synlait™
making more from milk

THE POWER OF INNOVATIVE PARTNERSHIPS

Synlait Milk Limited Interim Report 2016

CREATING

OUR MODEL

The unique relationship we have with our milk suppliers allows us to produce differentiated milks from behind the farm gate.

IN ACTION

For a2 Platinum® our farmers are paid a premium to supply milk that is naturally exclusive in the A2 beta-casein protein type and meets our customer's quality processes and procedures.

VALUE AND GROWTH

We collect this milk and separately stream it through our sophisticated infant formula facility.

As the exclusive manufacturer of a2 Platinum® infant formula we separate a2 Milk™ throughout our production and retail-ready packaging process.

Working with our customers we are able to produce innovative nutritional products that build trust and meet specialised consumer needs.

a2 Platinum® infant formula is made exclusively from milk that naturally contains only the A2 beta casein protein type. This is uniquely formulated for tiny tummies and to support baby's natural digestion.

SIX-MONTH HIGHLIGHTS

TOTAL SALES (MT)

46,356 HY16

42,851 HY15

NUTRITIONALS SALES (MT)

7,498 HY16

2,946 HY15

INGREDIENTS SALES (MT)

38,858 HY16

39,635 HY15

GROSS PROFIT
PER MT (NZD)

$996 HY16

$590 HY15

EBITDA
(IN MILLIONS NZD)

$32.1 HY16

$2.8 HY15

UNDERLYING NPAT
(IN MILLIONS NZD)

$12.3 HY16

$0.4 HY15

OPERATING CASH FLOW
(IN MILLIONS NZD)

$4.0 HY16

($62.6) HY15

NET DEBT
(IN MILLIONS NZD)

$292.0 HY16

$278.0 HY15

TOTAL ASSETS
(IN MILLIONS NZD)

$659.5 HY16

$548.8 HY15

STRATEGIC UPDATE

DELIVERING ON OUR STRATEGY

Our vision is to become a trusted supplier of choice to some of the world's leading milk-based health and nutrition companies.

FY16 profitability on track to be in advance of anything achieved to date.

Sufficient milk supply secured to meet forecast sales growth in FY17.

Increased a2 Milk™ supply to meet anticipated demand growth to FY18 from The a2 Milk Company™.

Supplier premiums expected to be $6 million in FY16.

NUTRITIONAL BUSINESS GROWTH

Category growth driven by increased retail-ready packaged infant formula sales.

7,498 MT of nutritional sales in H1 accounts for 36% of total FY16 forecast sales.

Continuing to move customers up our value chain with nutritional products accounting for 16% of HY16 sales (7% in HY15).

Nutritional partnership growth directly supports our strategy.

OPERATING A WORLD-CLASS SITE

Three large-scale spray dryers and a special milks dryer operating well with excellent plant utilisation and product yield.

Quality testing laboratory completed late 2015, which provides efficient onsite testing capability.

Blending and consumer packaging facility demand exceeding expectations.

Forecast sales to nutritional customers from FY17 likely to accelerate future growth plans.

Significant projects underway to deliver strategic planning and reporting systems.

FINANCIAL PERFORMANCE

Favourable HY16 underlying NPAT of $12.3 million ($0.4 million HY15).

Continuation of increased nutritional sales from second half of FY15 a key driver in HY16 profitability.

Realised financial benefits of being the sole manufacturer for the a2 Platinum® infant formula range.

Strengthened balance sheet following completion of initial public offering (IPO) growth initiatives and forecasted significant debt reduction by year end.

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LEADERSHIP UPDATE

Graeme Milne
CHAIRMAN

John Penno
MANAGING DIRECTOR

We are pleased to present an interim report where the results clearly demonstrate the success of our strategy and our pace of execution.

Our core strategy is to partner with leaders in the infant formula and adult nutrition industries and manufacture specialist dairy ingredients and finished consumer packaged infant formula.

This business to business (B2B) approach has enabled us to develop a portfolio of customers. Our customer base has grown to include four of the five largest infant formula companies in the world, and some smaller disruptive new entrant brands with highly differentiated products.

INNOVATIVE PARTNERSHIPS

Over the past year we have enjoyed particular success with The a2 Milk Company™ by manufacturing their fast growing a2 Platinum® range of infant formula.

To manufacture this product we work with our milk suppliers to ensure they have herds of cows that only produce milk with the A2 beta-casein protein type. This milk is then held as a separate stream throughout our manufacturing process to ensure a2 Platinum® infant formula that is naturally free from the A1 beta-casein protein.

We continue to work closely with The a2 Milk Company™ to support their growth and expect this partnership will grow deeper over time.

At the same time, we are equally committed to developing all of our customer partnerships.

While Munchkin's Grass Fed™ infant formula is some years behind a2 Platinum® infant formula, it is following a similar model. To create the same production rigour behind Munchkin's product, we established the Grass Fed™ standard to ensure cows supplying Grass Fed™ milk are grazing pasture or crops all year and are not fed any concentrated supplementary feeds, such as cereal grains or palm kernel.

We have now manufactured the first trial batches of Grass Fed™ infant formula for clinical studies in the USA, a necessary step in getting this product approved by regulatory authorities.

Both a2 Platinum® and Grass Fed™ infant formulas are targeting growth in their respective home markets and in China. We will continue to partner with customers with a preference for products targeting markets outside of China.

ACCELERATING FUTURE GROWTH

In September 2015 we successfully commissioned Dryer Three (D3), our third large scale milk powder manufacturing plant. This plant joins D2 as a world class infant formula capable evaporator and spray dryer.

Growth in our canned infant formula business is expected to push our infant formula production toward capacity over the next 12 months.

To meet ongoing demand growth we may need to accelerate planned investment in our processing capability. We are exploring this now and expect to make a decision before the end of the 2016 financial year (FY16).

IMPACT OF GLOBAL DOWNTURN

We are mindful the success we are enjoying is occurring in the midst of the most significant downturn the dairy industry has seen in decades.

Increased milk production by farmers in Europe, following the removal of production quotas, continues to outpace expectations.

