

Australian Dairy Farms Group

26 March 2018

ASX Code: AHF

Investor Teleconference 10.30 this morning

You are invited to participate. Led by CEO Peter Skene

At 10.30 AEDT conference ID 885695, please dial:

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Australian Dairy Farms to enter organic Infant formula market and convert all dairy farms to 100% organic

- **Going for organic growth: AHF to convert all six dairy farms to organic production**
- **Organic infant formula from Australian organic milk**

26 March 2018, Melbourne: The board of Australian Dairy Farms (ASX: AHF) has announced plans to convert its six high-quality Victorian dairy farms to organic production and to invest in associated operational changes as part of a plan to produce organic infant formula for Australian and overseas markets.

Directors are confident the strategy will reposition the company from being a minor participant in the highly competitive conventional milk market, to a supplier of organic infant formula from Australian grown and processed organic milk.

“This is a high value-added market with major barriers to entry and sparse competition,” said CEO Mr Peter Skene.

“The initiatives are a first significant step in making the company a major player in producing and distributing organic premium-quality branded food products.”

“While a vertically integrated and efficient producer currently, the company has a modest market share in the conventional milk market. The board believes the company’s best prospects lie with moving up the value chain to be a highly profitable manufacturer of these speciality products.”

The company’s core assets are its six farms in what’s known as Victoria’s golden triangle of dairy production in the state’s south-west. The properties consist of 3600 acres populated by 3500 free-range milking cattle, producing 17 million litres of milk annually.

The group also owns an acquired milk processing facility, the Camperdown Dairy Company (CDC).

CDC is capable of producing specialist milks such as organic, Jersey and free range. It currently produces bottled milks, butter, cream and yoghurts under “own brand” labels and is a contract packer for other suppliers.

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AUSTRALIAN DAIRY FARMS TRUST

ARSN 600 601 689

The initial development of the plan commenced some 18 months ago and was progressed to the point of being ready to communicate in July 2017. The company's five-year plan flagged a comprehensive feasibility assessment, which is now well advanced and focussed on being an organic infant formula producer and brand owner and includes new specialised production facilities on land owned already by the company.

These include a UHT (long life) milk facility for domestic and export markets, and new best practice wet-blend milk powder drying plant for organic infant formula from Australian organic milk.

The company will progress these facilities to enhance its flexible and short-run capacity for specialist milks, rather than high-volume commodity milk processing.

A key focus will be on expanding value adding opportunities for farms already in the process of applying for organic certification.

As well as converting the farms to organic production, the board has started formal preliminary planning of a new wet blending spray drying plant and a pharmaceutical-grade tinning and labelling facility for the infant formula all on the same site.

These new facilities will be based on 10 acres of commercial and industrial zoned land in Camperdown acquired in November last year. The board plans to progress discussions with prospective joint venture partners in parts of the new facilities.

***Refer to the attached presentation which forms part of this announcement, for more details.**

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AUSTRALIAN DAIRY FARMS GROUP.

AHF Market Announcement
March 2018



Australian Dairy Farms

Australian Dairy Farms, the new fresh future

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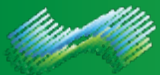
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Forward-Looking Statements

This Presentation contains certain statements which may constitute forward-looking statements or information (“forward-looking statements”), including statements regarding the use of proceeds of any funds available to the Group. These forward-looking statements are based on certain key expectations and assumptions, including assumptions regarding the general economic conditions in Australia and globally, industry conditions in Australia and the intended operations of the Group. These factors and assumptions are based upon currently available information and the forward-looking statements contained herein speak only as of the date hereof. Although the expectations and assumptions reflected in the forward-looking statements are reasonable in the view of the Group’s directors and management, reliance should not be placed on such statements as there is no assurance that they will prove correct. This because forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause actual results or events to differ materially from those stated, anticipated or implied in the forward-looking statements. These risks include, but are not limited to: uncertainties and other factors that are beyond the control of the Group ; global economic conditions; risks associated with the global dairy industry; commodity prices, exchange rate changes; operational and seasonal risks associated with farming; delays or changes in plans; specific risks associated with the ability to execute production contracts, ability to meet work commitments and capital expenditures; and risk associated with securities market volatility. The Group assumes no obligation to update any forward-looking statements or to update the reasons why actual results could differ from those reflected in the forward-looking statements, except as required by Australian securities laws and ASX Listing Rules.

¹Associates of Australian Dairy Farms Group include any of its directors, employees, contractors, advisers, brokers, consultants and their respective employees and representatives. 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

- AHF intends to enter the **organic infant formula** market with new company owned brands, and a **vertically integrated AUSTRALIAN** manufacturing facility using **AUSTRALIAN organic milk**
- **AHF has completed** applications for conversion to organic milk production on all 3,600 acres (which based on today's market will become **the largest** single owned entity organic dairy farming operation in Australia)
- **AHF will have vertical supply chain and control**, with organic farms, processing and infant formula tinning in Western Victoria
- **AHF are growing from** bottled milk, yoghurt and butter markets to **Australian Origin Organic Infant Formula** – **high value**, growth rates and high barriers to entry



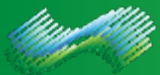
(Subject to final feasibility outcomes – refer to Forward-Looking Statements on page 1)



