Transitioning for Profit and Growth

Positioning AHF for the Future
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References to “Australian Dairy Farms”, the “Group” Australian Dairy Farms Limited, Australian Dairy Farms Trust and its trustee are references to Australian Dairy Farms Group and / or the following constituent entities. Australian Dairy Farms Limited ACN 057 046 607, Australian Dairy Farms Trust ASRN 600 601 689, Camperdown Dairy Company Pty Ltd ACN 140 640 606, SW Dairy Farms Pty Ltd ACN 600 103 553 and other subsidiary entities.
Overview – Key Points

**AHF**
- Appointment of Peter Skene as Group CEO and Director of AHF with focus to drive profit and growth.
- Opportunities to partner and joint venture with successful established parties for growth and diversification.
- AHF transitions from dairy farmer to vertically integrated dairy producer, processor, exporter.
- Increased management capacity to balance revenues and profitability from farming and processing.
- Vertical integration reduces impacts of extreme weather and seasons and global commodity pricing.

**CDC**
- FY 2017 processing results likely to benefit materially from substantially increased Q1 and Q2 sales.

**FARMS**
- FY 2016 farm results adversely affected by hot dry El Niño summer and resulting high input costs.
- FY 2017 farm results likely to benefit from current moderate La Niña system with wetter winter and spring conditions.
- Appointment of a highly experienced Farm Operations Management team in Graeme and Robyn Willis.
- Significant Capital works undertaken on Brucknell and Drumborg Farms (benefits to be seen this year and every year).
AHF Transitions

**AHF**

**Australian Dairy Farms Group listed on ASX in October 2014.**

Currently AHF owns 6 dairy farms which operate as 4 milking farms and 1 support farm with water licences for approximately 970 mega litres of irrigation water and 3300 livestock.

All farms have been significantly improved since acquisition with enhanced drainage and installed irrigation for maximum pasture growth. This will both stabilise and lower raw milk production costs.

FY 2016 raw milk production of 12.5m litres (partial contributions from Drumborg and Brucknell 3 & 4 and conservative stocking rates given climate).

FY 2017 ram milk production forecast of 16m litres.

**CDC**

On 22 December 2015 AHF signed contracts to acquire Camperdown Dairy Company Pty Ltd (CDC), which completed on 15 April 2016.

CDC is an established boutique dairy processor located at Camperdown in southwestern Victorian dairy country.

The acquisition of CDC is a significant transformational acquisition for AHF which is now facilitating:

- moving AHF from a commodities price dependent producer to value adding processor and distributer of dairy products.
- capacity to brand and market the free range white milk produced on-farm as origin traceable premium milk products.
- Potential to diversify product base with specialty milks such as organic milk and goat.

From July 2016, CDC’s acquisition is vindicated with significantly increased CDC branded sales and Victoria wide retail distribution.

**GROUP STRATEGY**

- Drainage and water retention expenditure benefits farms every year in future and reduces risks for adverse weather. Continue de-risking.
- Increase sales of Camperdown Premium Dairy Products through major Australian retailers, regionals and export markets.
- Increase utilisation of processing capacity and raw milk production.
- Capture margin right across the value chain.
- Diversify product base into high margin specialty products, including organic.
- Diversify customer base – WOW contracts and potential contracts with other major national and state retailers provide safety in growth strategies without dependence on one or two
- Grow combined platform - Build Specialty Drying Capability to maximise value of every litre of milk in peak seasons.
- Genuine JV negotiations with multiple users and take-off pre-commitments underway with high success expectation.
- Leverage off the flexibility and nimbleness of boutique facilities which focus on high margin products rather than high volume low margin ones.
1. The financial year 2015 – 2016 was a very disappointing year for both the global and Australian dairy industry.

2. This came following recent years expectations of major shortages and thus high raw milks prices
   - “China’s dairy demand for imports will expand three-fold to $71 billion by 2020” – Fonterra CEO, Andrew Ferrier, April 2011
   - “China’s dairy industry will increase 10% a year for the next 8 years” – Bloomberg, November 2011
   - “Higher domestic demand for dairy products will drive China’s imports” – United States Foreign Agriculture Service, October 2011
   - “The only direction for milk demand in China is up” – Chief Agribusiness Economist, National Australia Bank, November 2011

3. Following very strong prices for global dairy products in 2013/2014, over production occurred particularly in the EU, demand slowed and prices have fallen to what we estimate to below the cost of raw milk production on farm.

   GDT Price Index over 10 years

   The GDT Price Index is calculated from the total quantity sold in a Trading Event across all products, contract periods and sellers. For more information on the price index calculation, please go to our “How GDT Events work” page.

