long as possible to ensure that knowledge is effectively built, shared and retained. It is inevitable that in time we will look to establish multiple sites to meet customer demand for our products. As this occurs, Dunsandel will remain our head office, centre of excellence in quality management, product development, process innovation and product testing.

This thinking has changed the scope for the new office, laboratory and technical development facility. We are confident that this additional investment will be well rewarded by reduced costs from external laboratory testing and faster engagement with our target customers, as we are able to meet their expectations and accelerate the rate of improvement of our production processes. It also provides scope for future expansions in staff numbers and product testing volume as the business grows.

Overall we are pleased with the development of the business. It should be remembered that we are a young business, quickly growing in what is a very dynamic market. We are committed to continuing to adapt to the changing market conditions and learn quickly to grow effectively.

While the slower than expected development of the infant formula business is disappointing, our higher than prospective financial information forecast earnings, strong engagement with our target multinational customers and strategic positioning continues to reinforce the confidence we have in our future.

Thank you to our shareholders, milk suppliers and staff for your ongoing support.

Kind regards

Graeme Milne, Chairman & John Penno, Managing Director

2 GROWTH INITIATIVES

In the initial public offering prospectus we outlined a series of growth initiatives that we had planned to undertake to expand our capacity and product offerings. We are pleased to update you on the status of these projects below.

1. Blending and Consumer Packaging

Update: The project commenced on schedule in August 2013 with construction starting in October 2013. The commission date has moved forward to June 2014, from the originally planned August 2014.

Current Status:	Project now 65 percent complete
Expected Capacity:	17,500 metric tonnes per annum
Expected Total Cost:	$28.3 million (original budget was $27.5 million)
Project Start Date:	August 2013
Expected Commissioning Date:	June 2014 (original date August 2014)

2. 22,500m² Drystore

Update: Due to build and economic efficiencies, the dryer three drystore was included in this project bringing the additional storage capacity onsite to 22,500m2, up from the originally planned 12,500m2. The increased size of the warehouse and approval process required for this change has resulted in an extended construction period for this project. The total project will cost $16.9 million up from the $11.8 million originally planned however; this generates a saving of $2.4 million on the dryer three warehouse build cost that was allowed for in the dryer three project.

Current Status:	Construction almost complete
Expected Capacity:	22,500m²
Expected Total Cost:	$16.9 million (original budget $11.8 million for a smaller 12,500m² build).
Construction Start Date:	August 2013
Expected Commissioning Date:	March 2014 (original date January 2014)

3. Lactoferrin Extraction and Purification Facility

Update: The project commenced on schedule in May 2013 with construction starting in October 2013. Production will commence March 2014, two months later than originally planned due to increasing the scope of work undertaken during the final design phase. The final capital cost is expected to be $19.2 million, an increase on the estimated budget of $15.1 million, due to investing in additional features within the plant to ensure the highest quality product is manufactured.

Current Status:	Plant under commissioning.
Expected Capacity:	23 metric tonnes per annum
Expected Total Cost:	$19.2 million (original budget $15.1 million)
Project Start Date:	May 2013
Expected Commissioning Date:	March 2014 (original date January 2014)

4. Quality Testing Laboratory and Admin Building

Update: The laboratory with a new administration building will now be incorporated to bring build efficiencies. Architectural design is complete with an expected construction start date in May 2014 and a commissioning date of February 2015, updated from the originally planned March 2014. Capital spend has increased to $21.0 million from estimated $8.4 million due to the increased size of the administration building to future proof for increased staff numbers as well as an increased scope for the laboratory.

Current Status:	Building consent submitted and awaiting approval
	Architectural design complete
Expected Total Cost:	$21.0 million (original budget was $8.4 million)
Construction Start Date:	May 2014 (original date March 2014)
Expected Commissioning Date:	February 2015 (original date August 2014)