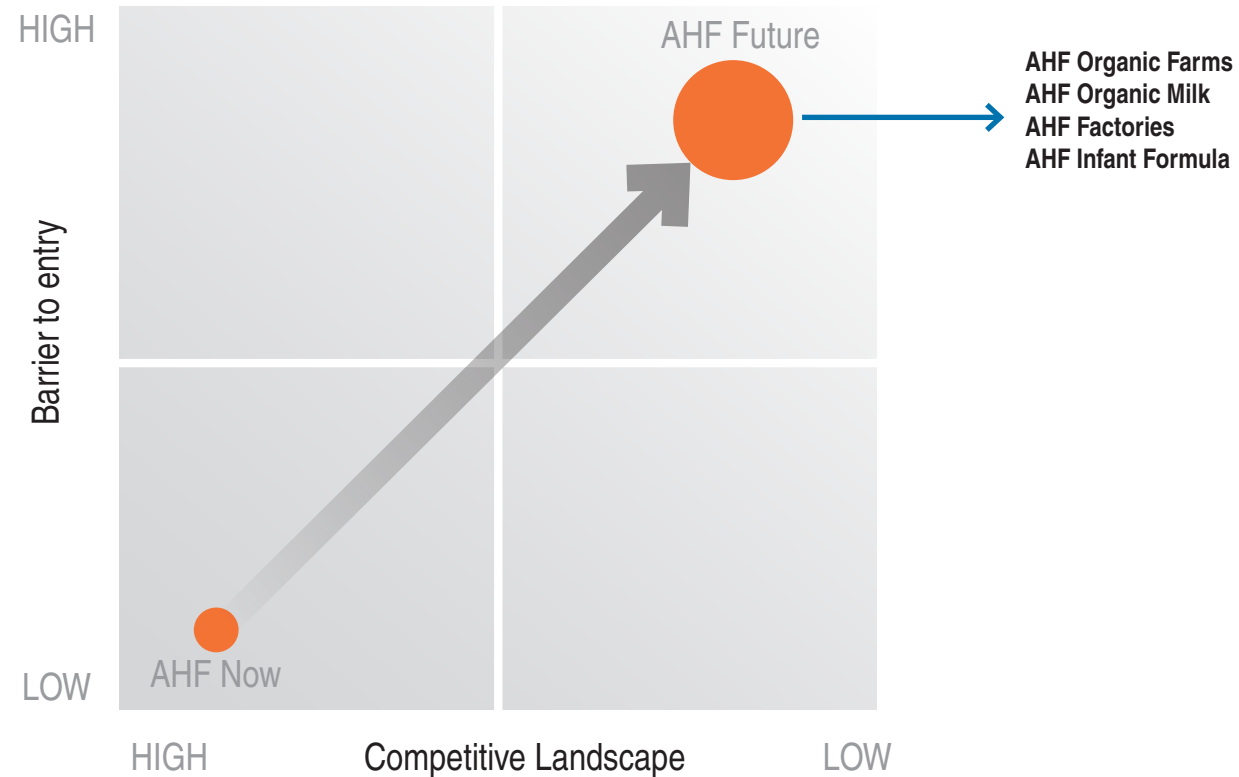
Australian Dairy Market Competitive

Wholesale and retail non organic milk prices have been **declining in real terms** since the industry was deregulated in 2000. Since 2001, the retail price of private label milk has declined in real terms by a further 12% on earlier reductions*

* ACCC interim report into the dairy industry November 2017



AHF plan to produce Organic Infant formula



Growing from bottled conventional milk, yoghurt and butter markets to **Australian Organic Infant Formula** – high value, high growth rates and high barriers to entry



Organic Dairy Market Opportunity

- The organic milk sector provides more attractive stable long term returns for dairy farmers (Dairy Day 2016 Bellamy's Australia)
- Australian organic milk pool is estimated to be only 40 million Litres per year (Dairy Day 2016 Bellamy's Australia)
- The current largest pool of organic milk is only 21.9 million Litres of milk and includes supply from over 20 farmers to supply the volume (reference Organic Dairy Farmers of Australia annual report 2016 - 2017)
- AHF's current milk volume is circa 17 million Litres per year which, combined with other ingredients, can produce a significant volume of organic infant formula

1.7 OPPORTUNITIES AND CHALLENGES

Global increases in the area of organic farmland, and production volumes are not keeping up with global demand, signalling the potential for even greater growth for Australian producers, processors and handlers. Organic insiders interviewed for this report noted undersupplies of organic primary produce in many sectors, including organic grains, fruit and vegetables, livestock feeds, and red meat.