Almost all of this extra milk is being manufactured into milk powder products being exported into the same markets New Zealand sells to. Given weak demand from the two largest importing countries, China and Russia, and dampened demand from oil exporting nations, this extra dairy production is beginning to accumulate as significant volumes of surplus stocks.

This surplus stock is accumulating in two places.

The most obvious, but less important, are the stocks being purchased by the European Union under their intervention scheme. This scheme purchases surplus dairy commodities (mostly skim milk powder) from European manufacturers at a low price, essentially creating a floor in the market as a form of support for European farmers and manufacturing companies.

The second and larger accumulation of stock occurs in the inventories of companies manufacturing and purchasing dairy ingredients. This can be seen in our balance sheet, and in the balance sheet of other companies in the international industry.

All this has translated to a long period of very low prices for dairy commodities and an unsustainably low milk price for New Zealand dairy farmers.

PRIORITISING OUR MILK SUPPLIERS

Our partnerships with milk suppliers are fundamental to our business and our strategy to differentiate our products across the entire value chain.

For the second year running, we are advancing our suppliers a higher proportion of our final milk price than would be normal. We believe that this is important to support them through a very difficult period of cash flow for their farm businesses.

More than 50% of our suppliers will receive a premium payment in FY16, primarily for creating value on their farm through our Lead With Pride™ and Special Milk programmes. As a result, around $6 million in premium payments will be made this season.

However, a low milk price has already begun to manifest as reduced milk production as dairy farmers work to reduce costs. We are forecasting FY16 milk production from our suppliers to be around 5% down on last year and are forecasting further reductions in the 2016 / 2017 season.

We have recently announced that we have grown our milk supply base by 28 suppliers to 201 for the 2016 / 2017 season.

This will result in sufficient milk supply to replace all the milk that we have purchased from Fonterra under the Dairy Industry Restructuring Act 2001 (DIRA) regulations, replace milk we expect to lose as suppliers produce less and take our site to capacity.

STRENGTHENED BALANCE SHEET

Over the past year we have worked to reduce our working capital requirements.

We have made good progress in establishing arrangements to assign our receivables to New Zealand and international trading banks. This both manages payment risk, and is more cost effective than utilising our working capital facilities as the cost is calculated based on the credit risk of our very strong multinational customers. These changes have allowed us to repay a significant amount of term debt, even in the face of expanding inventory caused by market conditions and expansion of our infant formula business, and high advance payments to farmers.

We are forecasting significant debt repayment during FY16 from operating cash flow and restructuring our working capital. Combined with growing earnings, we are confident this will enable our anticipated capital investment to expand our infant formula capacity to be funded through a mix of earnings and debt as required.

WORLD CLASS CAPABILITY

After a period of rapid expansion, the team is working hard on bringing our systems and processes up to be world class.

In October we commissioned our quality testing laboratory to move ingredient and finished product testing in house. The laboratory has recently been accredited by International Accreditation New Zealand (IANZ) and means we can now begin to migrate our finished product testing in house, with a plan to have 90% of our analytical requirements conducted internally by November 2016.

In addition to expected cost savings, we expect the reduced product testing times to enable faster product grading, faster product quality information flow to the manufacturing team and faster manufacturing performance improvement.

We are already beginning to benefit from having the laboratory team on site with the specialist knowledge they bring in the microbiology and chemistry of milk and the products we manufacture.

There are two transformational projects that we have been executing over the past six months and expect to fully implement over the remainder of this calendar year.

The first is the adoption of the Integrated Business Planning (IBP) process.

This internationally accepted business management process extends the principles of our existing Sales and Operational Planning (S&OP) process across the supply chain to product and customer portfolio management, customer demand and strategic planning. This process is particularly relevant to our business because we commercialise a very high proportion of new products and customers at any given time.

The second is we are well into implementing a new system of balanced scorecard business reporting. To develop this data driven system, we have analysed the business, identified the drivers of value and determined four categories to house this data; people, customers, operations and finance. We have then established key performance indicators and appropriate targets against each value driver. As our balanced scorecard is released each month to our managers and their teams, we create greater clarity and a renewed focus on performance improvement.

As these two projects become embedded in our business, our efforts will move to driving performance by standardising our operating systems and practice and ensuring our learning systems and structures are aligned.

We expect to deliver reduced waste throughout the business, reduced inventory and increased customer satisfaction and will be measuring our performance in each of these areas.

These projects are also readying our business for growth by ensuring our systems and processes are scalable, and our people are capable and well trained in our standardised operating systems.

THE BEST TEAM

Our team has continued to grow in number and capability.

Safety of our staff is paramount and the whole team is focused on getting everyone home safely every day.

To support the business growth and align our management team with the IBP process we have grown our Senior Leadership Team by adding three roles. The first is to lead business development with our product and customer portfolio, the second is focused on business transformation and the third will manage the IBP process.

We have seen ongoing growth in staff numbers from 326 in July 2015 to 364 by January 2016 and continue to be pleased with the ever increasing capability of the staff we are able to attract to the business.

We would like to acknowledge the hard work and dedication of our team at Synlait. The success we are enjoying is coming about because of their hard work.

We thank them for that and trust that they are enjoying the challenge of growth and being part of a winning team.

OUTLOOK FOR FY16

The investment we have made in customer and product development, people, plant and operating systems in recent years is beginning to transform the earnings we are able to achieve. This is being led by our business to business (B2B) strategy for canned infant formula business.

Sales of nutritional products have grown from 2,946 metric tonnes (MT) in the first half of FY15 (HY15) to 7,498 MT in the first half of FY16 (HY16), contributing 16% of revenue compared to 7% for the corresponding period last year.

This is the primary driver behind growth in underlying NPAT from $0.4 million in HY15 to the $12.2 million reported in HY16.

We have also committed customer orders to achieve an almost fourfold increase in the total sales volume of consumer packaged infant formula in FY16 compared to FY15. Our manufacturing schedule is on target with weekly production in the consumer packaging facility running at about 350 – 400 MT with three shifts operating.