5. Dryer 3

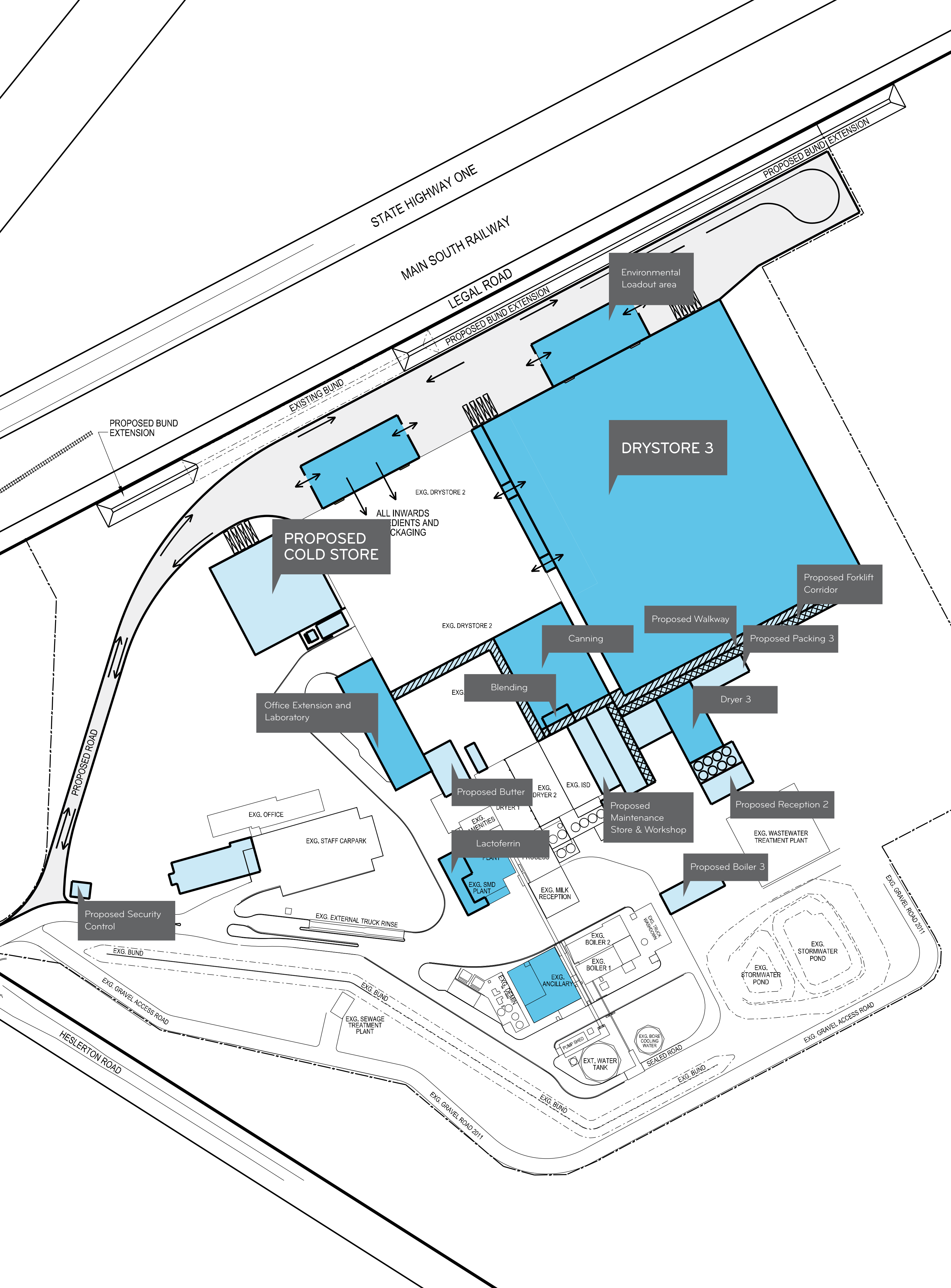
Update: A larger dryer capable of 10.5 metric tonnes per hour (increased from 8.5 metric tonnes per hour) has increased the project scope to $135.0 million from the estimated $103.5 million. Our banking syndicate have approved a three term loan facility of $135.0 million to fund this project on the same terms and conditions as the original loan. Construction is due to commence in September 2014 with plant commissioning in August 2015.

Current Status:	Resource consent for dryer has been approved
	Design complete
	Contract awards almost completed
Expected Capacity:	7 metric tonnes per hour on infant formula
	10.5 metric tonnes per hour on whole and skim milk powders
Expected Total Cost:	$135.0 million (original budget was $103.5 million)
Construction Start Date:	April 2014
Expected Commissioning Date:	September 2015 (original date August 2015)

6. Ammix Butter Plant

Update: Design for this plant will begin in April 2014.

Current Status:	Planning
Expected Capacity:	7 metric tonnes per hour (25,000 metric tonnes per annum or 40,000 metric tonnes per annum with external cream source).
Expected Total Cost:	$15.0 million
Construction Start Date:	August 2014
Expected Commissioning Date:	May 2015


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

3

FINANCIAL PERFORMANCE

Nigel Greenwood

CHIEF FINANCIAL OFFICER

For the six months ended 31 January 2014 our revenue at $284.9 million was up 62 percent on last year's $176.4 million, primarily due to the high international commodity prices.