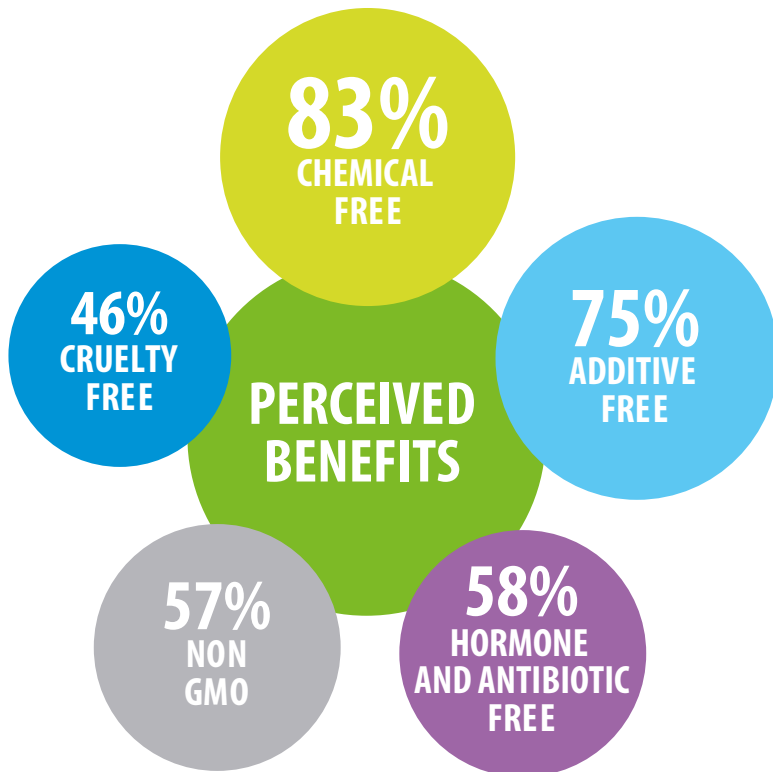
Demand for organic products is outstripping supply in Australia and globally

Australian Dairy Farms have completed applications for conversion to organic milk production on all 3,600 acres (which based on today's market will become the **largest single entity organic dairy** farming operation in Australia)

