



Maiden Half Year Profit from growing farm base

- **AHF records maiden first half profit of \$300k**
- **Revenue of \$3.7m and net operating cash flow of \$845k despite El Nino summer**
- **Acquisition of new pedigree livestock, increasing herd numbers given outlook for good seasonal winter rain – end of El Nino**
- **Driving: 35% increase in milk production forecast in FY17 to 16.5m litres**
- **Increasing EBIT margin and generating target Return on Capital Employed**
- **Following completion of CDC acquisition AHF will have 36m litre milk processing capacity and established domestic and export sales channels**

ASX lodgement: Interim Report to 31 December 2015

Commenting on the results, AHF's Executive Chairman, Michael Hackett said, "The board is pleased with the Group's continued growth in revenue and milk production despite difficult farming conditions and ending the year with the company transforming opportunity to acquire Camperdown Dairy Company". The Group is now well positioned to capitalise on the output of its farming assets through value add milk processing at the Camperdown facility and the export of milk products to China. In addition, we see significant opportunity for growth in the Camperdown Dairy branded products range."

	31 December 2015	31 December 2014	%Change
Gross milk production (litres) ^{Note 1}	6,488,829	1,698,912	281%
Herd numbers	2,657	1,625	64%
Revenue	\$3,731,525	\$859,358	334%
EBIT	\$447,148	(\$786,652)	276%
NPAT	\$299,984	(\$846,420)	382%

Note: 1. Milk production in 2014 commenced 22 October 2014.

The results include sales and production from the Brucknell 1, 2 and 3 Farms for the full half year. Brucknell No. 4 farm was completed in July 2015 and the Heywood / Drumborg Farm was settled in mid-September 2015.

Ramping up Production in FY17

The net result will be a 30% increase in milking herd from 1,600 to 2,100 for the upcoming season.

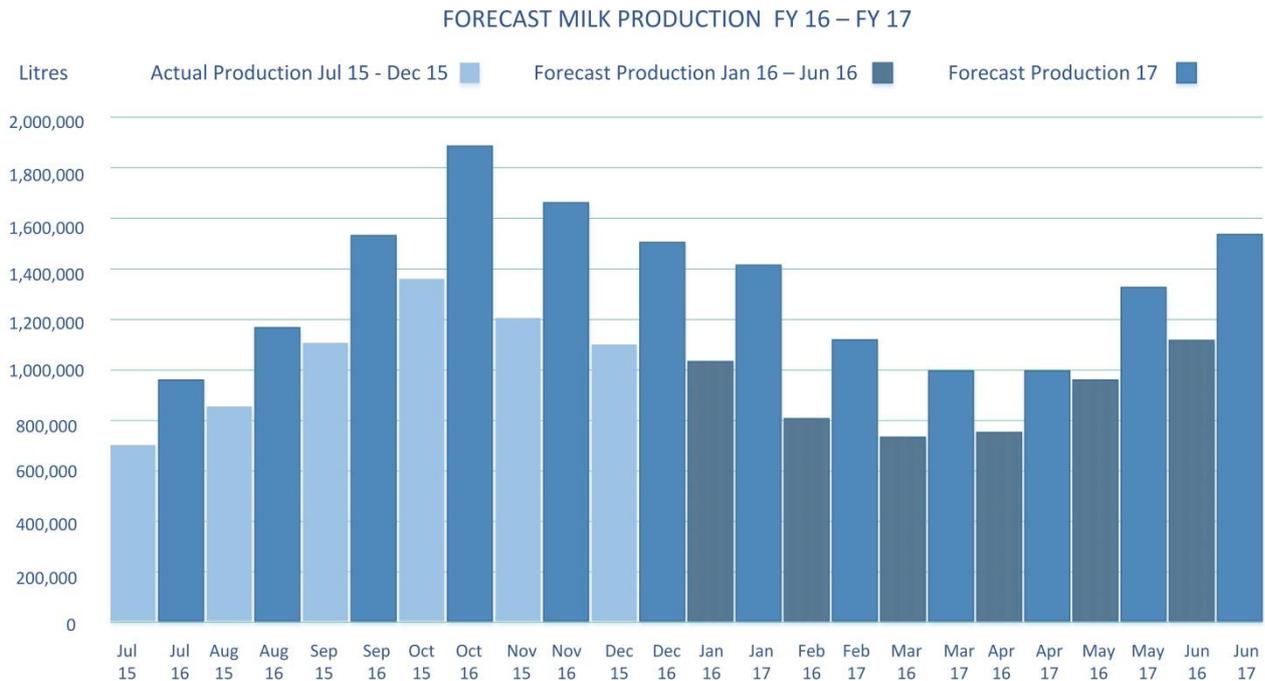
Production volumes for FY17 are forecast to be 16.5m litres, which is an increase of approximately 35% on the expected FY16 full year production. This reflects planned herd increases as the El Nino weather event subsides and the expectation of reversion to average or above average winter rainfall in south west Victoria and elsewhere.

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Milk production: Conservative Farm Management Proves Prescient in FY16

The following is a summary chart showing actual production for the six months to 31 December 2015 and forecast monthly production to June 2017.

As discussed in the Directors Report, during the December half year and current summer, the stocking rate of milking cows has been maintained at a very conservative level as dryer than normal conditions have prevailed since the winter months. This has impacted on-farm fodder and pasture growth and increased the prices of purchased fodder and grain.