Total volume sold for this period at 43,500 metric tonnes was 7 percent ahead of last year's 40,500 metric tonnes. Infant and nutritional volumes shipped were behind expectations for this period however, they were above the volumes sold for the same period last year.

Gross profit increased to $40.0 million compared to $32.8 million for the same period in 2013, due to strong earnings from our milk powder and cream products business. However, this was partially offset by lower than expected earnings from our infant formula and nutritional products business due to regulation changes in China, and an expectation that our annual average foreign exchange rate will be higher than applied in the determination of the farm gate milk price.

Earnings before interest and depreciation and amortisation (EBITDA) at $24.6 million, was up 22 percent on last year's $20.3 million. EBITDA calculated as EBIT plus depreciation and amoritisation. While the higher gross profit was the primary cause of the increased EBITDA, this was impacted by higher administration and operating expenses incurred. This increase reflected the building of capability within the business as well as additional costs such as the share based payment expense of $0.5 million.

Net finance costs at $2.5 million were well down on last years $5.8 million. This was principally due to the lower debt position following the successful initial public offering of the Company in July 2013 when $68.9 million of new capital raised, paid off existing debt at the time. Depreciation expense for the period at $5.4 million was similar to last years at $5.1 million.

Net profit after tax (NPAT) at $12.1 million was 79 percent up on last year's $6.8 million as a result of the increase in gross profit and the lower net finance costs.

This result delivered basic and diluted earnings per share of 8.27 cents for the period compared to last year's 6.02 cents.

BALANCE SHEET AND CASH FLOW

Total assets as at 31 January 2014 at $538.0 million were significantly higher than last year's $372.0 million. Primarily due to our debtors and inventory values, at a combined $271.5 million, being up $125.5 million on last year's $146.0 million.

This reflected the high international commodity price which resulted in higher invoiced sales values and milk price which lead to a higher cost of inventory. Ingredient inventory volumes meet our expectations and were slightly higher than last year, primarily due to higher production in this period. However, infant and nutritional inventory volumes were higher than expected due to the China market regulatory issues causing anticipated sales of this product being negatively impacted.

Fixed assets grew by $29.4 million primarily due to investments in our growth initiatives. While there has been some overspend on the lactoferrin plant, this has been incurred to ensure the best quality standards are in place. This plant is due to be commissioned in late March and we anticipate producing 4 metric tonnes of lactoferrin in this financial year, an increase from the expected 2 metric tonnes we had forecast in the initial public offering prospectus. The drystore build was extended to include capacity for the pending third dryer. While this has resulted in bringing forward, by one year, an additional $4.0 million of capital expenditure, this has resulted in an estimated saving of $2.4 million in build costs, by completing all our warehousing requirements at one time. The blending and consumer packaging plant commissioning date has been brought forward from the originally planned August 2014 to June 2014. Total spend on this plant is expected to be $28.3 million, an increase of $0.8 million compared to anticipated spend in the initial public offering prospectus.

As noted earlier in the Chairman and Managing Director Report we have committed to the build of a larger third dryer at a revised cost of $135.0 million, up from $103.5 million for a previously advised smaller dryer. Our banking syndicate have provided their support for this increased cost through an increased dryer three term loan of $135.0 million. The build of the third dryer is due to get underway shortly, with commissioning scheduled for September 2015 as originally planned for the smaller dryer.

Trade and other payables at $183.0 million are significantly up on last year's $80.3 million reflecting higher milk accruals associated with the higher milk price this year compared to last year.

The trade finance facility with Mitsui & Company Limited at $76.4 million is also significantly higher than last year's $21.6 million, again caused by higher invoicing values associated with the very high international commodity prices.

It should be noted that in December 2013 we obtained bank approval to amend our shareholder funds to total tangible assets covenant for the period from December 2013 through until May 2014, from 35 percent to 30 percent. This better reflects the balance sheet impact of the seasonality of our business combined with the impact of the very high international commodity prices on our carrying values for receivables and inventory during this period.

Our cash outflows from operating activities at $8.3 million are considerably improved from last year's cash outflows of $69.3 million.

As signalled in our prospectus prospective finanical information, the forecast unwind of cash in the first half of FY2014 due to an unusually high forecast working capital position as at 31 July 2013 was the principle cause of the improved cash outcome for the period.

There has been a change in our disclosures related to the Mitsui & Co Limited trade finance facility. We had previously shown the movement in the balance of this facility as an operating cash flow; however we have now changed this to be shown as a financing activity. Our prior year's results have been amended to reflect the same disclosure.