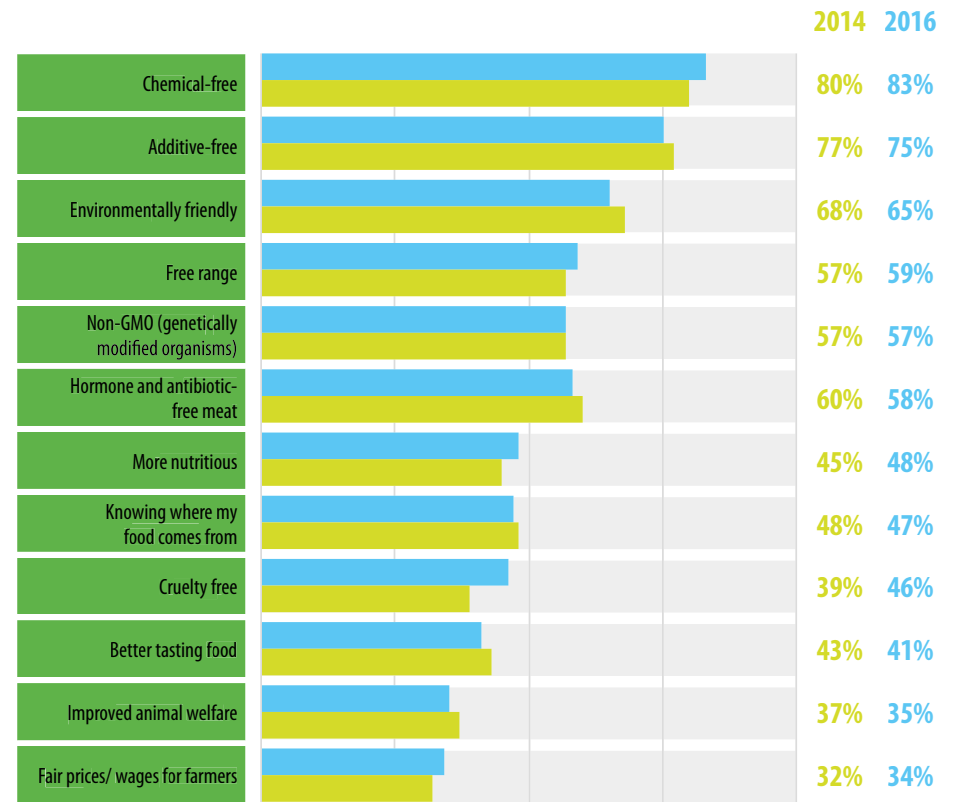


Organic Dairy Market Opportunity

Top **Perceived** 'Free From' Benefits of Organic Food*



Australia's Top 12 Perceived Benefits* of Organic Food



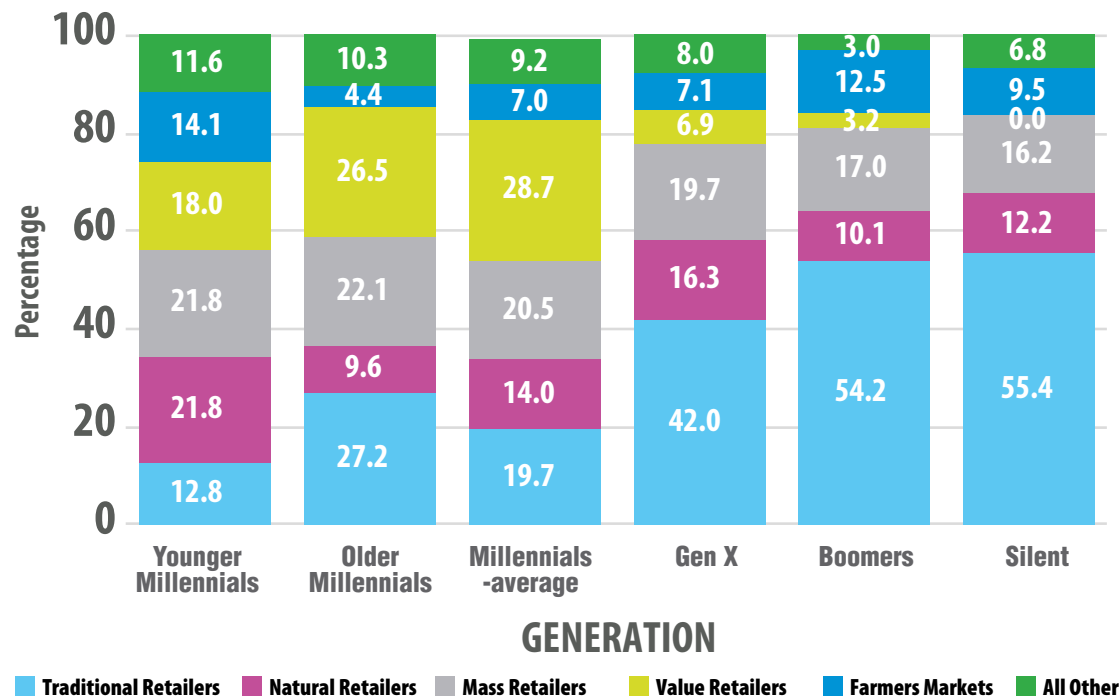
Chemical Free - Additive Free - Non GMO - Hormone and Antibiotic Free - Cruelty Free



Organic Dairy Market Opportunity

Organic Dairy Products are the most frequently purchased organic food, according to a survey of Australian Shoppers

Natural/Organic Shoppers by channel and generation



Organic Dairy Market Opportunity

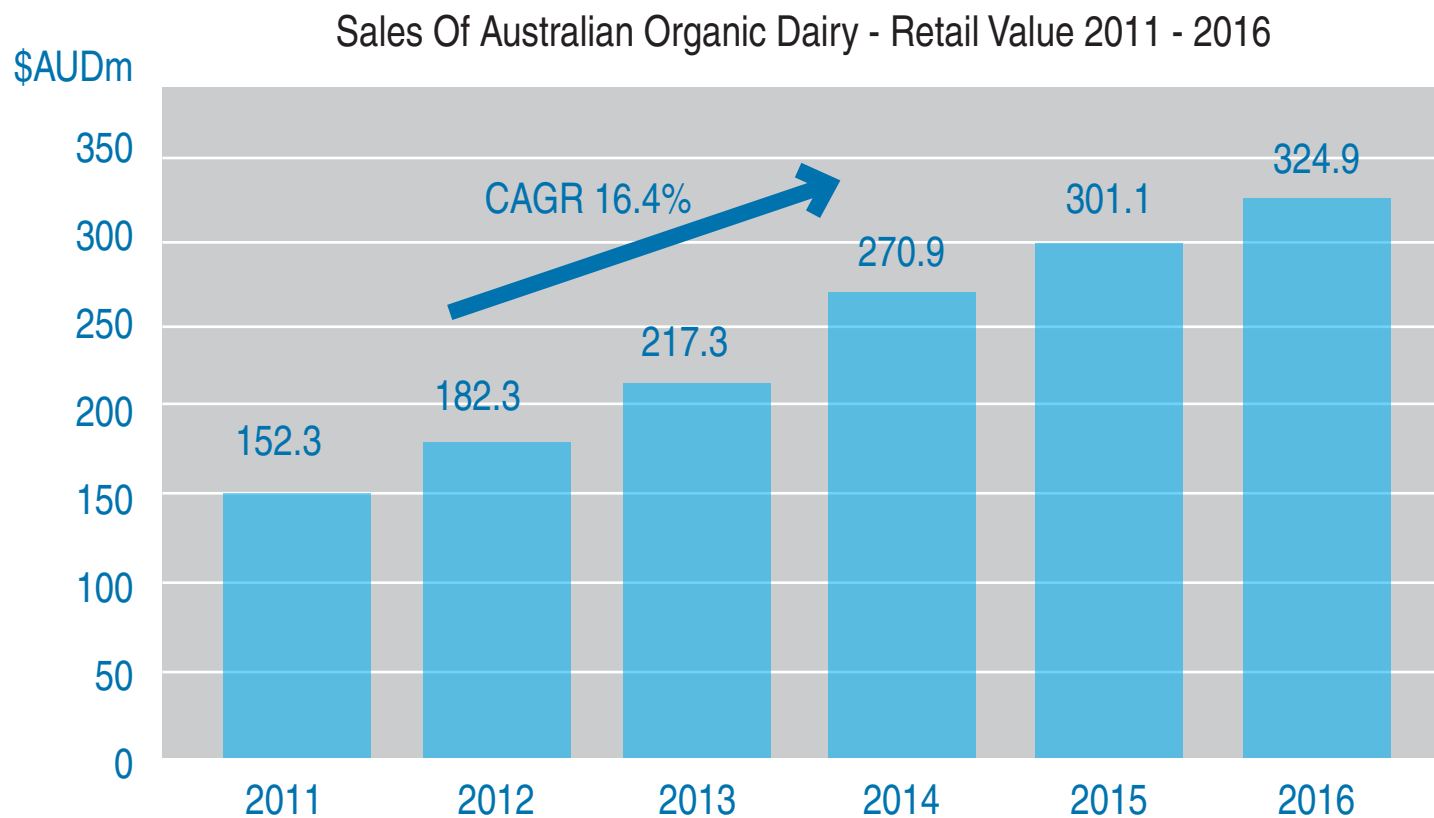
There has been a **significant increase** in the % of all shoppers purchasing organic dairy products from 34% in 2012 to 47% in 2016