4. Lower market driven prices, combined with environmental conditions which materially drove up stock feed volumes and prices.

   We are starting to see a rebalancing of supply and demand with Rabobank, Fresh Logic and others expecting a recovery in prices in the 2017 calendar year.
Global Dairy Industry

- Major increases in global supply as production rapidly escalated after quota removal in EU
- As 40% of AU milk is exported domestic farmgate farm milk prices have been adversely impacted.
- Some recovery is expected as production levels in EU are seen as unsustainable
Global Dairy Industry

- Global whole milk powder at lowest returns in 5+ years.
- This is one of the drivers of farm milk price returns.
- Removal of quotas in Europe.
- Increased production in USA.
- Forecast by economists to recover in late 2017.
AHF FY 2016 Financial Estimates

1. Financial results for AHF remain a work in progress and have not yet been audited due to:
   • Complex integration of CDC into group accounts following delayed completion on 15 April 2016 and post completion adjustment which were settled on 28 June 2016.
   • Awaiting confirmation valuations of Farms and CDC Factory.
   • Unresolved final milk pricing from processor for raw milk supplied throughout 2016.

2. FY 2016 has been adversely affected by El Niño summer and autumn seasonal conditions which:
   • Prematurely dried off on-farm pastures in mid-spring 2015 as opposed to mid-summer as normal – Estimated loss farm fodder production $400,000
   • Consequent un-budgeted material expenditure on expensive fodder and grain as supplement feed - Estimated $900,000
   • Consequent tighter cattle sales market for lower production stock sold to reduce herd feed costs – Estimated value loss on livestock sold $460,000
   • Consequent lower production volumes for milking cows during late spring, summer and early autumn at forecast farmgate price $750,000
   Total $2,510,000

3. FY 2016 has not been materially adversely affected by the late autumn milk price downgrades
   • In late April and early May 2016 milk processors announced mid-season price cuts to farmgate milk prices and AHF initially estimated a potential negative FY2016 revenue impact for its full year production.
   • Further adjustments to full year pricing from Fonterra have been announced that indicate the initial impact estimates will be lower for farmers who continue to supply Fonterra in FY2017. The final price impact is yet to be determined although aside from lower volumes the price change has not had a material impact in 2016.

4. Combined negative impacts of seasonal effects of $2,510,000 result in an estimated NPAT loss of $1,700,000 for FY2016.
   • This figure remains an estimate and is subject to change as financial reports are yet to be completed and audited.
   • No allowance has been made for changes in fair values of farmland and buildings as independent valuations are being undertaken for this purposes.
## Impacts and future expectations for 2017 Financial Year.

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<thead>
<tr>
<th>Issue</th>
<th>2016 Financial Impact</th>
<th>Management action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fodder production loss</td>
<td>400k</td>
<td>• Extensive drainage work on all farms including dams and effluent ponds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Irrigation from ponds to water and fertilise paddocks.</td>
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<tr>
<td></td>
<td></td>
<td>• Pivot Irrigator - 600 mgl bore - Drumborg</td>
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<tr>
<td></td>
<td></td>
<td>• Strengthens grass growth and provides watering capability  for grass and crops in summer and autumn.</td>
</tr>
<tr>
<td>Extra fodder costs</td>
<td>900k</td>
<td></td>
</tr>
<tr>
<td>Lower cattle prices</td>
<td>460k</td>
<td>• Prices improve with seasons.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Herd renovation 90% complete.</td>
</tr>
<tr>
<td>Lower farm milk production</td>
<td>750k</td>
<td>• Minimised by above.</td>
</tr>
<tr>
<td>Total impacts</td>
<td>2,570k</td>
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</table>
Earthworks development on farms
First 3 months of AHF-CDC

Integration progressing very well on all levels including management, staff and financial systems.

Milk supply planning completed ready for vertical integration execution. Finalisation of date expected very soon.

Regional and Melbourne metro independent ranging rollout commenced.

Strategic plan being developed for significant and strategic entry into the organic dairy market during the 2017 calendar year.

CDC branded products have commenced being ranged in approximately 250 retail outlets.

Coles to commence with regional stores in very near future.

First time sales of CDC branded products into IGA and Woolworths.

Fist Quarter milk volumes for CDC are forecast to be up by approximately 50%.
• At end of current financial year, we will have moved towards optimum asset utilization.

2. Solution provider – Farmers own and running JV company with ODFA etc.


4. Flexible – Big enough (capacity to add value) and small enough make it happen in a timely manner.

5. Market demand driven rather then supply driven.
Milk supply

CDC milk supply is contracted until 31st of July 2016. This contract was in place prior to AHF acquiring CDC, and was necessary for security of supply of quality raw milk.