Kind regards

Nigel Greenwood, Chief Financial Officer

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FINANCIAL STATEMENTS

On Track with our Six Monthly Financial Statements

SYNLAIT MILK LIMITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

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DIRECTORS' DECLARATION

AS AT 31 JANUARY 2014

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the condensed consolidated interim financial statements for Synlait Milk Limited and its subsidiary set out on pages 18 to 35 for the half-year ended 31 January 2014.

The Directors are responsible for ensuring that the condensed consolidated interim financial statements give a true and fair view of the financial position of Synlait Milk Limited and its subsidiary (together 'the Group') as at 31 January 2014 and the financial performance and cash flows for the Six Months ended on that date.

The Directors consider that the condensed consolidated interim 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 the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

For and on behalf of the Board.

Graeme Milne
CHAIRMAN
26 March 2014

John Penno
MANAGING DIRECTOR
26 March 2014

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

		Group $'000		
		Period ended		Year ended
		31 January 2014	31 January 2013	31 July 2013
	Notes	Unaudited	Unaudited	Audited
Revenue		284,897	176,444	420,010
Cost of sales	4	(244,896)	(143,606)	(354,862)
Gross profit		40,001	32,838	65,148
Other income		65	50	1,587
Sales and distribution expenses	4	(10,040)	(10,912)	(23,478)
Administrative and operating expenses	4	(10,707)	(6,858)	(14,978)
Earnings before net finance expense and income tax		19,319	15,118	28,279
Finance expenses		(2,574)	(5,797)	(13,525)
Finance income		76	34	1,272
Net finance costs		(2,498)	(5,763)	(12,253)
Profit before income tax		16,821	9,355	16,026
Income tax (expense) / benefit		(4,713)	(2,592)	(4,498)
Net Profit after tax for the period		12,108	6,763	11,528
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss				
Effective portion of changes in fair value of cash flow hedges		2,269	(2,323)	(3,387)
Net change in fair value of cash flow hedges transferred to profit and loss		(2,092)	(674)	(337)
Income tax on other comprehensive income		(51)	932	1,043
Other comprehensive income for the year, net of tax		126	(2,065)	(2,681)
Total comprehensive income for the year		12,234	4,698	8,847
Earnings per Share				
Basic and diluted earnings per share (cents)		8.27	6.02	10.21

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2013 (UNAUDITED)

Group	Notes	Share Capital	Employee Benefits reserve	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2012 (audited)		103,648	-	848	8,008	(26,213)	86,291
Profit or loss for the period		-	-	-	-	6,763	6,763
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	(2,323)	-	-	(2,323)
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(674)	-	-	(674)
Income tax on other comprehensive income		-	-	932	-	-	932
Total other comprehensive income		-	-	(2,065)	-	-	(2,065)
Issue of new shares		-	-	-	-	-	-
Share issue costs		-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-
Equity as at 31 January 2013		103,648	-	(1,217)	8,008	(19,450)	90,989

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

Group	Notes	Share Capital	Employee Benefits reserve	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2013 (unaudited)		172,548	-	(1,833)	8,008	(14,685)	164,038
Profit or loss for the period		-	-	-	-	12,108	12,108
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	2,269	-	-	2,269
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(2,092)	-	-	(2,092)
Income tax on other comprehensive income		-	-	(51)	-	-	(51)
Total other comprehensive income		-	-	126	-	-	126
Issue of new shares		-	-	-	-	-	-
Share issue costs		(250)	-	-	-	-	(250)
Employee benefits reserve		-	500	-	-	-	500
Total contributions by and distributions to owners		(250)	500	-	-	-	250
Equity as at 31 January 2014		172,298	500	(1,707)	8,008	(2,577)	176,522

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE TWELVE MONTHS ENDED 31 JULY 2013

Group	Notes	Share Capital	Employee Benefits reserve	Hedging reserves	Revaluation reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2012 (audited)		103,648	-	848	8,008	(26,213)	86,291
Profit or loss for the year		-	-	-	-	11,528	11,528
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	(3,387)	-	-	(3,387)
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(337)	-	-	(337)
Income tax on other comprehensive income		-	-	1,043	-	-	1,043
Total other comprehensive income		-	-	(2,681)	-	-	(2,681)
Issue of new shares		75,000	-	-	-	-	75,000
Share issue costs		(6,100)	-	-	-	-	(6,100)
Total contributions by and distributions to owners		68,900	-	-	-	-	68,900
Equity as at 31 July 2013		172,548	-	(1,833)	8,008	(14,685)	164,038