| ORGANIC SECTOR | % ALL SHOPPERS WHO CLAIMED PURCHASE IN PREVIOUS 12 MONTHS | | | FREQUENCY OF PURCHASE | USUAL PLACE OF PURCHASE |
|--|---|------|------|--|---|
| | 2016 | 2014 | 2012 | | |
| FRUIT AND VEGETABLES | 61% | 57% | 60% | Moderating with more occasional buyers. | Supermarkets have highest share at 56% but down from 63% in 2014; alternative outlets making sound share gains. |
| | Penetration highest of all categories & increasing. | | | | |
| DAIRY (E.G. MILK, YOGHURT, AND CREAM) | 47% | 41% | 34% | Solid uplift in 1-30 day frequency in 2016, continuing positive trend. | Supermarkets dominant, other outlets showing marginal gains. |
| | Strong gains continue period on period. | | | | |



Organic Dairy Market Opportunity

Organic Dairy Market in Australia is achieving scale and is **growing at an impressive rate** of 16% per year





Organic Infant
Formula Market



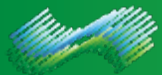
Australian Dairy Farms

Australian Dairy Farms, the new fresh future



Organic Infant Formula Market Opportunity

- Entering the organic infant formula market with new company owned brands, and a vertically integrated AUSTRALIAN manufacturing facility using AUSTRALIAN milk from its own farms
- **Vertical supply chain and control**, with organic farms, processing and infant formula tinning in Western Victoria



Organic Infant Formula Market Opportunity

CEO Peter Skene states...

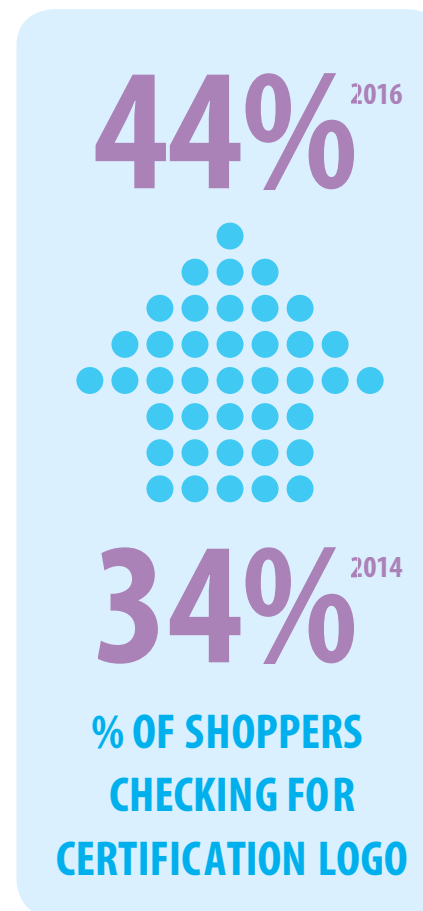


**AHF will become a vertically intergated, producer
of Organic Infant Baby Formula from
100% Australian Organic Milk**



A solid foundation for brand development, reach and consumer trust

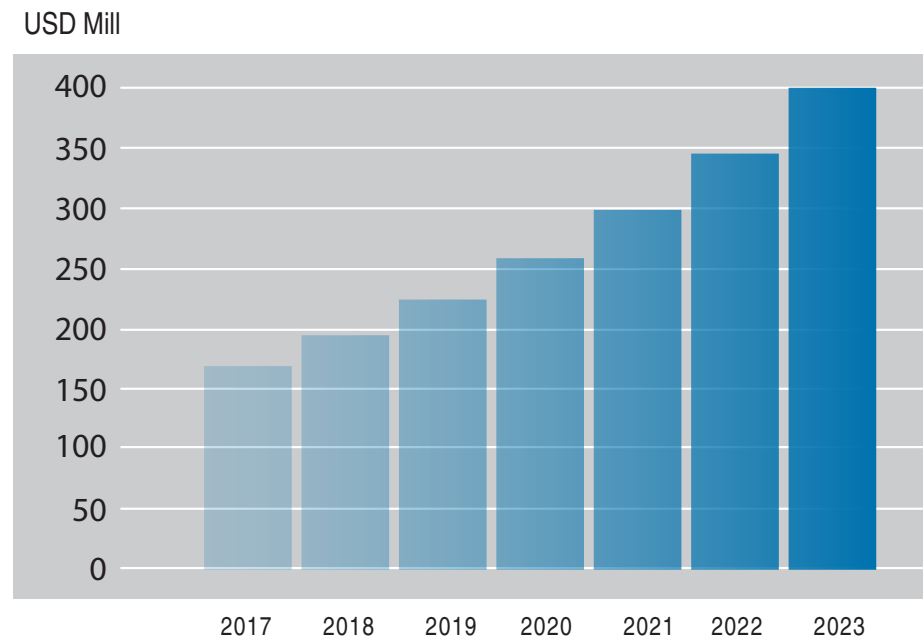
- Organic certified by **independent** body.
- **Sustainably** - Lower food miles with fresh local milk vs imported skim milk powder and whole milk powder (which would be months old before making it to a tin).
- **Sustainability** – A farm ecosystem that is less reliant on chemical and non organic inputs.
- New modern **world class local manufacturing facility** to be located on AHF owned industrial land in close proximity to farms.
- Vertical integration - AHF owned Organic Farms and AHF owned processing means, supply chain and quality **control**.
- Extensive, existing AHF dairy industry experience from **farmer to consumer**.



