



CDC FINALISES OWN FARM MILK SUPPLY

- **New Flexible Milk Collection Contracts and Vertical Milk Supply Path**
- **Segregated Speciality Milks – Jersey, Conventional and Other**

Before the ink dried on the contract to acquire Camperdown Dairy (CDC) on 22 December 2015, the directors of Australian Dairy Farms Group (AHF or the Group) were looking to how they could use the milk from the Group's own farms in the retail products produced by CDC.

It has been achieved!

AHF is pleased to advise that from 1st Feb 2017, CDC will be processing its own milk and selling it as Camperdown Dairy milk with clear transparency of origin from our own farms and the cows that produced it. It is a "vertical supply path" and we are very proud to have delivered this unique product range target since completion of the acquisition of CDC eight months ago.

AHF Group CEO, Peter Skene said, "Since day one we have been evaluating options to use our own farm milk for CDC products in an effective and cost efficient way, while also ensuring we achieve the best price for any surplus milk and honouring our obligations to existing processor contracts. With the cooperation of our milk supply partners we have achieved this target."

SW Dairy Farms Pty Ltd, the AHF subsidiary that operates the AHF farms, has executed a milk supply agreement with Australian Consolidated Milk Pty Ltd (ACM) to collect milk from all AHF farms with effect from 1st January 2017. ACM will then commence a new supply and logistics solution for CDC from 1 February 2017 whereby ACM will transport, test, deliver and administer the supply of AHF farm milk volumes through to the CDC factory as required by CDC at any given time during the contract. ACM will also provide supply flexibility and security of supply.

ACM is a rapidly growing Australian owned company based at Kyabram Victoria that collects milk from their valued suppliers and delivers dairy ingredients directly to end-user customers in the domestic and export markets. ACM has been a key supplier to Camperdown Dairy from the day CDC commenced operations in 2010.

The key benefits of the new agreements and vertical integration include:

- **Vertical Integration:** processing of AHF's own farm milk for premium retail products with source transparency;
- **Supply Segregation:** utilising CDC's flexible milk segregation capabilities to separately process AHF's own farm milk, as well as: - Woolworth's successful Farmers Own brand, Organic Dairy Farmers' organic butter and cream, Aussie Farmers Direct supplies and a further range of specialty premium products currently in development with retail customers;
- **Cost Minimisation:** achieving cost differential improvement for milk ex-farm after delivery to factory, testing and administration costs;
- **Milk Premium Quality:** maintaining high milk quality throughout and its influence on end product quality;
- **Farm Milk Pricing:** optimising the farm milk supply price in the face of unfavourable market conditions;
- **Balancing Milk Supply Volumes:** managing supply from farms with current orders for finished dairy products in a fresh / short shelf life environment; and

- **Security of Milk Supply:** enabling CDC to be able meet short-term product sales opportunities and receive the milk volumes as needed.

The supply arrangements with ACM continue to 30 June 2017, with both parties to review the arrangements prior to expiration for opportunities into the following financial year.

Since before the formation of AHF it has been a supplier to Fonterra and despite the change of milk supply contracts to ACM under a flexible arrangement which is to the benefit of AHF, the directors of AHF have greatly appreciated the strong degree of support that Fonterra and its team in the region afforded us over several years as a farmer and as a newly formed corporate dairy farming group. The acquisition of CDC made us competitors on vastly different scales in the processing segment. AHF hopes to maintain the co-operative relationship as we go forward.

The Directors of AHF believe the new arrangement with ACM delivers on promises to investors that the Group would achieve its vertical integration aspirations on a cost effective basis and in the timing that is required in acting responsibly and ethically in commercial arrangements. It is a great outcome for AHF, which helps the board to achieve further, in-progress negotiations.

Australian Dairy Farms Group

Ends.

Further Details

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About Australian Dairy Farms Group

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

In April 2016 the Group completed the acquisition of Camperdown Dairy Company Pty Ltd - ACN 140 640 606 (CDC) – see announcement on <http://www.adfl.com.au/announcements>.

CDC is a wholly owned subsidiary of AHF. The Group is now a vertically integrated milk producer, processor and product distributor in Australia and for export.

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.

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