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2014

		Group $'000		
		31 January	31 January	31 July
		2014	2013	2013
	Notes	Unaudited	Unaudited	Audited
Current assets				
Cash and cash equivalents		4,655	3,163	2,365
Trade and other receivables		99,241	43,574	59,134
Goods and services tax refundable		12,792	5,521	2,917
Income accruals and prepayments		1,441	1,765	570
Inventories		172,210	102,353	65,025
Current tax receivables		-	-	-
Derivative financial instruments		2,671	1,187	1,138
Capital raising costs		-	367	-
Total current assets		293,010	157,930	131,149
Non-current assets				
Property, plant and equipment	5	240,838	211,382	210,780
Intangible assets		4,059	2,781	4,052
Derivative financial instruments		105	-	86
Total non-current assets		245,002	214,163	214,918
Total assets		538,012	372,093	346,067
Current liabilities				
Working capital facility	6	23,000	70,500	33,079
Trade and other payables		183,050	80,309	57,535
Trade finance facility	6	76,419	21,559	46,924
Loans and borrowings	6	-	21,000	-
Derivative financial instruments		5,131	1,230	4,379
Total current liabilities		287,600	194,598	141,917
Non-current liabilities				
Loans and borrowings	6	57,235	74,059	27,917
Deferred tax liabilities		16,518	9,958	11,755
Derivative financial instruments		137	2,489	440
Total non-current liabilities		73,890	86,506	40,112
Total liabilities		361,490	281,104	182,029
Equity				
Share capital		172,298	103,648	172,548
Reserves		6,801	6,791	6,175
Retained earnings/(deficit)		(2,577)	(19,450)	(14,685)
Total equity attributable to equity holders of the Company		176,522	90,989	164,038
Total equity and liabilities		538,012	372,093	346,067

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 JANUARY 2014

		Group $'000		
		Period ended		Year ended
		31 January	31 January	31 July
		2014	2013	2013
	Notes	Unaudited	Unaudited	Audited
Cash flows from operating activities				
Cash receipts from customers		243,507	143,580	382,600
Cash paid for milk purchased		(189,312)	(171,127)	(289,268)
Cash paid to other creditors and employees		(52,640)	(39,977)	(141,231)
Goods and services tax refunds		(9,875)	(2,029)	575
Income tax refunds		50	231	229
Net cash outflow from operating activities	8	(8,270)	(69,322)	(47,095)
Cash flows from investing activities				
Interest received		76	34	1,272
Acquisition of property, plant and equipment		(35,375)	(2,077)	(6,437)
Acquisition of intangible assets		(51)	(249)	(1,607)
Net cash outflow from investing activities		(35,350)	(2,292)	(6,772)
Cash flows from financing activities				
Net proceeds(costs) from issue of shares		(250)	-	68,900
Repayments of borrowings		-	-	(33,786)
Receipt of borrowings		19,239	71,080	670
Net drawndown on trade finance facility		29,495	7,942	33,307
Interest paid		(2,574)	(4,911)	(13,525)
Net cash inflow from financing activities		45,910	74,111	55,566
Net increase in cash and cash equivalents		2,290	2,497	1,699
Cash and cash equivalents at the beginning of the period		2,365	666	666
Cash and cash equivalents at end of the period		4,655	3,163	2,365

The above case flow statement should be read in conjunction with the accompnaying notes.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Statement of Review Engagement Standards RS-1 issued by the External Reporting Board. The accompanying notes form part of 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 an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Synlait Milk Limited is primarily involved in the manufacture and sale of milk powder and milk powder related 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.

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 26 March 2014.

2 BASIS OF PREPARATION OF SIX MONTHS FINANCIAL REPORT

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with International Accounting Standard 34 (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) "Interim Financial Reporting" and other applicable reporting standards appropriate for profit oriented entities.

The same accounting policies and methods of computation are applied in the interim financial statements as were applied in the financial statements for the year ended 31 July 2013 together with the new accounting policy outlined below. These financial statements should be read in conjunction with the financial statements and related notes included in the Group's Annual Report for the year ended 31 July 2013. The information is presented in thousands of New Zealand dollars.

Synlait Milk Limited is subject to seasonal fluctuations which have an impact on both revenue and productions levels due to northern hemisphere dairy market demand and the dairy milking season. Synlait Milk Limited recognises this is the nature of the industry and plans and manages the business accordingly.

(a) New Accounting Policy - Employee benefits

(i) Defined contribution plan

Obligations for contributions to defined contribution pension plans, including Kiwisaver, are recognised as an expense in the profit or loss when they are due.