> We believe this business will continue to grow through FY17 as we begin regular manufacturing of Munchkin's Grass Fed™ infant formula. In order to meet expected demand we are currently employing a fourth shift for the consumer packaging facility, which will see it operating 24/7.

We look forward to updating you with our full year progress for FY16.

Kind regards,

Graeme Milne, Chairman & John Penno, Managing Director

FINANCIAL UPDATE

Nigel Greenwood

CHIEF FINANCIAL OFFICER

OVERVIEW

Reported after tax earnings for the first half of FY16 (HY16) is a profit of $10.2 million compared to a loss of $6.4 million for the same period last year (HY15). This includes after tax unrealised foreign exchange losses of $2.1 million ($6.8 million in HY15), which is further explained below.

The underlying after tax profit for HY16 is $12.3 million, a significant improvement on $0.4 million in HY15. Strong margin growth of $15.1 million after tax, driven by increased canned infant formula volumes has been the predominant catalyst for the improvement. This was partially offset by increases in overhead costs ($0.9 million after tax) and financing costs ($1.7 million after tax).

Underlying earnings are the most appropriate reflection of our operating business performance as the measure removes the impact of unrealised foreign exchange (FX) losses in respect of United States Dollar (USD) inventory financing. This is further discussed in the net financing costs section.

The table below reflects our first half performance is maintaining the momentum achieved in the second half of FY15.

Overview of financial performance

	$ million		
	6 months to Jan 2016	12 months to July 2015	6 months to Jan 2015
Reported NPAT	10.2	10.6	(6.4)
Unrealised FX losses	2.9	2.3	9.5
Tax effect of FX losses	(0.8)	(0.7)	(2.7)
Underlying NPAT	12.3	12.2	0.4
Underlying EPS (cents)	8.41	8.35	0.29

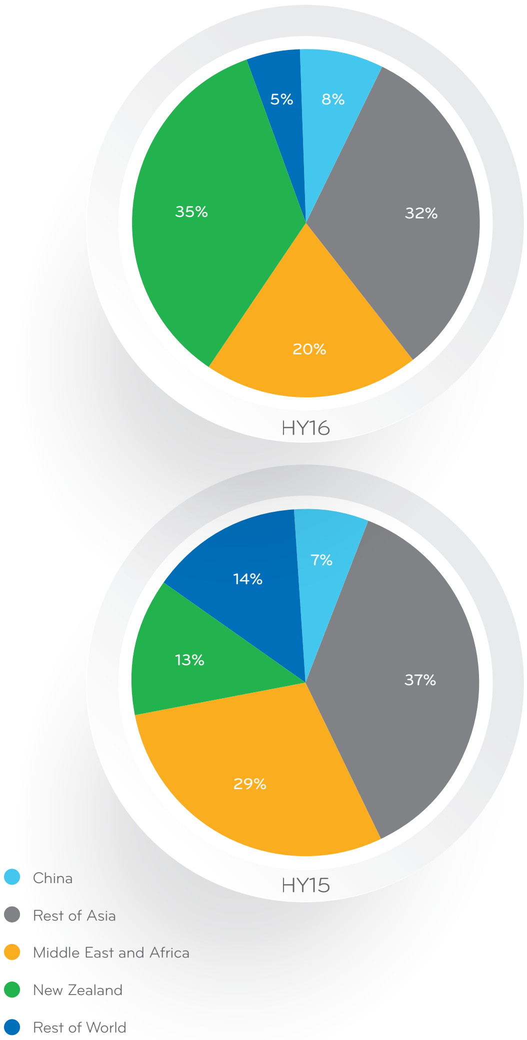
FINANCIAL PERFORMANCE

SALES

For the period ended 31 January 2016 our revenue of $213.5 million is up 8.1% on last year's $197.5 million and is underpinned by volume growth of 8.9% to 46,356 metric tonnes (MT). Improved product mix (higher value canned infant formula sales) and a lower USD foreign exchange rate has largely offset softer dairy commodity prices against the same period last year.

Total volume sold for HY16 of 46,356 MT was 8.9% above 42,581 MT in HY15.

Sales revenue by geographic region



The large increase in New Zealand sales has been driven by increased sales to The a2 Milk Company™, who then subsequently export the product.

	HY16	HY15	Change Vol	Change %
Sales				
Ingredients	38,858	39,635	(777)	(2.0)%
Nutritionals	7,498	2,946	4,552	154.5%
Total sales (MT)	46,356	42,581	3,775	8.9%

While ingredient sales volumes have remained relatively similar to last year, nutritional sales volumes have increased by 4,552 MT (or 154.5%). The majority of this increase has been in canned infant formula products.

	HY16	HY15	Change Vol	Change %
Production				
Ingredients	63,193	61,617	1,576	2.6%
Nutritionals	11,957	2,725	9,232	338.8%
Total production (MT)	75,149	64,341	10,808	16.8%

Production levels are 16.8% up over HY15 following the successful commissioning of our third large scale spray dryer (D3) in September 2015. This has increased inventory levels at 31 January 2016, however increases in sales volumes of both ingredient and nutritional products are forecast for the second half of FY16 to bring our forecast total sales volumes for the year to approximately 122,500 MT.

GROSS MARGIN

Synlait has generated strong margin growth in HY16 against HY15, led by volume growth in canned infant formula.

Ingredients margin is in line with HY15 with consistent volumes and margins sold and generated, respectively.

Margin for nutritional products, however, has experienced growth driven by a 358% increase in canned infant formula sales from 1,145 MT last year to 5,246 MT. The growth has been driven by increasing demand from The a2 Milk Company™.

The growth in canning volumes has also improved our product mix, which has increased our gross profit per MT from $590 to $996.

Our ability to grow the value-added nutritional product segment has been supported by our suppliers differentiating milk inside their farm gate. We recognise this value creation through premiums we pay our milk suppliers. For the six months ended 31 January 2016, our milk suppliers received $2.2 million in value added premiums, a 208% increase over $0.7 million at the same time in FY15.