Organic Infant Formula Market Forecast

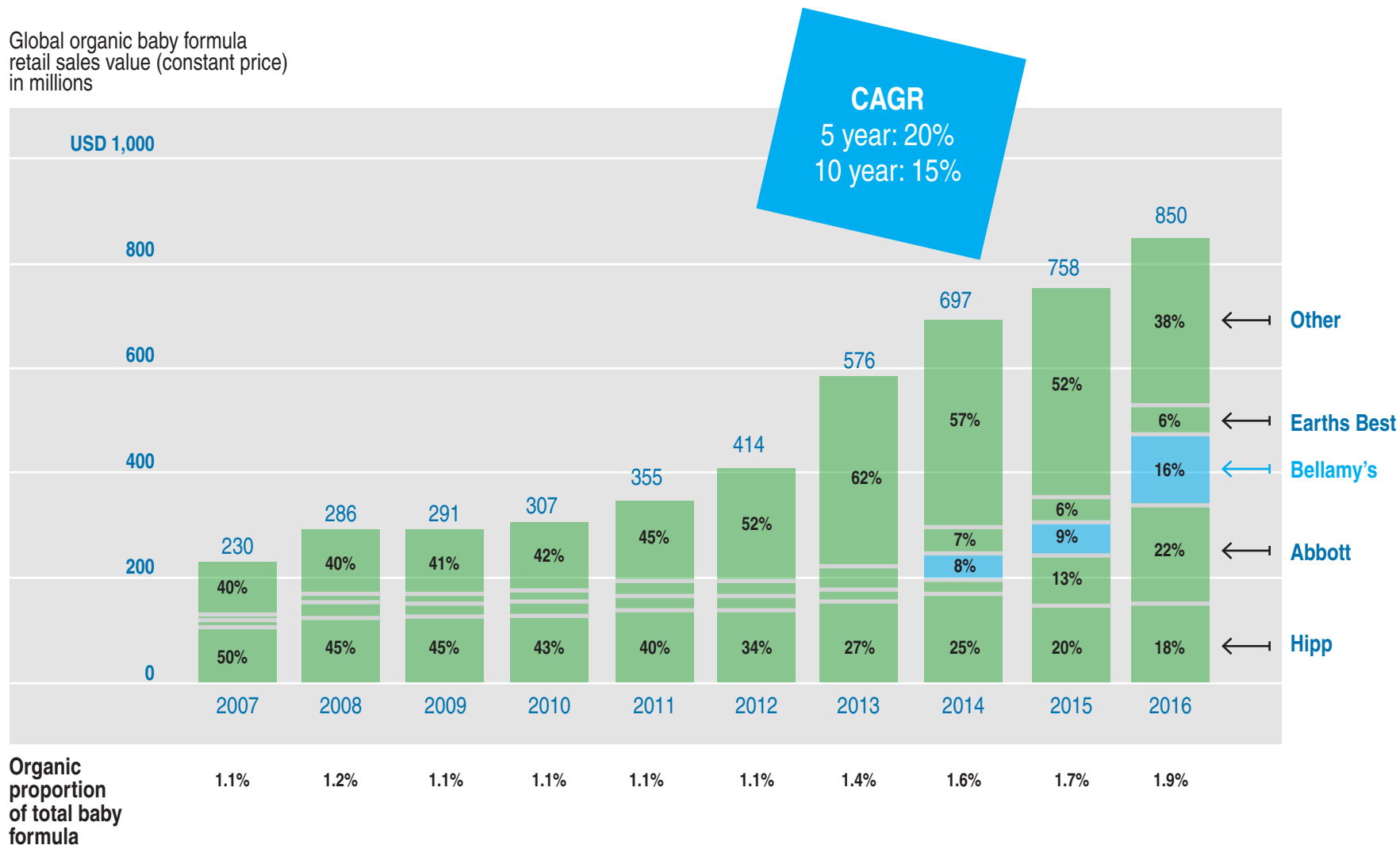
- The Australian and NZ sales of Organic Infant formula is expected to grow from USD \$169 Mil in 2017 to USD \$400 Mil by 2023

Australian and New Zealand Organic Infant Formula Market Value (2017-2023)



