



## Commentary for Appendix 4C

- *Dairy farms achieve budgeted milk production and lower feed costs*
- *Drainage works and irrigation benefits evident in strong milk production*
- *Autumn outlook is favourable with plentiful fodder and water and grass is growing*
- *Strategic planning for the future well advanced*

### Group Operations

#### Overview

Positive seasonal conditions in South West Victoria this autumn together with the greatly improved physical conditions of the farms, have combined to produce the best farming conditions for the AHF farms since their acquisition. As evidence of the quality of the development work on pastures, water storage and drainage, the Q3 year to date milk production shows a 29% increase over the corresponding period in FY2016 and annually is in line with the fairly challenging budget set at the beginning of the year.

CDC continues to aggressively seek sales growth and product exposure although the competition in the retail sector presents challenges for commodity products like fresh milk with many similar milk products competing for the same shelf space in major retailers.

Finding points of difference to appeal to particular markets and the lead time for securing commitments from the major retailers is lengthening.

Trial programs undertaken in the last few months in direct selling of products like the Jersey milk brand to coffee shops and cafes, which are big users of milk, is showing very encouraging take-up and these and similar avenues are being further developed.

These are some of the matters being examined in the Board's review of corporate strategy which is currently in progress and where benefit can be evidenced changes are being implemented.

### Farm Operations

#### Seasonal Outlook

The early March rainfall and well drained paddocks provided ideal growing conditions for new pasture seeding and fertilizing, which was commenced in late March and completed in April – just in time for the Anzac Day Break.

Sweeping rains from the west followed up on the March showers to get the new season's pasture growth off to its best in several years.

Anzac Day is the bellwether date for the "Autumn Break", which is the regional agricultural term for the first consistent autumn rains which indicate the end of the dry summer. Farmers across southern Australia make expensive decisions about planting crops and pastures as close to the Autumn Break as possible.

On the AHF farms, re-seeding and fertilising of pastures was completed between the March rain and

Anzac Day, the conditions are now considered almost perfect for strong pasture growth to provide fresh grass through autumn and maintain milk production in a relatively cost effective manner. This will also add to the very significant on-farm fodder and silage already stored from the prior season.

All of this adds up to what looks like a very strong milk production in the next peak which, if published analysts are correct, will be complemented by improved milk price expectations for the new financial year.

### Calving

The calving programs for all farms have been well coordinated by individual farm managers under the guidance of AHF's Operations Manager, with expectations of calving timetables that are significantly more condensed than in prior years. Happy contented cows is always the goal and this year seems to be a good one for the on-farm team.

### Water Retention and Irrigation

The new irrigation at Drumborg has allowed the milking herd to benefit from having fresh grass as part of their daily diet. Consideration is being given to doubling the number of irrigation paddocks available through the summer by the addition of another pivot.

The cows on all AHF farms are smiling with full bellies and concentrating on milk production.

These improvements are reflected in the YTD milk production figures, which are encouraging for future years and the value of the farms.

### Milk Production

The combined milk volumes produced on the AHF dairy farms have seen strong milk volume growth with production of 12.7 million litres for the nine months to 31 March 2017 compared with 9.8 million litres for the corresponding period in 2016 after adjusting for an estimate of the pre-settlement 15 September 2015 production on Drumborg. Volume records by litre also takes into account the lower milk volumes from the Jersey herd on Brucknell North, which has shown a real volume increase in actual litres over the prior year's Holstein herd.

The result is ahead of YTD budget and is in line with the budgeted production of 16.1 million litres for the full 2017 financial year. As described in previous market updates, the Jersey cows are smaller animals and consume less feed and produce lower milk volumes. However, Jerseys produce higher levels of milk solids per litre than Holsteins which all roughly balances out in terms of financial returns.

### Production Comparison by Farm - Litres of milk

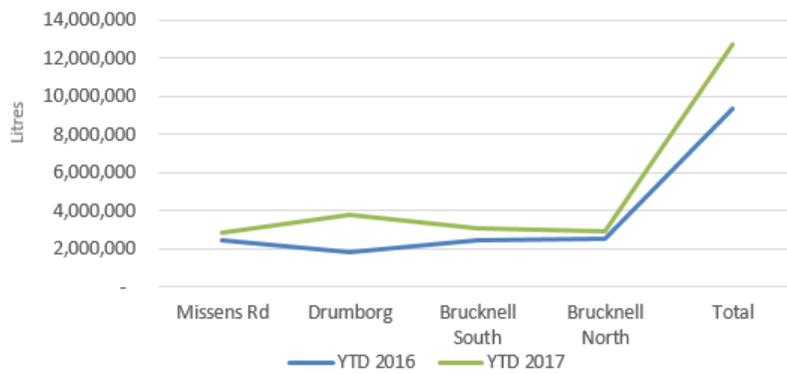
The table below and two graphs on the following page set out the year to date production of each of the AHF farms, each of which show material increases in production over the corresponding 2016 period.