OVERHEAD EXPENDITURE

In total our overhead expenses for HY16 at $21.5 million is 6.1% up over HY15's $20.3 million. This increase, after removing the impact of lower export freight costs that are fully recovered from customers, was actually $2.5 million (or 15.7%). The key drivers are increased external warehouse costs and associated domestic freight expenses, as well as investments in several critical process improvement projects.

Included within our overhead expenditure is $3.0 million (HY15 - $4.3 million) of export freight costs.

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

EBITDA at $35.0 million increased 184% on HY15's $12.3 million, driven by the $24.4 million improvement in gross margin (excluding depreciation) and partially offset by overhead growth of $1.2 million.

NET FINANCING COSTS

Net financing costs at $6.8 million increased by 53.7% over HY15's $4.4 million and is primarily due to the capital investment in D3 and our quality testing laboratory and administration building. It was partially mitigated by increased USD working capital financing.

$ million	HY16	HY15	Variance
Gross term debt interest	7.0	4.0	3.0
less capitalised interest	(1.5)	(1.6)	0.1
Net term debt interest	5.5	2.4	3.1
Working capital funding interest	1.3	2.3	(1.0)
Interest received	(0.1)	(0.3)	0.2
Discount on de-recognition of financial instruments	0.1	-	0.1
Net financing costs	6.8	4.4	2.4

The $2.4 million increase in net financing costs is split between an increase in net interest costs associated with term debt financing ($3.1 million), a discount on de-recognition of financial instruments ($0.1 million) and a reduction in interest received ($0.2 million). This was offset by a reduction in net interest costs associated with working capital financing ($1.0 million).

Term debt interest (net of capitalisation) has increased $3.1 million over the same period last year. This is driven by the increase in debt associated with the capital investment in, and subsequent commissioning of, D3 and our quality testing laboratory and administration building. Also increasing term debt interest expense is the refinance of $35.0 million from the working capital facility. This refinanced growth project capital expenditure had effectively been funded through the working capital facility in prior periods.

Interest on working capital funding reduced by $1.0 million to $1.3 million due to increased utilisation of USD funding facilities (predominantly the USD inventory finance facility), which enjoy a lower base interest rate. Additionally, refinancing $35.0 million of working capital debt into the revolving credit facility in September 2015 and lower New Zealand Dollar interest rates in FY16 also assisted in reducing working capital financing costs.

EARNINGS PER SHARE

Our reported basic and diluted earnings per share (EPS) for HY16 was 6.99 cents against HY15's loss of 4.39 cents.

Our underlying basic and diluted earnings per share for HY16 was 8.41 cents against 0.29 cents in HY15.

FINANCIAL POSITION

OVERVIEW

Our financial position has strengthened over the six months to 31 January 2016 with total assets increasing by $110.7 million (from $548.8 million) to $659.5 million, while our net debt only increased by $14.0 million (from $278.0 million) to $292.0 million.

This is due to a combination of cash flows generated over the last 12 months and the introduction of receivables financing for two of our customers' receivables (FrieslandCampina and The a2 Milk Company™). This is notwithstanding a large increase in our inventory, which has increased by $35.8 million.

TRADE AND OTHER RECEIVABLES

At $44.5 million, trade and other receivables are $20.7 million down on HY15's $65.2 million. This reduction is primarily due to our new receivables assignment arrangements.

The effect of assigning these receivables (to our banks) is transferring the associated credit risk to them on a non-recourse basis, supporting the derecognition of these receivables from our balance sheet. The effective interest costs are also at advantageous rates to our existing interest rates. This arrangement is further explained in Note 14 (b) in the Financial Statements (page 33).

INVENTORIES

Total inventory at $163.2 million is 28.2% higher than the $127.4 million held at the same time last year.

As noted in the FY15 Annual Report, we are seeing an increasing volume of product needing to be held over the off season in order to meet regular customer delivery requirements. We expect this to continue as we build our portfolio of value added products to customers who want continuous supply.

The increased inventory holdings are primarily due to higher HY16 production levels (up 10,808 MT on last year) following the commissioning of D3, while HY16 sales volumes have only increased by 3,775 MT. This increase has been partially mitigated by lower milk prices, which have reduced inventory values per metric tonne by 33%.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at $440.7 million increased $98.0 million over the same time last year ($342.7 million). This increase primarily reflects costs associated with the build of D3 and the quality testing laboratory and administration building. The increase also includes the asset revaluation carried out at the end of FY15.

D3 has added 40,000 MT of nutritional production capacity. The new administration building was completed and commissioned in September 2015 at a cost of $10.8 million, while the new quality testing laboratory was commissioned in October 2015 at a cost of $11.1 million.

TRADE AND OTHER PAYABLES

Trade and other payables at $114.1 million is up $41.1 million (56.2%) on last year's $73.0 million.

The majority of this variance is driven by an increase in revenue received in advance, relative to the same period last year.

Revenue in advance represents deposits that we receive from our customers and is primarily for consumer packaged products. Due to the growth experienced in consumer packaged sales, the deposits received from customers has increased by $31.2 million over the same period last year.

TOTAL NET DEBT

Total net debt for HY16, including both current and term debt facilities less cash on hand, was $292.0 million. This is an increase of $14.0 million over $278.0 million recorded at the same time last year.

Table of net debt

$ millions	HY16	HY15
Current debt	$96.7	$156.1
Term debt	$196.5	$122.4
Cash on hand	($1.1)	($0.4)
Total net debt	$292.0	$278.0

OPERATING CASH FLOWS

Operating cash flows at $4.0 million were $66.6 million up on HY15's negative $62.6 million. This improvement in operating cash flows for the period was driven by two initiatives. The first is the increase in customer deposits of $31.2 million as a consequence of increased consumer packaged sales orders. The second was the first time assignment of The a2 Milk Company™ receivables to BNZ totalling $17.0 million as at 31 January 2016.

BANK FACILITIES AND COVENANTS

We have two syndicated bank facilities in place with ANZ and BNZ after refinancing in September 2015 and consolidating our D3 loan with our revolving credit facility.