Organic Baby Formula Market Sales

Global organic baby formula retail sales value (constant price) in millions



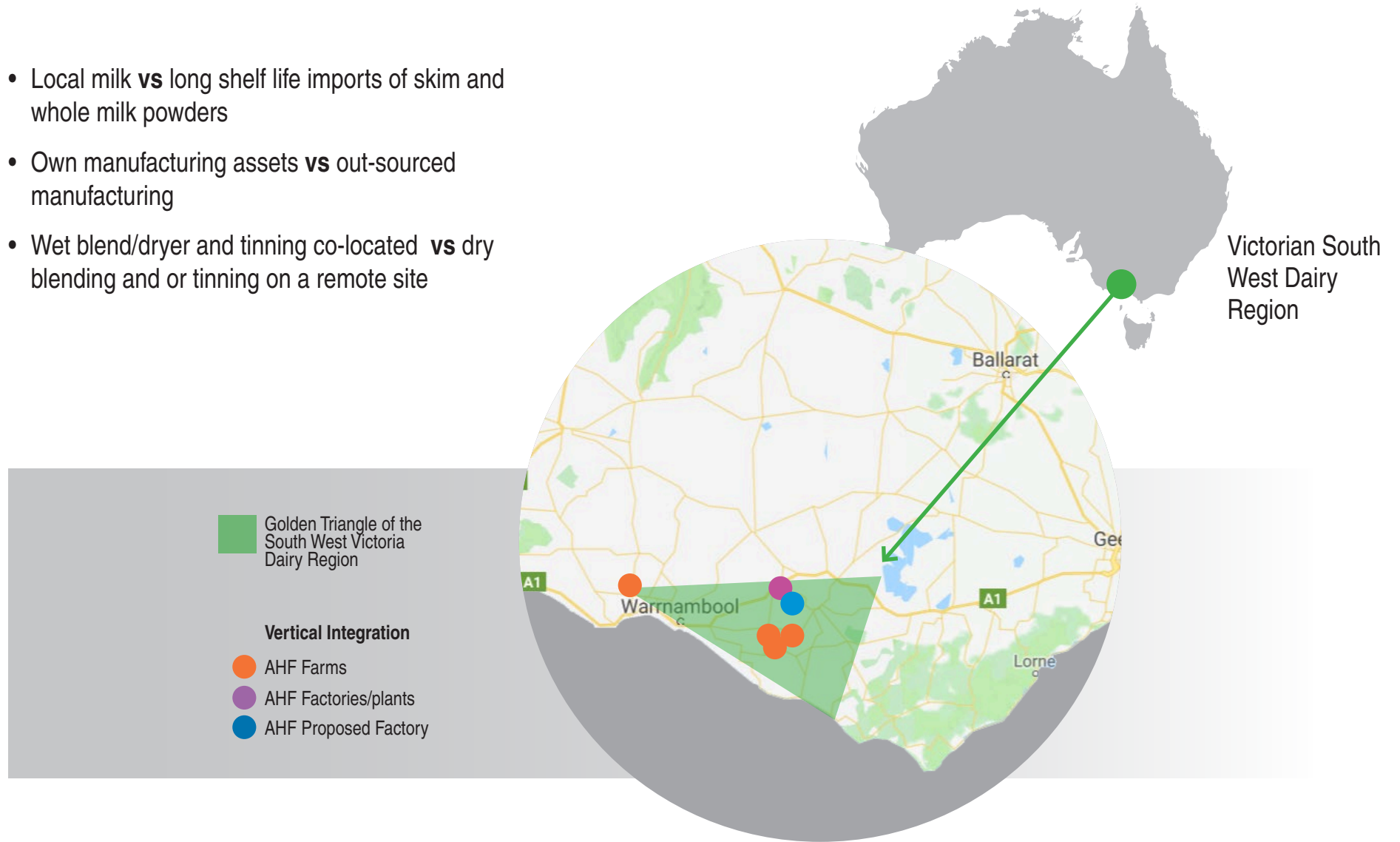


Supply
chain key
elements



Supply Chain Key Elements

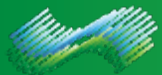
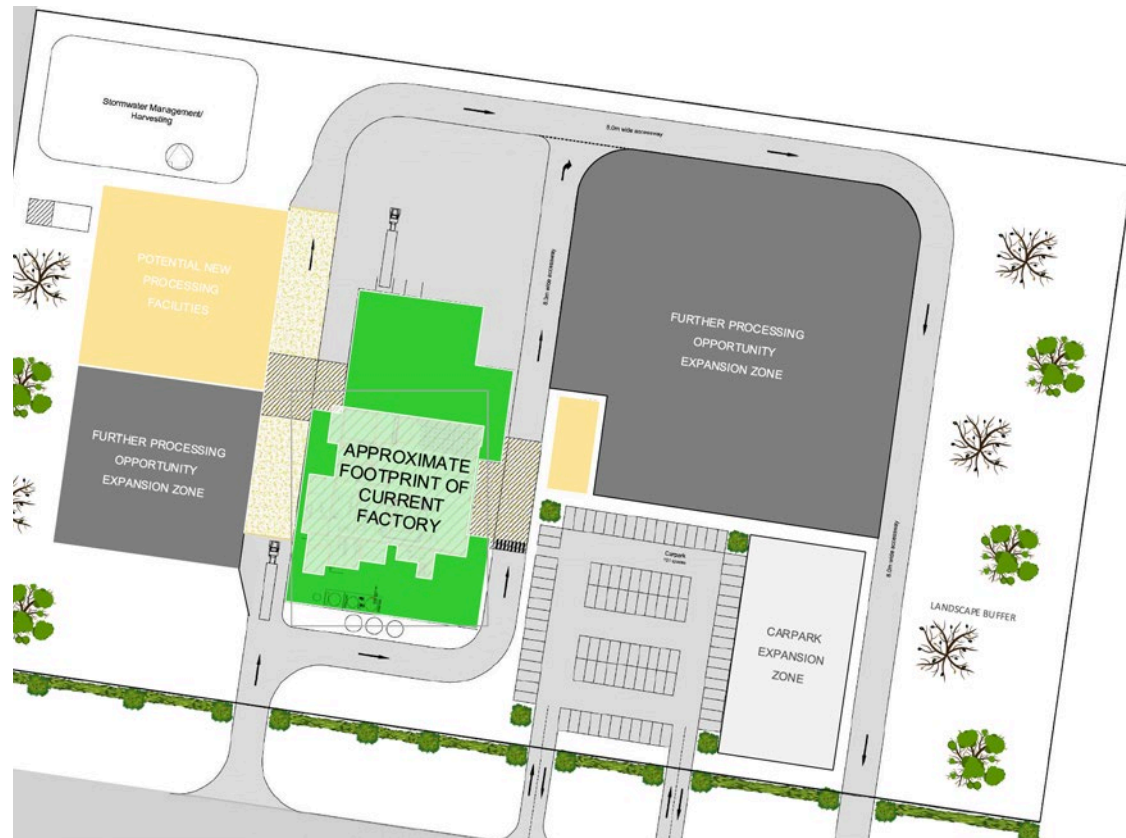
- Local milk **vs** long shelf life imports of skim and whole milk powders
- Own manufacturing assets **vs** out-sourced manufacturing
- Wet blend/dryer and tinning co-located **vs** dry blending and or tinning on a remote site