(ii) Profit-sharing and bonus plans

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Share-based payment transactions

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 August 2014 or later periods but which the Group has not early adopted:

NZ IFRS 9 'Financial Instruments: Classification and measurement' (effective 1 January 2017). NZ IFRS 9 amends the requirements related to the classification and measurement of financial assets and financial liabilities. This standard becomes effective in the Group's 2016 financial statements. The Group does not plan to adopt this standard early and the extent of the impact 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.

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

NZ IFRS 10, 'Consolidated financial statements' (effective 1 January 2013). Under NZ IFRS 10, subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group has applied NZ IFRS 10 retrospectively in accordance with the transition provisions of NZ IFRS 10. There is no impact on the financial statements from the change in standard.

NZ IFRS 11, 'Joint arrangements' (effective 1 January 2013). Under NZ IFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. There is no impact on the financial statements from the change in standard.

NZ IFRS 13 'Fair value measurement' (effective 1 January 2013). NZ IFRS 13 measurement and disclosure requirements are applicable from the July 2014 year end. The group has included the additional disclosures required by NZ IFRS 13. Other than additional disclosures, the application of NZ IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

NZ IAS 19 (Revised) Employee Benefits (effective 1 January 2013). NZ IAS 19 requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor and spreading' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. There is no impact on the finanical statements from the change in standard.

(d) Reclassified balances

The Company has changed the classification of the Mitsui & Co (NZ) Limited trade finance facility within the Statement of Cash Flows resulting in a movement of amounts between operating and financing activities. As a result, the comparative amounts have changed in the Statement of Cash Flows:

- 31 January 2013 receipts from customers decreased by $7,942,000 and the movement in trade finance facility increased by $7,942,000.
- 31 July 2013 receipts from customers decreased by $33,307,000 and the movement in trade finance facility increased by $33,307,000.

Mitsui & Co (NZ) Limited is Synlait Milk Limited's export sales agent. Under this agreement Mitsui pays Synlait Milk the amounts invoiced to export customers within an agreed period after shipment of products.

The amounts received from Mitsui were previously included in receipts from customers but have been restated to be a financing activity.

The Group has reclassified these amounts as it considers the Mitsui & Co (NZ) Limited trade finance facility to be a financing activity in nature. This change has no impact on the statements of comprehensive income or the statements of financial position.

3 SEGMENT INFORMATION

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

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

Revenues of approximately 50% are derived from the top three external customers (31 July 2013: 56%).

4 EXPENSES

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
The following items of expenditure are included in cost of sales			
Depreciation and amortisation	4,540	4,469	8,966
Employee benefit expense	4,180	3,175	6,589
Repairs and maintenance	1,254	908	3,109
The following items of expenditure are included in sales and distribution expenses			
Bad debts	-	25	-
Depreciation	821	665	1,216
Donations	12	3	54
Research and development	182	184	312
Rent expense	893	632	1,355
Repairs and maintenance	172	67	364
The following items of expenditure are included in administrative and operating expenses			
Employee benefit expense	4,791	3,364	7,010
Defined benefit contributions - Kiwisaver	149	66	138
Directors fees	214	172	346
Share based payment expense	500	-	-

5 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Period ended 31 January 2013						
Additions	4	-	1,828	51	557	2,440
Disposals	-	-	-	-	-	-
Reclassification / transfer	-	-	-	-	-	-
Period ended 31 January 2014						
Additions	-	-	2,288	227	32,952	35,467
Disposals	-	-	-	-	-	-
Reclassification / transfer	-	-	-	-	-	-
Year ended 31 July 2013						
Additions	5	-	3,290	165	3,132	6,592
Disposals	-	-	(195)	-	-	(195)
Reclassification / transfer	-	-	75	(152)	77	-

(a) Capitalised borrowing costs

During the period, the Group has capitalised borrowing costs amounting to $826,532 (31 January 2013: nil, 31 July 2013:nil).

6 LOANS AND BORROWINGS

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Current liabilities			
Working capital facility	23,000	70,500	33,079
Trade finance facility	76,419	21,559	46,924
Secured bank loans	-	21,000	-
	99,419	113,059	80,003
Non-current liabilities			
Bank loans	57,434	74,426	28,596
Loan facility fees	(199)	(367)	(679)
	57,235	74,059	27,917

7 SHARE-BASED PAYMENTS

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

(a) IPO Incentive Scheme

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

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

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

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

TSR	Annual entitlement as a % of base salary as at 1 August 2013
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, 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 senior management plan represents the grant of in substance nil price options. The fair value of the options granted under the senior management plan are estimated as at the date of grant using an option pricing model that takes into account the terms and conditions upon which the options were granted. In accordance with the rules of the plan, the model simulates the Group's total shareholder return relative to the sliding performance scale over the vesting period. The model takes into account the paths of outcomes that would result in vesting in relation to the TSR performance condition, the cost of equity, share price volatilities, an assessment of the probability of vesting to produce a predicted fair value for each option. The fair value of each option is then applied to the number of options expected to vest to determine a total plan fair value. The NPAT performance condition and the service condition are taken into account in determining the number of options expected to vest.

