

Appendix 1

Synlait Milk Key Facts and History

44%	average annual revenue growth over the four financial years to FY2013F
87,790 Metric Tonnes	of Ingredient and Infant Formula and Nutritional powders to be sold in FY2013F
46.6 million kg MS (milk solids)	expected to be processed in FY2013F
30%	average annual volume production growth over the four financial years to FY2013F
Approximately 155	farms supplying us with milk
Over 80	customers located in 50 countries
Over 150	employees
Four consecutive years	in the Deloitte Fast 50 Index from 2008 to 2011 ¹

Beginnings

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

¹ The Deloitte Fast 50 Index is an index prepared by Deloitte in New Zealand. Deloitte prepares this from a combination of its own research, public nominations and businesses that apply to Deloitte to be included. Businesses that enter are ranked by Deloitte according to their percentage revenue growth over a three year period and the 50 businesses with the highest percentage growth make up the Deloitte Fast 50.

Vision

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

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

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

Development

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

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

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

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

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

Demand for our products soon outstripped production capacity, enabling a greater focus on maximising returns. This resulted in us increasing our specialisation in milk powders for consumer consumption, and milk powders for infant formula manufacture where we found manufacturing returns

to be the greatest. In addition to developing relationships with the various in-market customers who had been the initial targets, strong relationships also developed with a number of global milk-based health and nutrition companies and a large international dairy trading company.

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

At a relatively early stage of our development as a company, we sought to conduct an initial public offer on the NZX in 2009 to strengthen our financial position at the time. That was not successful given market conditions resulting from the global financial crisis. Following the unsuccessful initial public offering we sought a cornerstone shareholder who could bring additional capital. Bright Dairy, listed on the Shanghai Stock Exchange, invested in Synlait Milk in November 2010, acquiring a 51% stake. Bright Dairy sought a strategic investment in an aligned business and a supplier of products for quality infant formula from our part of the world. This provided us with capital required to build Dryer 2, a potential cornerstone customer for fully finished infant formula, and first-hand market knowledge of the Chinese consumer dairy market.

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

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

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

Our Strategy and Development Plan

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

Ingredient products

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

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

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

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

Infant Formula and Nutritional products

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

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

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

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

Cream products

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

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

applications such as bakery. Development of Ammix butter will enable:

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

Investment Programme

Project	Construction start date	Expected commissioning date	Expected total cost
Lactoferrin extraction and purification facility	May 2013	January 2014	\$15.1m
Blending and consumer packaging plant	August 2013	August 2014	\$27.5m
Dry store	August 2013	January 2014	\$11.8m
Quality testing laboratory	August 2013	March 2014	\$3.9m
Dryer 3	April 2014	August 2015	\$110m
Ammix Butter Plant	August 2014	May 2015	\$15m
		Total cost	\$183.3m

Our History

2005	Synlait Milk launched.
2007	Synlait Milk enters an agreement to deliver all milk collected to Westland Milk Products while Dryer 1 is being built.
2008	Dryer 1 is commissioned by Synlait Milk. AMF plant commissioned. Synlait Milk was awarded Fastest Growing New Entrant (Canterbury and Upper South Island), Fastest Growing Employer and 3rd Fastest Growing Company in New Zealand in the Deloitte Fast 50.
2009	Special Milks Dryer constructed to provide capability to produce up to 2,000 MT per annum of specialised high value dairy products. Synlait Milk sought to conduct an initial public offer on the NZX. This did not proceed at the time due to market conditions resulting from the global financial crisis. Synlait Milk was awarded Fastest Growing Manufacturer (Canterbury and Upper South Island), and 7th Fastest Growing Company in New Zealand in the Deloitte Fast 50. It was also awarded the Canterbury Large Emerging Exporter of the Year in the Air New Zealand Cargo, Canterbury Export Awards.
2010	Bright Dairy invests capital and becomes a 51% Shareholder. Synlait Milk commences construction of Dryer 2, a sophisticated purpose built infant formula facility. Synlait Milk was awarded the 12th fastest growing company in New Zealand in the Deloitte Fast 50.
2011	Dryer 2 is commissioned. Synlait Milk has the capability to manufacture Infant Formula and Nutritional products to unique customer specifications. Synlait Milk set a new record for itself by making the Deloitte Fast 50 index for the fourth consecutive year.
2012	Synlait Milk posted a \$6.3 million profit after tax for the year ending 31 July 2012. Synlait Milk scooped the Champion Global Operator (medium / large enterprise) at the Champion Canterbury Awards and the Agri-Business Award in the Sensational Selwyn Awards.
2013	Synlait Milk wins the Supreme Award at the HSBC New Zealand China Trade Association China Business Awards 2013. Synlait Milk also wins the category award for successful investment with China – inward or outward at the HSBC New Zealand China Trade Association China Business Awards 2013.