



Australian Dairy Farms Group

28 February 2017

ASX Code: AHF

2016/2017 HALF-YEAR RESULTS COMMENTARY

- **Farm operations achieve production estimates for period and are well positioned for future growth.**
- **CDC turnover up 22% and EBITDA up 110% compared to the same period in 2015 based on previous owner's data.**

The Review of Operations in the interim Financial Report provides a summary of the main events and changes that occurred during the reporting period.

The period is the first full half-year that all dairy farms and the CDC processing factory have operated together as company segments. It has been a period of transition and consolidation for both operating segments where:

- The dairy farms have performed strongly after significant positive adjustment to farm facilities and herd development.
- CDC has consolidated since completion of acquisition in mid-April 2016, with an expanded and growing customer base and company branded products in a large number of supermarkets and regional stores.
- Compared with the half-year to 31 December 2015, CDC has shown a 22% increase in turnover and 110% increase in EBITDA.

On 1 January 2017, the Group completed its transformation to a true vertically integrated milk company with its own milk being utilised in company branded products.

The Group has also been able to establish the basis for a number of very positive joint venture opportunities with experienced industry partners, which the Board expects will allow the Group to make some material strategic development steps during the next two years.

The Directors believe that the work being undertaken now in establishing these partnerships will transform the Group to be a substantial processor of high value added products.

Effects of stapled securities and performance options issued under the Long Term Incentive Plan (LTIP)

Impacting the results for the period under review are the first time financial reporting effects of securities and performance options issued to KMP under the LTIP.

The Australia Accounting Standards require that the fair value of securities and performance options on issue be taken up as an expense in the Statement of Profit and Loss at grant date. Subsequently in each reporting period, options may require fair adjustments or be amortised over the period until vesting date, depending on the specific conditions attached.

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There is a significant non-cash expense of \$871,282 in the 31 December 2016 half-year result for all securities and performance options granted in the period. This amount comprises:

- The fair value of securities granted to KMP of \$360,000 in relation to the acquisition of CDC and a once only extension to employment agreements.
- The fair value of vested performance options granted to KMP of \$209,808 in relation to the acquisition of CDC and a once only extension to employment agreements.
- The fair value of un-vested performance options granted to KMP of \$301,474 with various performance hurdles attached.

On 31 December 2016, un-vested performance options with a value of \$165,496 were forfeited as the performance hurdle was not satisfied. Australian Accounting Standards do not permit this amount expensed in the half-year on forfeited options to be reversed back through profit or loss, however it does permit a transfer from the option reserve to retained earnings in the Statement of Changes in Equity which has been made.

There is also \$285,204 in fair value that remains to be amortised on the un-vested options over the next two years.

AHF – Positioned well for the Future

AHF is now a fully integrated dairy business developing a growing portfolio of niche products and building strategic partnerships to both de-risk and accelerate the directors' strategy to safely and profitably grow the Group.

While the Dairy Industry has been through a period of increased farm production costs, falling milk prices and global over supply during the last 12-18 months, the Directors are now seeing falling farm based costs, early expectations of much higher farmgate milk prices from July 2017 onwards and a material, in-market shortage of raw milk (February 2017 onwards). The Directors recognise the need to achieve economies of scale and value returns and are working diligently towards these goals.

As mentioned in the Review of Operations, the Board has been constantly reviewing the corporate strategy for the Group during the last nine months since the completion of the acquisition of CDC, in the context of how to best maximise the value of securityholders' interests in the Group. The Board intends to complete the strategy prior to the end of the current financial year, taking into account the timing of continuing negotiations with potential business partners and publish a plan for the next two years in the life of the Group.

Australian Dairy Farms Group

Ends.

Further Details

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About Australian Dairy Farms Group

Australian Dairy Farms Group (AHF) was Australia's first ASX listed dairy farmer when it first listed in October 2014. 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.

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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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 may include 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.