If all conditions of the scheme are met, the maximum number of shares that can potentially vest is 1,493,117.

(b) FY2014F Short Term Incentive Scheme

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

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

(c) Expenses arising from share based payment transactions

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

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Expenses for equity settled share based payment transactions	500	-	-

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

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Profit for the year	12,108	6,763	11,528
Non-cash and non operating items:			
Depreciation and amortisation of non-current assets	5,361	5,133	10,182
Non cash share based payment expense	500	-	-
Interest costs classified as financing cash flow	2,574	5,797	13,525
Interest received classified as investing cash flow	(76)	(34)	(1,272)
Deferred tax	4,763	2,592	4,496
Movements in working capital:			
(Increase) / decrease in trade receivables	(36,701)	(30,632)	(71,893)
(Increase) / decrease in other receivables	(4,383)	(676)	33,307
(Increase) / decrease in prepayments	(871)	(1,606)	(411)
(Increase) / decrease in inventories	(107,185)	(71,607)	(34,279)
(Increase) / decrease in other current assets	(9,875)	(1,798)	806
(Decrease) / increase in trade and other payables	125,515	16,746	(13,084)
Net cash inflow from operating activities	(8,270)	(69,322)	(47,095)

9 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.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2013. There have been no changes in any risk management policies since year end.

(a) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. The Group has negotiated banking facilities sufficient to meet its medium term facility requirements.

The Group has internal limits in place in order to reduce exposure to liquidity risk, as well as having committed lines of credit. It is the Group's policy to provide credit and liquidity enhancements only to wholly owned subsidiaries.

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by the level of fair value hierarchy. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) 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).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value.

Group	Level 1	Level 2	Level 3	Total balance
31 January 2013	$'000	$'000	$'000	$'000
Assets				
Foreign exchange contracts	-	279	-	279
Options – foreign exchange	-	891	-	891
Interest rate swaps	-	17	-	17
Total assets	-	1,187	-	1,187
Liabilities				
Foreign exchange contracts	-	190	-	190
Options – foreign exchange	-	512	-	512
Interest rate swaps	-	3,017	-	3,017
Total liabilities	-	3,719	-	3,719
31 January 2014				
Assets				
Foreign exchange contracts	-	1,154	-	1,154
Options – foreign exchange	-	1,490	-	1,490
Interest rate swaps	-	132	-	132
Total assets	-	2,776	-	2,776
Liabilities				
Financial liabilities at fair value through profit or loss				
Foreign exchange contracts	-	632	-	632
Options – foreign exchange	-	3,686	-	3,686
Interest rate swaps	-	950	-	950
Total liabilities	-	5,268	-	5,268

Group	Level 1	Level 2	Level 3	Total balance
	$'000	$'000	$'000	$'000
31 July 2013				
Assets				
Foreign exchange contracts	-	189	-	189
Options – foreign exchange	-	949	-	949
Interest rate swaps	-	86	-	86
Total assets	-	1,224	-	1,224
Liabilities				
Foreign exchange contracts	-	1,187	-	1,187
Options – foreign exchange	-	1,792	-	1,792
Interest rate swaps	-	1,840	-	1,840
Total liabilities	-	4,819	-	4,819

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

(i) Quoted market prices or dealer quotes for similar instruments;

(ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) 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;

(iv) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between levels during the period.

The fair value of the following financial assets and liabilities approximate their carrying amount:

(i) Cash and cash equivalents

(ii) Trade and other receivables

(iii) Trade and other payables

(iv) Loans and Borrowings

10 CONTINGENCIES

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

11 COMMITMENTS

(a) Capital commitments

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

	Group $'000		
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Lactoferrin	6,817	-	9,790
Blending and Canning	16,870	-	15,375
Drystore 3	7,242	-	13,557
Total	30,929	-	38,722

The above balances have been committed for completion in the 2014 financial year in relation to future expenditure on capital projects. Amounts already spent have been included as work in progress.

12 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 (31 January 2013: 51%, 31 July 2013: 39.12%).