1. Working capital facility – reviewed annually and facility limit of $35.0 million
2. Revolver facility – matures 1 August 2020 and facility limit of $245.0 million

We have four key bank covenants in place within our syndicated bank facility agreement. These are:

1. Interest cover ratio - EBITDA to interest expense of no less than 3.00x based on full year forecast result
2. Minimum shareholders funds – no less than $175 million up to 30 April 2016, then $200 million thereafter
3. Working capital ratio – limits vary during the year but primarily based on seasonality impacts on working capital balances
4. Leverage ratio – Total debt to EBITDA is no greater than 4.25x for FY16, 4.00x for FY17 and 3.75x for each financial year thereafter

We were compliant with our bank covenants at all times during HY16.

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 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

FINANCIAL STATEMENTS

HY16

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DIRECTORS' DECLARATION

AS AT 31 JANUARY 2016

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are pleased to present the condensed interim financial statements for Synlait Milk Limited and its subsidiary set out on pages 16 to 36 for the six months ended 31 January 2016.

The directors are responsible for ensuring that the condensed 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 2016 and the financial performance and cash flows for the six months ended on that date.

The directors consider that the condensed 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 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
30 March 2016

John Penno
MANAGING DIRECTOR
30 March 2016

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

		Group $'000		
		Period ended		Year ended
		31 January	31 January	31 July
		2016	2015	2015
	Notes	Unaudited	Unaudited	Audited
Revenue		213,472	197,523	448,136
Cost of sales	5	(167,309)	(172,388)	(379,531)
Gross profit		46,163	25,135	68,605
Other income		310	256	439
Share of loss from associates		(734)	-	(378)
Sales and distribution expenses	5	(10,729)	(10,617)	(23,395)
Administrative and operating expenses	5	(10,762)	(9,636)	(18,926)
Earnings before net finance expense and income tax		24,248	5,138	26,345
Finance expenses		(6,813)	(4,755)	(9,161)
Finance income		138	346	311
Discount on derecognition of financial assets		(101)	-	(37)
Net finance costs		(6,776)	(4,409)	(8,887)
Unrealised foreign exchange losses		(2,890)	(9,514)	(2,326)
Profit / (loss) before income tax		14,582	(8,785)	15,132
Income tax (expense) / benefit		(4,355)	2,354	(4,580)
Net profit / (loss) after tax for the period		10,227	(6,431)	10,552
Earnings per share				
Basic and diluted earnings per share (cents)		6.99	(4.39)	7.21

		Group $'000		
		Period ended		Year ended
		31 January	31 January	31 July
		2016	2015	2015
Supplementary Information	Notes	Unaudited	Unaudited	Audited
Profit / (loss) for the period		10,227	(6,431)	10,552
Underlying adjustments				
Unrealised foreign exchange losses		2,890	9,514	2,326
Adjustments before tax		2,890	9,514	2,326
Tax on underlying adjustments		(809)	(2,664)	(651)
Underlying net profit after tax	3	12,308	419	12,227
Underlying net profit per share (cents)		8.41	0.29	8.35

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 3 to the interim financial statements.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company issued by the External Reporting Board. The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2016

		Group $'000		
		Period ended		Year ended
		31 January	31 January	31 July
		2016	2015	2015
	Notes	Unaudited	Unaudited	Audited
Profit / (loss) for the period		10,227	(6,431)	10,552
Other comprehensive income				
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		19,326	(24,692)	(48,368)
Net change in fair value of cash flow hedges transferred to profit and loss		(391)	4,157	985
Income tax on other comprehensive income		(5,302)	5,751	8,726
Total items that may be reclassified subsequently to profit and loss		13,633	(14,784)	(21,847)
Other comprehensive income / (loss) for the period, net of tax		13,633	(14,784)	(21,847)
Total comprehensive income / (loss) for the period		23,860	(21,215)	(11,295)

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 2016 (UNAUDITED)

		Share capital	Employee benefits reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 August 2015		172,247	71	(36,218)	20,276	15,471	171,847
Profit or loss for the period		-	-	-	-	10,227	10,227
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	17,422	-	-	17,422
Movement in time value hedge reserve		-	-	1,904	-	-	1,904
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	(391)	-	-	(391)
Income tax on other comprehensive income		-	-	(5,302)	-	-	(5,302)
Total other comprehensive income		-	-	13,633	-	-	13,633
Employee benefits reserve		-	242	-	-	-	242
Total contributions by and distributions to owners		-	242	-	-	-	242
Equity as at 31 January 2016		172,247	313	(22,585)	20,276	25,698	195,949

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 2015 (UNAUDITED)

	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 2014		172,247	60	(2,103)	8,008	4,918	183,130
Profit or loss for the period		-	-	-	-	(6,431)	(6,431)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges		-	-	(19,280)	-	-	(19,280)
Movement in time value hedge reserve		-	-	(5,412)	-	-	(5,412)
Net change in fair value of cash flow hedges transferred to profit and loss		-	-	4,157	-	-	4,157
Income tax on other comprehensive income		-	-	5,751	-	-	5,751
Total other comprehensive income		-	-	(14,784)	-	-	(14,784)
Employee benefits reserve		-	300	-	-	-	300
Total contributions by and distributions to owners		-	300	-	-	-	300
Equity as at 31 January 2015		172,247	360	(16,887)	8,008	(1,513)	162,215

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 2015

	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 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		-	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