Raw milk supply is complex due to highly perishable nature of raw milk, seasonality, compliance, quality management and the 7 days per week nature of farming.

CDC is a market driven company and matching daily, weekly, and monthly end product sales volumes to raw milk availabilities, is complex, however rewarding when handled well.

On Tuesday the 2nd of August 2016 (one day after the completion of the current CDC milk supply agreement), we will commence transition arrangement to supply CDC milk.
### Management Structure

#### AUSTRALIAN DAIRY FARMS GROUP
- **(ASX LISTED as AHF)**

#### AUSTRALIAN DAIRY FARMS TRUST
- **(ADFT)**
- Trustees Australia Limited
  - Currently the Responsible Entity (RE) for ADFT, change proposed to Dairy Fund Management Limited
  - Michael Hackett
  - Nathan Leman
  - Kerry Daly
  - Jerome Jones
  - Evelyn Anderson

#### AUSTRALIAN DAIRY FARMS LIMITED
- **(ADFL)**
- Michael Hackett: Chairman
- Adrian Rowley: Director (Executive Duties)
- Peter Skene: AHF Group CEODirector
- Keith Jackson: Director (Non-Executive)

#### SW Dairy Farms Pty Ltd
- **(SWDF)**
- Adrian Rowley: Director
- Nathan Leman: Director (Executive Duties)
- Michael Hackett: Director
- Jerome Jones: Company Secretary

#### Camperdown Dairy Company Pty Ltd
- **(CDC)**
- Michael Hackett: Director
- Peter Skene: Director
- Adrian Rowley: Director
- Chris Melville: General Manager
- Jerome Jones: Company Secretary

**Registered owner of all Farms, Land and Buildings, Water Rights**
- Provides rental income to ADFL
- Operates and manages all farms
- Owns livestock
- Employees farm operations personnel
- Approximately 20 employees

**Processes and packages milk products**
- Markets and distributes through retail outlets
- Value added dairy products: R&D
- Approximately 40 employees

### NOTES

1. Trustees Australia’s/ RE role to change to Dairy Fund Management Limited subject to Securityholder approval, Convertible Note redemption and ASIC licensing.
2. Special Duties of executive and oversight roles for specific duties are assigned to certain directors in the early growth stages of the Group.
# Corporate Profile

## Corporate Statistics – 22 July 2016

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<table>
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<tr>
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<tbody>
<tr>
<td>ASX Code</td>
<td>AHF</td>
</tr>
<tr>
<td>Security price</td>
<td>$0.19</td>
</tr>
<tr>
<td>12 month security price range</td>
<td>$0.125-0.59</td>
</tr>
<tr>
<td>Stapled Securities on issue</td>
<td>181,005,330</td>
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<tr>
<td>Number of Security-holders</td>
<td>4,508</td>
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<tr>
<td>Convertible Notes (240 each A$10k face value, converts A$0.20, repayment by 23 October 2016) subject to EGM</td>
<td>$2.4m</td>
</tr>
<tr>
<td>Market capitalisation excluding Convertible Notes</td>
<td>$34.4m</td>
</tr>
<tr>
<td>Average daily trade volume during 2016</td>
<td>4.3 million</td>
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1. 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. From 15 April 2016 Camperdown Dairy Company (CDC) has become a wholly owned subsidiary of the Company.
Growth Opportunities

- **Export to Asian Markets**
  - CDC is one of two players exporting to China with rapid clearance accreditation for fresh milk. The Business is in discussions with a number of potential customers to grow export sales in Asia.

- **Expand product offering**
  - CDC has proven itself as a safe and reliable manufacturer of both Camperdown branded and other branded milk products. CDC is working with several customers to expand their product range into other consumer dairy products.

- **Expand CDC Brand Distribution**
  - Management are working to expand the distribution of Camperdown Dairy branded milk, yoghurt and butter in Woolworth’s stores. This will initially focus on Woolworth’s Western Victorian regional stores and then Victoria wide.
  - CDC has a strategy to better service the independent retail channel under the Camperdown Dairy banner.

- **New Product Development**
  - CDC is focused on producing exciting new and innovative products - pouch yoghurt, drinking yoghurt, and buttermilk to meet customer demand, grow brand recognition and drive sales of Camperdown Dairy branded products.

- **Farm Optimisation**
  - Focus on building farm value through risk minimisation through improved drainage, water storage and possible conversion of wetter farms to smaller Jersey breeds.
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