(b) Key management and personnel compensation

Other than their salaries and bonus incentives, there are no other cash benefits paid or due to directors and executive officers as at 31 January 2014. The total short-term benefits paid to the key management and personnel is set out below.

	Group $000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Short tem benefits	2,276	1557	2,848
Share based payments	208	-	-
Total	2,484	1,557	2,848

Note that during the period there has been an increase in the size and configuration of the key management personnel.

(c) 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 January 2014 (31 January 2013:$Nil, 31 July 2013:$Nil).

(ii) Other transactions and balances

Key management personnel subscribed in cash for new ordinary shares issued by the Company and Group during the year. The shares were acquired on the same terms and conditions that applied to other shareholders.

During the period 18 key senior managers entered into an IPO incentive contract (further described in note 7).

Directors of the Company control 3.8% of the voting shares of the company at 31 January 2014 (31 January 2013: 12.23% indirectly through shareholdings in Synlait Limited, 31 July 2013: 3.8%).

(d) Directors and key management personnel

There have been no changes relating to directors and specified executives since the year ended 31 July 2013 other than the increase in key management personnel noted above.

(e) Transactions with other related parties

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Purchase of goods and services			
Bright Dairy and Food Co Ltd - Directors fees	85	172	183
Synlait Farms Limited - Purchase of raw milk	N/A	21,477	42,420
Sale of goods and services			
Bright Dairy and Food Co Ltd - Sale of milk powder products	12,136	658	8,470
Bright Dairy and Food Co Ltd - Reimbursement of costs	4	63	87
Synlait Farms Limited - Management fees received	N/A	17	33

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

Note that as at 28 February 2013 Synlait Farms Limited ceased to be a related party due to divestment from Synlait Limited.

(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 $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2014	2013	2013
	Unaudited	Unaudited	Audited
Current receivables (sales of goods and services)			
Bright Dairy and Food Co Ltd - Sale of milk powder products	2,165	318	325
Bright Dairy and Food Co Ltd - Reimbursement of costs	-	63	58
Synlait Farms Limited - Management fees received	N/A	3	-
Current payables (purchases of goods)			
Bright Dairy and Food Co Ltd - Directors fees	-	172	-
Synlait Farms Limited - purchase of raw milk	N/A	5,441	4,439

13 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no events occurring subsequent to 31 January 2014 which require adjustment to or disclosure in the financial statements.

Deloitte.

REVIEW REPORT TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

We have reviewed the condensed consolidated interim financial statements on pages 18 to 35. The condensed consolidated interim financial statements provide information about the past financial performance of Synlait Milk Limited and its subsidiary ("the Group") and its financial position as at 31 January 2014. This information is stated in accordance with the accounting policies referred to on page 24.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which fairly present the financial position of the Group as at 31 January 2014 and of the results of operations and cash flows for the six months ended on that date.

INDEPENDENT ACCOUNTANT'S RESPONSIBILITIES

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not present fairly the matters to which they relate.

BASIS OF OPINION

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of Synlait Milk Limited for the six months ended 31 January 2014 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Other than in our capacity as auditors under the Companies Act 1993, the provision of taxation work, assurance services and other advisory services we have no relationship with or interests in Synlait Milk Limited or its subsidiary.

OPINION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 18 to 35 do not present fairly the financial position of the Group as at 31 January 2014 and the results of operations and cash flows for the six months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Our review was completed on 26 March 2014 and our review opinion is expressed as at that date.

Deloitte

Chartered Accountants

Christchurch, New Zealand

DIRECTORY

REGISTERED OFFICE

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BOARD OF DIRECTORS

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

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

Ian Samuel Knowles – Independent Director

John William Penno (Managing Director) – Board Appointed Director

Ke Li – Bright Dairy Director

Zongbo Dong – Bright Dairy Director

Sihang Yang – Bright Dairy Director

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

SENIOR MANAGEMENT

John Penno – Chief Executive Officer & Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Supply Chain

Tony McKenna – General Manager Nutritionals

Natalie Lombe – General Manager Culture, Capability & Strategy

Mike Lee – General Manager Ingredients

Neil Betteridge – General Manager Manufacturing

Michael Stein – General Manager Quality & Technical Services

Michael Wan – Marketing & Communications Manager

Quentin Lowcay – General Counsel & Company Secretary

AUDITOR

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Christchurch 8024
New Zealand

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Minter Ellison Rudd Watts
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Auckland 1010

Duncan Cotterill
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Burnside
Christchurch 8053

James & Wells
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88 Division St
Riccarton 8041
Christchurch

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
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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

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