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 2016

		Group $'000		
		31 January	31 January	31 July
		2016	2015	2015
	Notes	Unaudited	Unaudited	Audited
Current assets				
Cash and cash equivalents		1,128	437	1,529
Trade and other receivables		44,507	65,175	68,141
Goods and services tax refundable		914	5,516	1,240
Income accruals and prepayments		1,529	1,273	2,225
Inventories	6	163,218	127,362	63,804
Derivative financial instruments		678	255	178
Total current assets		211,974	200,018	137,117
Non-current assets				
Property, plant and equipment	8	440,252	342,691	436,038
Intangible assets		4,533	3,752	4,651
Other investments	7	1,242	2,320	1,976
Derivative financial instruments		1,507	-	-
Total non-current assets		447,534	348,763	442,665
Total assets		659,508	548,781	579,782
Current liabilities				
Loans and borrowings	9	96,658	156,064	85,646
Trade and other payables		114,070	73,006	80,367
Current tax liabilities		2,517	-	137
Derivative financial instruments		11,575	21,840	33,677
Total current liabilities		224,820	250,910	199,827
Non-current liabilities				
Loans and borrowings	9	196,513	122,410	177,921
Deferred tax liabilities		20,858	8,420	13,600
Derivative financial instruments		21,368	4,826	16,588
Total non-current liabilities		238,739	135,656	208,109
Total liabilities		463,559	386,566	407,936
Equity				
Share capital		172,247	172,247	172,247
Employee benefits reserve	11	313	360	71
Cash flow hedge reserve	11	(22,585)	(16,887)	(36,218)
Revaluation reserve	11	20,276	8,008	20,276
Retained earnings / (deficit)		25,698	(1,513)	15,470
Total equity attributable to equity holders of the Company		195,949	162,215	171,846
Total equity and liabilities		659,508	548,781	579,782

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 2016

		Group $'000		
		Period ended		Year ended
		31 January	31 January	31 July
		2016	2015	2015
	Notes	Unaudited	Unaudited	Audited
Cash flows from operating activities				
Cash receipts from customers		273,801	221,685	479,763
Cash paid for milk purchased		(153,541)	(209,126)	(311,877)
Cash paid to other creditors and employees		(116,592)	(75,887)	(157,823)
Goods and services tax refunds		326	3,364	7,640
Income tax refunds / (payments)		(19)	(2,618)	(1,327)
Net cash inflow / (outflow) from operating activities	12	3,975	(62,582)	16,376
Cash flows from investing activities				
Interest received		138	343	305
Acquisition of property, plant and equipment		(23,291)	(49,566)	(106,982)
Proceeds from sale of property, plant and equipment		3	1	119
Acquisition of intangible assets		576	-	(993)
Purchases of equity instruments		-	(2,250)	(2,284)
Net cash outflow from investing activities		(22,574)	(51,472)	(109,835)
Cash flows from financing activities				
Repayments of borrowings		(41,000)	(8,500)	(18,075)
Receipt of borrowings		56,947	33,725	102,488
Net movement in working capital and trade finance facilities		11,011	92,951	22,533
Interest paid		(8,760)	(6,078)	(14,351)
Net cash inflow from financing activities		18,198	112,098	92,595
Net decrease in cash and cash equivalents		(401)	(1,956)	(864)
Cash and cash equivalents at the beginning of the period		1,529	2,393	2,393
Cash and cash equivalents at end of the period		1,128	437	1,529

The above cash flow statement should be read in conjunction with the accompanying notes.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410: Review of Financial Statements performed by the Independent Auditor of the Company 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 a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

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.

These condensed interim financial statements have been approved for issue by the Board of Directors on 30 March 2016.

2. BASIS OF PREPARATION OF SIX MONTHLY FINANCIAL REPORT

The unaudited condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as appropriate for interim financial statements. 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 financial reporting standards appropriate for profit oriented entities.

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. Certain comparative figures have been restated to reflect current expense allocations between cost of sales, sales and distribution and administrative and operating expenses.

(a) Changes to accounting policies

There have been no significant changes in accounting policies during the current period. The same accounting policies and methods of computation are followed in these financial statements as the most recent annual financial statements for the year ended 31 July 2015.

3. 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 are not hedge accounted.

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 Company utilises a 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.

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

	Group $'000		
	Period ended		Year ended
	31 January 2016	31 January 2015	31 July 2015
	Unaudited	Unaudited	Audited
Mitsui & Co. (NZ) Ltd. inventory finance facility revalued to NZD	(2,890)	(9,514)	(2,326)
Total unrealised foreign exchange losses	(2,890)	(9,514)	(2,326)

4. SEGMENT INFORMATION

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 Company's operations as a whole and the Group therefore has one segment.

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

Revenues of approximately 58% are derived from the top three external customers (31 January 2015: 41%, 31 July 2015: 40%).

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

	Group		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
China	8%	7%	10%
Rest of Asia	32%	37%	39%
Middle East and Africa	20%	29%	26%
New Zealand	35%	13%	17%
Rest of World	5%	14%	8%
	100%	100%	100%

The proportional sales for New Zealand include sales to The a2 Milk Company™ which they subsequently export overseas.

5. EXPENSES

	Group $'000		
	Period ended		Year ended
	31 January 2016 Unaudited	31 January 2015 Unaudited	31 July 2015 Audited
The following items of expenditure are included in cost of sales			
Depreciation and amortisation	9,462	6,138	12,436
Employee benefit expense [1]	10,874	7,281	15,182
Kiwisaver contributions	272	164	371
Rent	231	30	111
Repairs and maintenance	1,014	1,691	4,751
Research and development	121	219	352
Increase / (decrease) in inventory provision	1,154	925	(6,002)
The following items of expenditure are included in sales and distribution expenses			
Depreciation and amortisation	560	424	918
Donations	1	1	3
Employee benefit expense	2,872	2,561	5,350
Export freight [2]	3,019	4,287	8,719
Kiwisaver contributions	62	43	88
Rent expense	608	70	260
Repairs and maintenance	324	268	550
The following items of expenditure are included in administrative and operating expenses			
Depreciation and amortisation	750	646	1,249
Directors fees	231	199	451
Employee benefit expense	3,965	3,624	6,774
Kiwisaver contributions	99	89	176
Repairs and maintenance	2	18	37
Share based payment expense	242	300	11

[1] Employee costs have increased following the commissioning of Dryer 3 and the Laboratory during the period, as well as additional shifts to support increased production on the Blending and Canning facility.

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

6. CURRENT ASSETS - INVENTORIES

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
Raw materials at cost	19,380	16,998	11,542
Finished goods at cost	131,464	102,224	47,725
Finished goods at net realisable value	12,374	8,140	4,537
Total inventories	163,218	127,362	63,804

The total provision as at 31 January 2016 was $5.0m (31 January 2015: $10.8m, 31 July 2015: $3.9m) with $1.9m (31 January 2015: $8.2m, 31 July 2015: $1.4m) relating to infant formula.