Farm	YTD 2016	YTD 2017	% Increase	Volume Increase
Missens Rd	2,443,804	2,892,454	18%	448,650
Drumborg*	2,369,700	3,808,389	61%	1,438,689
Brucknell South	2,494,878	3,102,108	24%	607,230
Brucknell North	2,550,586	2,904,051	14%	353,465
<b>Total</b>	<b>9,858,968</b>	<b>12,707,002</b>	<b>29%</b>	<b>2,848,034</b>

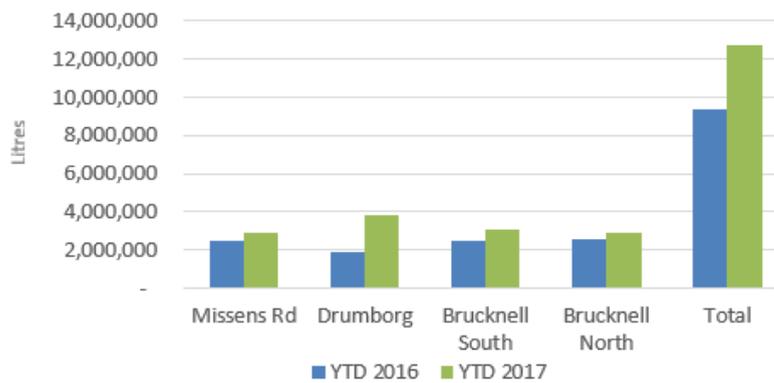
Drumborg\*

Farm settled 15/09/2015 Estimated pre-settlement production 512,672 litres included FY 2016 for comparison only

### Production - 2016 YTD v 2017 YTD



### Production - 2016 YTD v 2017 YTD



### Milk Pricing

Milk price changes reflect very quickly in the market prices of dairy cows and dairy farms. When milk prices decline, many farmers move quickly to reduce herd sizes, which leads to larger than usual numbers of good quality cows being offered for sale.

Milk prices are now on the way up again with reliable market commentators including the CBA, Rabo Bank and agricultural analyst, Fresh Agenda suggesting significantly higher opening prices in the 2017/18 financial year, compared with \$5.20 - \$5.35 currently and \$5.60 before the Murray Goulburn rethink of April 2016.

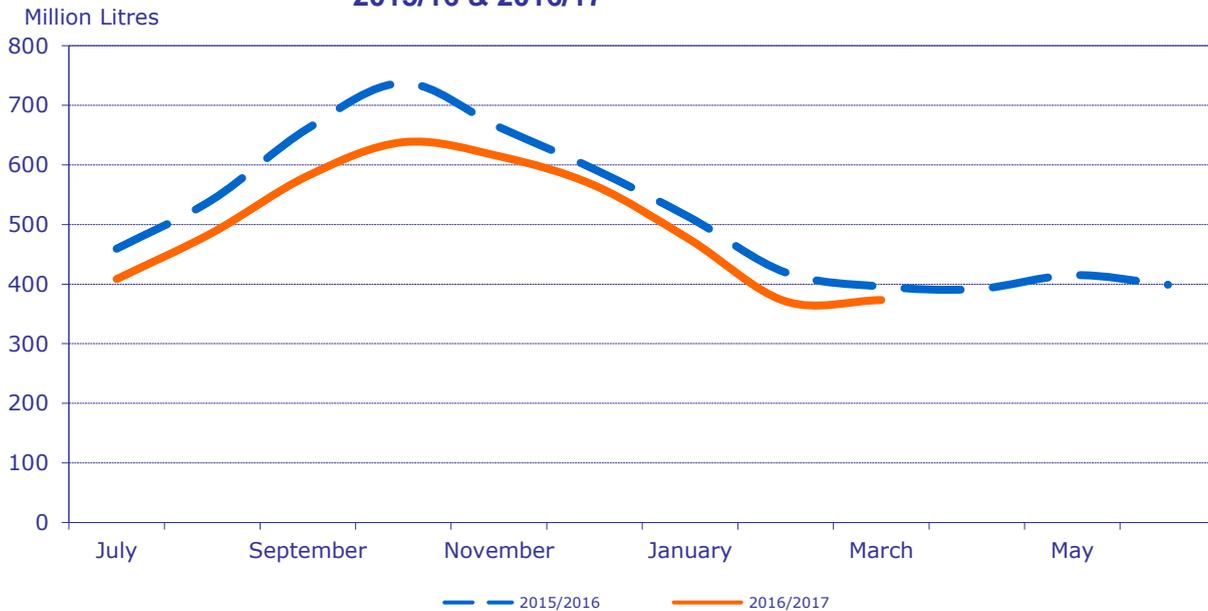
Jo Bills, from food consultancy firm Fresh Agenda, said despite the slowing recovery, her company expected milk prices would rise for farmers in export regions. *"We're still projecting (Feb 2017) a range of farm gate prices for next season of about \$5.90 to \$6.30 per kilogram of milk solids in the southern region,"* she said. *"That's on an expected closing price for this current season of between \$5 and \$5.20, so we are looking for an improvement."* Other analysts such as Rabo Bank are forecasting AUD \$5.70 / kgMS for the full 2017/18 season.