By way of example, AHF’s appointed Farm Manager at Drumborg, which settled in September, has run 300 milking cows this year versus expected carrying capacity of 600. Management has undertaken significant drainage works and successfully drilled 2 high flow irrigation bores over the current summer months that will provide useful irrigation from next summer onwards. At around the time of acquisition of the Drumborg Farm, AHF separately acquired 250 high quality in-calf heifers that will increase the milking heard to 550 for the full FY17 year with new young livestock.

Acquisition of Pedigree livestock

The dryer conditions resulting from the El Nino have presented opportunities to increase herd number and quality. AHF has purchased two lines of high quality pedigree Holsteins and Jersey cows that do not often become available, at very attractive prices. The purchases of both lines of cows were recently committed subject to satisfactory veterinarian testing and being in-calf and ready to commence milking or already milking. The Jersey herd will be located at Brucknell No. 2 Farm as its pastures are wetter and are more suited to the lighter weight stock.

Having a pure Jersey Herd is expected to facilitate production of a high margin Jersey fresh milk product through the CDC Processing facility. This highlights the opportunity and strategy to produce specialist high margin dairy products and capture the margin from farm gate to supermarket shelf.

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Increased EBIT Margin and target farm returns expected in FY17

The directors anticipate a significant increase in farm margins in the 2017 financial year as stocking rates are increased to optimal levels as a result of capital improvements on farm and the expectation of a more favourable weather outlook. This should see a significant increase in milk production to approximately 16.5m litres, without a meaningful increase in fixed costs.

From July 2016, after completion of the purchase of Camperdown Dairy Company Pty Ltd (CDC), AHF expects to direct milk production through the CDC processing facility capturing the benefits of being Australia's only ASX listed vertically integrated dairy company.

Key Highlights of the proposed Camperdown Dairy Company Pty Ltd (CDC) acquisition include:

- Modern dairy processing facility for milk, butter, yoghurt and cream.
- Established export distribution to mainland China.
- Established customer base including Woolworths and Aussie Farmers Direct.
- Management team with over 100 years' combined experience.
- CDC have commenced the roll out of "Camperdown Dairy" branded dairy products.
- CDC currently operating at 50% utilisation, with current capacity of 36m litres.

EL Nino in decline – Expectations for above average rain

According to the Bureau of Meteorology (BOM) dated 16 February 2016, the dry El Nino influence is declining:

Based on the 26 El Niño events since 1900, around 50% have been followed by a neutral year, and 40% have been followed by La Niña. International climate models suggest neutral is most likely for the second half of the year. However, La Niña in 2016 cannot be ruled out, and a repeat El Niño appears unlikely. Historically, the breakdown of strong El Niño events often brings above average rainfall to some—but not all—parts of Australia in the first half of the year.

Financial Results – refer to the Directors' Report summaries for detail

The consolidated net profit attributed to members of the Group, after providing for income tax was \$299,984. The result was achieved on \$3,731,525 of revenue and other income and total expenses of \$3,431,541

The operating result for farm operations is a \$398,844 (2014: \$155,048) net profit before income tax and interest comprised of the following:

	31 December 2015	31 December 2014
Revenue from dairy farm operations	2,945,314	639,782
Fair value gain on livestock	547,569	86,579
Dairy related costs	(1,772,766)	(403,403)
Employment expenses	(508,041)	(105,171)
Deemed cost of disposal of livestock	(549,550)	(58,386)
Depreciation and amortisation	(263,682)	(4,353)
EBIT	398,844	155,048

Net Financial Position

The net assets of the Group are \$25,510,201 at 31 December 2015, an increase of \$423,523 from 30 June 2015.

Outlook

The AHF board, management and staff have concentrated on expanding the farm base and implementing capital works programs over the summer to build a strong and sustainable milking platform and look forward to a strong year of production from all farms in FY17.

The dairy industry continues to be underpinned by strong macro themes especially export opportunities to the growing Chinese middle class. The board believes that with the acquisition of CDC the Company is well positioned to capitalise on these opportunities and to generate strong earnings growth for its shareholders in the second half of FY16 and beyond.

For further information

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About Australian Dairy Farms Group

Australian Dairy Farms Group (AHF or the Group or Australian Dairy Farms Group) is Australia's first ASX listed dairy farmer. Its focus is on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis on the well regarded Golden Triangle region of dairy between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.

On 23 December 2015, AHF announced to ASX that it had entered into a contract to acquire Camperdown Dairy Company Pty Ltd – see announcement on <http://www.adfl.com.au/announcements>

Australian Dairy Farms Group is listed as a stapled security comprising one fully paid share in **Australian Dairy Farms Limited** (the Company) and one fully paid unit in **Australian Dairy Farms Trust** (the Trust). Within the structure, the Company is the operator and manager of the dairy farm properties which are leased from the Trust as the registered owner.

Disclaimer

This announcement may include "forward looking statements" within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on **AHF's** current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Forward looking statements can generally be identified by the use of the words "anticipate", "expect", "project", "forecast", "estimate", "intend", "may", "target", "plan", "guidance", "will", "predict" and other similar expressions. Indications of, and guidance on, future earnings or distributions and financial position and performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of AHF, and its officers, employees, agents, or associates, that may cause actual results to differ materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and AHF assumes no obligation to update such information.

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