7. NON-CURRENT ASSETS - OTHER INVESTMENTS

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
Equity securities	110	110	110
Investment in associates	1,132	2,210	1,866
Total other investments	1,242	2,320	1,976

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
Investment in associates			
New Hope Nutritionals			
Opening balance	1,866	-	-
Investment cost	-	2,210	2,244
Share of losses	(734)	-	(378)
Carrying value of investment	1,132	2,210	1,866

8. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Fixtures and fittings	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Period ended 31 January 2016						
Additions	-	-	-	-	14,466	14,466
Reclassification / transfer	-	44,084	110,419	789	(155,292)	-
Disposals	-	-	-	(3)	-	(3)
Period ended 31 January 2015						
Additions	-	-	-	-	51,251	51,251
Reclassification / transfer	-	1,311	2,099	157	(3,567)	-
Disposals	-	-	-	(1)	-	(1)
Year ended 31 July 2015						
Additions	-	-	-	-	134,822	134,822
Reclassification / transfer	452	13,615	5,680	557	(20,304)	-
Disposals	-	-	(136)	-	-	(136)

The above table is an extract of Property, Plant and Equipment and represents additions, reclassifications and disposals that have occurred during the period, exclusive of depreciation and revaluations.

Capitalised borrowing costs

During the period, the Group has capitalised borrowing costs amounting to $1.6m (31 January 2015: $1.3m, 31 July 2015: $5.0m).

9. LOANS AND BORROWINGS

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
Current liabilities			
Working capital facility	-	34,150	25,370
Trade finance facility	33,837	48,913	36,181
Inventory finance facility	62,821	73,001	24,095
	96,658	156,064	85,646
Non-current liabilities			
Bank term loans	197,111	122,866	178,274
Loan facility fees	(598)	(456)	(353)
	196,513	122,410	177,921

In September 2015 the Company renegotiated its bank facilities agreement to provide committed long term debt facilities and significantly improve the debt maturity profile. The existing revolving credit facility and Dryer 3 loan were consolidated into a single five year revolving credit facility, with a $35.0m increase in the facility limit and a corresponding decrease in the working capital facility. This $35.0m transfer is included in receipt of borrowings in the consolidated statement of cash flows.

10. SHARE-BASED PAYMENTS

Details of the employee share option plan are contained in the 2015 annual financial statements.

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
	2016	2015	2015
	Unaudited	Unaudited	Audited
Key management and personnel (note 17)	148	170	7
Other employees	94	130	4
Expenses for equity settled share based payment transactions	242	300	11

11. RESERVES AND RETAINED EARNINGS

(a) Nature and purpose of reserves

(i) 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.

Movement in the fair value of cash flow hedges represents the mark to market revaluation of foreign exchange and interest rate derivatives that are hedge accounted. The mark to market is calculated by reference to the market prices at the end of the period compared to the face value of each derivative. Market prices during the period have moved favourably relative to the Group's financial instruments resulting in a net revaluation gain at the end of the period for hedges that remain in place.

(iii) Employee benefits reserve

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

(iv) Dividends

No dividends were declared by the Group during the six months ended 31 January 2016 (31 January 2015: $nil, 31 July 2015: $nil).

12. 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
	2016	2015	2015
	Unaudited	Unaudited	Audited
Net profit / (loss) after tax for the period	10,227	(6,431)	10,552
Non-cash and non operating items:			
Depreciation and amortisation of non-current assets	10,772	7,209	14,603
Loss on sale of fixed assets	-	-	(13)
Share of loss from associates	734	-	378
Non cash share based payments expense	242	300	11
Interest costs classified as financing cash flow	6,813	4,469	9,167
Interest received classified as investing cash flow	(138)	(343)	(311)
Discount on derecognition of financial assets	101	-	37
Deferred tax	1,956	(2,355)	5,731
Gain / (loss) on derivative financial instruments	(392)	4,157	1,053
Unrealised foreign exchange losses	2,890	6,106	2,326
Movements in working capital:			
(Increase) / decrease in trade receivables	23,634	24,388	20,739
(Increase) / decrease in other receivables	734	(517)	166
(Increase) / decrease in prepayments	696	(487)	(1,439)
(Increase) / decrease in inventories	(99,414)	(56,100)	7,458
(Increase) / decrease in other current assets	(408)	3,364	7,640
(Decrease) / increase in trade and other payables	43,148	(43,724)	(59,241)
(Decrease) / increase in current tax liabilities	2,380	(2,618)	(2,481)
Net cash inflow / (outflow) from operating activities	3,975	(62,582)	16,376

13. 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 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 2015. There have been no changes in any risk management policies since year end.

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.

14. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Total
	$'000	$'000	$'000	$'000
Financial assets				
At 31 January 2016				
Cash and cash equivalents	1,128	-	-	1,128
Derivative financial instruments	-	-	2,185	2,185
Trade and other receivables	44,507	-	-	44,507
Investments in equity	-	110	-	110
Total	45,635	110	2,185	47,930
At 31 January 2015				
Cash and cash equivalents	437	-	-	437
Derivative financial instruments	-	-	255	255
Trade and other receivables	65,175	-	-	65,175
Investments in equity	-	110	-	110
Total	65,612	110	255	65,977
At 31 July 2015				
Cash and cash equivalents	1,529	-	-	1,529
Derivative financial instruments	-	-	178	178
Trade and other receivables	68,141	-	-	68,141
Investments in equity	-	110	-	110
Total	69,670	110	178	69,958

14. FINANCIAL INSTRUMENTS (CONTINUED)

	At amortised cost	At fair value through profit or loss	Total
	$'000	$'000	$'000
Financial liabilities			
At 31 January 2016			
Derivative financial instruments	-	32,943	32,943
Working capital facility	-	-	-
Trade finance facility	33,837	-	33,837
Inventory finance facility	62,821	-	62,821
Trade and other payables	114,070	-	114,070
Borrowings	196,513	-	196,513
Total	407,241	32,943	440,184
At 31 January 2015			
Derivative financial instruments	-	26,666	26,666
Working capital facility	34,150	-	34,150
Trade finance facility	48,913	-	48,913
Inventory finance facility	73,001	-	73,001
Trade and other payables	73,006	-	73,006
Borrowings	122,410	-	122,410
Total	351,480	26,666	378,146
At 31 July 2015			
Derivative financial instruments	-	50,265	50,265
Working capital facility	25,370	-	25,370
Trade finance facility	36,181	-	36,181
Inventory finance facility	24,095	-	24,095
Trade and other payables	80,367	-	80,367
Borrowings	177,921	-	177,921
Total	343,934	50,265	394,199

All derivative financial instruments are designated in effective hedge relationships.