Prices from \$5.20 to \$5.35 are currently being paid by the main processors in Victoria, although unpublished spot prices for fresh raw milk are considerably higher as some large processors struggle to fulfil contracted supply commitments of processed dairy products.

## Australian Milk Production

Milk production has significantly decreased in the last two seasons to the point where production levels Australia wide are at about their lowest levels in recent history. This is a result of a combination of factors including lower global prices and producers in NZ and Europe have also decreased production.

**Victoria Milk Production - Total Regions  
2015/16 & 2016/17**



		<b>Victoria</b>	Million Litres		<b>Australia</b>	Million Litres	
<b>March</b>	Month	396.0	373.3	-5.7%	661.3	627.9	-5.1%
<b>March</b>	YTD	4,982.1	4,513.3	-9.4%	7,599.5	6,984.4	-8.1%

From July 2009, data revised to reflect additional data collection

\* Data provided by accounting periods is adjusted to calendar months using average daily volumes.

All figures used are quoted in mass/volume measurements.

Produced by Trade and Strategy, Dairy Australia Limited

Source: Dairy Manufacturers

Adapted for Victoria only by AHF

## Strategic Planning

The Board has advised its intention to review and inform securityholders of its strategic plans for the future of the Group prior to the end of the 2017 financial year. This process is well under way with negotiations in progress with several different groups, which the Directors expect will play strategic parts in the future of AHF. As with all of these sorts of negotiations, nothing is final until binding agreements are executed and money changes hands, and until that occurs it is in every party's commercial best interests that total confidentiality is maintained.

An important part of this strategic development process is to reduce the Group's exposure to commodity focused production in favour of more specialised, valued added product production, ideally with partners who have already developed market penetration in high growth or high margin markets and have a need for specialist services and product production.

This includes markets in both Australia and overseas, and in the longer term is likely to be not restricted to milk based products.

As a relatively small participant in the milk processing industry, AHF has the capability to be nimble and reactive to market demands and has a real depth of big processor experience within its management and personnel which covers every aspect of the complex aspects of the processing industry and many other facets of the food processing industry generally.

One of the biggest assets of the acquisition of CDC was the unvalued, unlimited depth of experience that can solve almost any production issue or produce an innovative idea from past experience with big processors, which concentrate on high volume, low cost, standard commodities.

These assets are not reflected in the AHF balance sheet but it is being reflected in the innovative and 'can-do' approach to growing the company as an innovative producer of high value products.

Rather than develop a separate team to market these products, the Board sees benefit in partnering with like-minded groups that have established the market penetration – domestic and export – for the kind of products AHF can produce.

The strategy will include considerable focus on how AHF can maximise this wide industry experience in all facets of the industry with new marketing expertise and innovative value added products to selected growth markets throughout Asia, including the Indian sub-continent.

The Directors believe that if some of these changes can be successfully implemented it will be of financial benefit to all securityholders.

Ends.

## Further Details

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## Communications Policy

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*AHF makes ASX market releases at times directors believe it would be helpful or necessary for investors and as required by the Listing Rules. For further information regarding our shareholder communications policy, please refer to our website: [www.adfl.com.au](http://www.adfl.com.au)*

## About Australian Dairy Farms Group

***Australian Dairy Farms Group (AHF)** was 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.*

## Disclaimer – Forward Looking Statements

*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.*