

Australian Dairy Farms Group

1 February 2018

ASX Code: AHF

Commentary on Appendix 4C – 31 January 2018

Australian Dairy Farms Group (AHF) directors provide the following commentary on the Appendix 4C released to ASX on 31 January 2018.

Cash at Bank

At the end of the Quarter in review, 31 December 2017, the Group maintained a strong cash and cash equivalents of \$5.038m compared with \$1.62m. at the end of the corresponding quarter in 2016.

Processing Revenues Competition and Markets

Revenues from sales of milk and milk products at Camperdown Dairy Company (CDC) declined as anticipated in the Quarter as a result of the reduction in sales of contract packed bottled white milk produced for brands owned by customers rather than CDC Own Brands. This primarily reflects the previously advised cessation of bottled white milk production for the former owner of the CDC, Aussie Farmers Direct in October 2017.

However, it is also reflective of the wider market conditions and the continuing trend of consumers to return to the cheaper \$1.00 per litre milk marketed mainly via retail supermarket chains. On the other hand, the premium Own Branded Camperdown Dairy branded specialty milks including the Jersey Milk and Free Range Milk have continued to show modest growth in an extremely competitive market for bottled white milk where significant and increasing number brands of bottled white milk competing vigorously for shelf space in supermarkets where, except for particular premium brands, the only meaningful point of difference for most consumers is which brand has the lowest advertised price.

On 30 November 2017, the ACCC released an interim report into the Dairy Industry. Under the heading “Domestic dairy retail prices over time” the ACCC state that “Wholesale and retail milk prices have been declining in real terms since the industry was deregulated in 2000. Since 2011, the retail price of private label milk has declined in real terms by a further 12 per cent on earlier reductions”

There has also been some intense competition in non-supermarket sales channels with unrealistic competitor prices for bottled milk.

Changing Course

These trends reinforce the importance of the actions taken during the last year by the Group, which are well advanced, to progressively build its sales and marketing in premium dairy products including its Own Brands along with targeted contract packing of premium products for other customers, where a realistic commercial price margin and growth in volumes can be achieved.

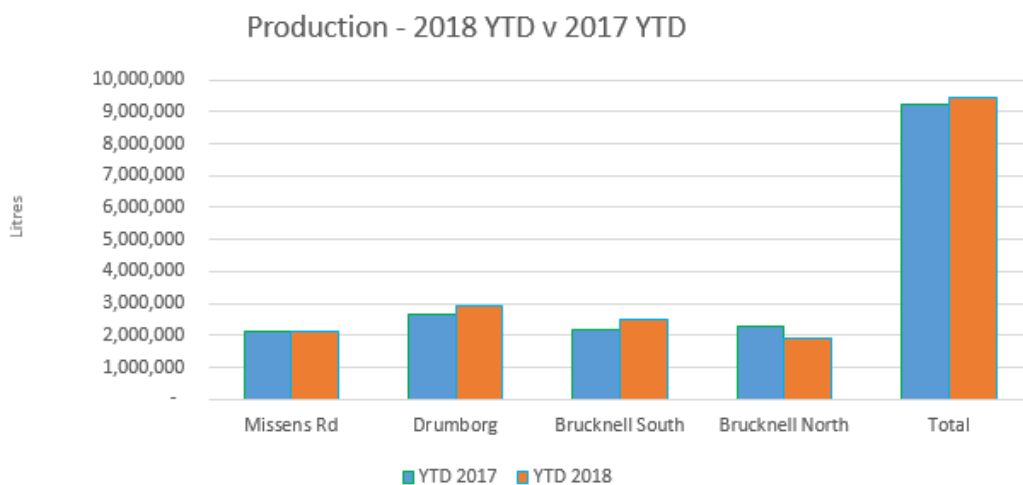
Coming Up

In this area, the AHF Board expects in the coming three months, to announce three such separate contracts with established other industry customers. These announcements will likely coincide with product and market launches in major retailers at State and National levels. The details are commercially sensitive for the customers and are currently restricted by confidentiality agreements as is general practice.

Revenues / Margins from these projects are expected to more than replace those lost from the recent declines in bottled white milk sales with the first of the three due to commence February 2018 and the third due to progressively roll out from July this year. The sales which are at this stage expected to commence rollout in July and be nationally distributed, have the potential to exceed current factory capacity within the first 12 months and may necessitate some expansion of sections of the relevant processing areas.

On the Farms

Production from all dairy farms to 31 December 2017, has shown positive increases compared with the same period in 2017 as can be seen in the following chart. The “exception” is Brucknell North which is the dedicated Jersey herd farm that supplies raw milk for the Jersey bottled milk, while other farms stock Holstein cows. As previously noted, the Jersey is a smaller animal with lower volumes of milk production although with a higher milk solids content and a lower feed requirement, which tends to balance out.



The dairy farms by themselves have collectively produced an operating profit, reflecting the strong capabilities of the dedicated farm management team and effective leadership along with the high quality of the farm portfolio generally.

ENDS

Further Details

For additional company information or media enquiry matters please contact:

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Communications Policy

As a policy, because of the heavy demands on limited management resources and to ensure compliance with confidentiality agreements in place and continuous market-wide disclosure regulations, AHF is often unable to directly respond to individual security holder communications regarding the management of the business, the company or with respect of any opinion or analysis that is not contained in market releases and released financial reports.

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 AHF's website: 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 (Camperdown Dairy) – see announcement on <http://www.adfl.com.au/announcements>.

Camperdown Dairy 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. Refer to the Group's Strategy Overview release to market on 11 July 2017 for additional information about AHF's immediate and longer term strategic planning. See the above link to ASX announcements or the Group's website for a copy of the Group's Strategy Overview.

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.