For instruments held at amortised cost, carrying amount is considered a reasonable approximation for fair value.

(b) 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 are 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.

(c) Derecognised financial assets

The Group has derecognised trade receivables that have been sold pursuant to the terms of receivables purchase agreements that the Group has entered into with its bankers. The Group has assessed the terms of the agreements and has determined that substantially all the risks and rewards have been transferred to the respective banks. 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 where applicable) and results 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 agreements. 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 facilities for qualification for derecognition at each reporting date, when the terms of the facilities 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 $722 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. To date, the Group has paid no late payment charges in respect of assigned receivables.

The discount arising from derecognition of assigned receivables is $101,000 (31 January 2015: $nil, 31 July 2015: $37,000) for the period.

15. CONTINGENCIES

As at 31 January 2016 the Group had no contingent liabilities or assets (31 January 2015: $nil, 31 July 2015: $nil).

16. COMMITMENTS

As at 31 January 2016 the Company had no capital commitments (31 January 2015: $79.2m, 31 July 2015: $6.3m).

17. 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 2015: 39.12%, 31 July 2015: 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.

(c) 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 2016. The total benefits paid to the key management and personnel is set out below.

	Group $'000		
	Period ended		Year ended
	31 January 2016	31 January 2015	31 July 2015
	Unaudited	Unaudited	Audited
Short term benefits	1,536	1,561	2,859
Share based payments expense (note 10)	148	170	7

(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 January 2016 (31 January 2015: $nil, 31 July 2015: $nil).

(ii) Other transactions and balances

Directors of the Company control 3.8% of the voting shares of the company at 31 January 2016 (31 January 2015: 3.8%, 31 July 2015: 3.7%).

(e) Directors and key management personnel

As of 8 December 2015 one of the Bright appointed directors, Dong Zongbo, has been replaced as a director by Qikai Lu.

(f) Transactions with other related parties

	Group $'000		
	Period ended		Year ended
	31 January	31 January	31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
Purchase of goods and services			
Bright Dairy and Food Co., Ltd. - Directors fees	72	66	99
Sale of goods and services			
Bright Dairy and Food Co., Ltd. - Sale of milk powder products	-	2,065	7,199
Bright Dairy and Food Co., Ltd. - Reimbursement of costs	(80)	56	70
Sichuan New Hope Nutritional Foods Co., Ltd. - Sale of milk powder products	3,309	-	10,761

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

(g) 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 2016 Unaudited	31 January 2015 Unaudited	31 July 2015 Audited
Current receivables (sales of goods and services)			
Bright Dairy and Food Co., Ltd. - Sale of milk powder products	-	-	4,185
Bright Dairy and Food Co., Ltd. - Reimbursement of costs	(241)	(4)	(88)
Sichuan New Hope Nutritional Foods Co., Ltd. - Sale of milk powder products	19	-	1,175
Revenue received in advance (sales of goods and services)			
Bright Dairy and Food Co., Ltd. - Sale of milk powder products	10,723	-	353
Sichuan New Hope Nutritional Foods Co., Ltd. - Sale of milk powder products	655	2,830	347
Current payables (purchases of goods)			
Bright Dairy and Food Co., Ltd. - Directors fees	-	66	-

18. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no events occurring subsequent to 31 January 2016 which require adjustment to or disclosure in the financial statements.

Deloitte.

INDEPENDENT REVIEW REPORT TO THE SHAREHOLDERS OF SYNLAIT MILK LIMITED

We have reviewed the condensed Group interim financial statements of Synlait Milk Limited ("the Company") and its subsidiary ("the Group") which comprise the Condensed Consolidated Statement of Financial Position as at 31 January 2016, and the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 14 to 36.

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 are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

OUR RESPONSIBILITIES

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. As the auditor of Synlait Milk Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those condensed consolidated interim financial statements.

In addition to this review and the audit of the Group's annual financial statements, we have performed other assignments in the areas of assurance related, taxation and other consulting services which are compatible with the independence requirements of the External Reporting Board. These services have not impaired our independence as auditor of the Group. Other than these assignments and trading activities, we have no relationship with, or interests in, the Group.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2016 and its financial performance 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.

Deloitte

30 March 2016

Chartered Accountants

DUNEDIN, NEW ZEALAND

This review report relates to the unaudited condensed consolidated interim financial statements of Synlait Milk Limited for the six months ended 31 January 2016 included on Synlait Milk Limited's website. The Board of Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed consolidated interim financial statements and related review report 30 March 2016 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORY

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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 Appointed Director

Qikai Lu – Bright Dairy Appointed Director

Sihang Yang – Bright Dairy Appointed Director

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

SENIOR LEADERSHIP TEAM

John Penno – Chief Executive & Managing Director

Nigel Greenwood – Chief Financial Officer

Matthew Foster – General Manager Manufacturing & Supply Chain

Natalie Lombe – General Manager People & Culture

Mike Lee – General Manager Sales

Michael Stein – General Manager Quality & Regulatory

Chris France – General Manager Business Transformation

Rob Stowell – General Manager Integrated Business Planning

Malcolm Tweed – Strategic Advisor Business Development (Contractor)

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The Bank of New Zealand

INVESTMENT BANKERS

First NZ Capital Securities Limited
Goldman Sachs New Zealand 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

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