Supply Chain Key Elements

AHF Dairy Parkland

- Purchase completed
- Town planning consultant engaged
- Preparation for prospective expansion with JV partners
- Securing future for the existing Camperdown factory



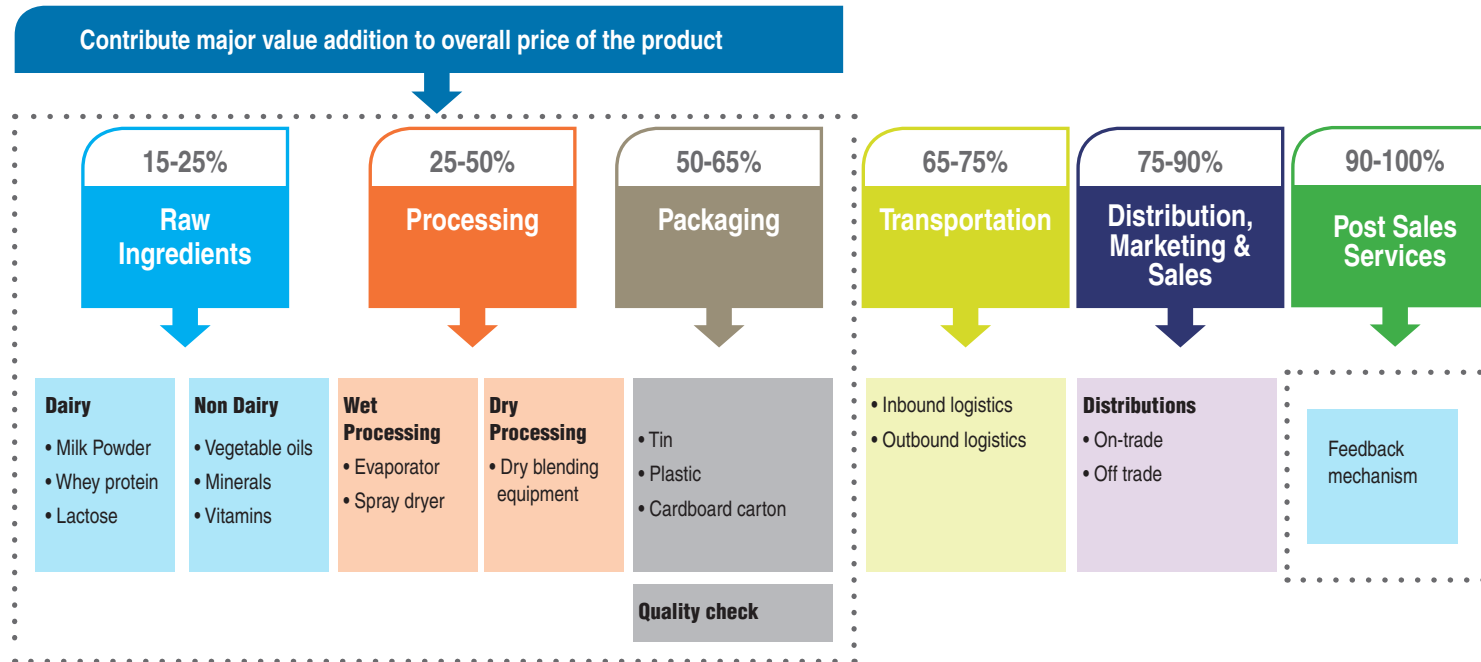
AHF's Infant Formula Supply Chain Building Blocks

- ✓ Farms and farm control
- ✓ Dairy manufacturing skills and experience
- ✓ Dairy marketing skills and experience
- ✓ Dairy/food science
- ✗ Facility
(AHF future development - page 18)
- ✓ Location



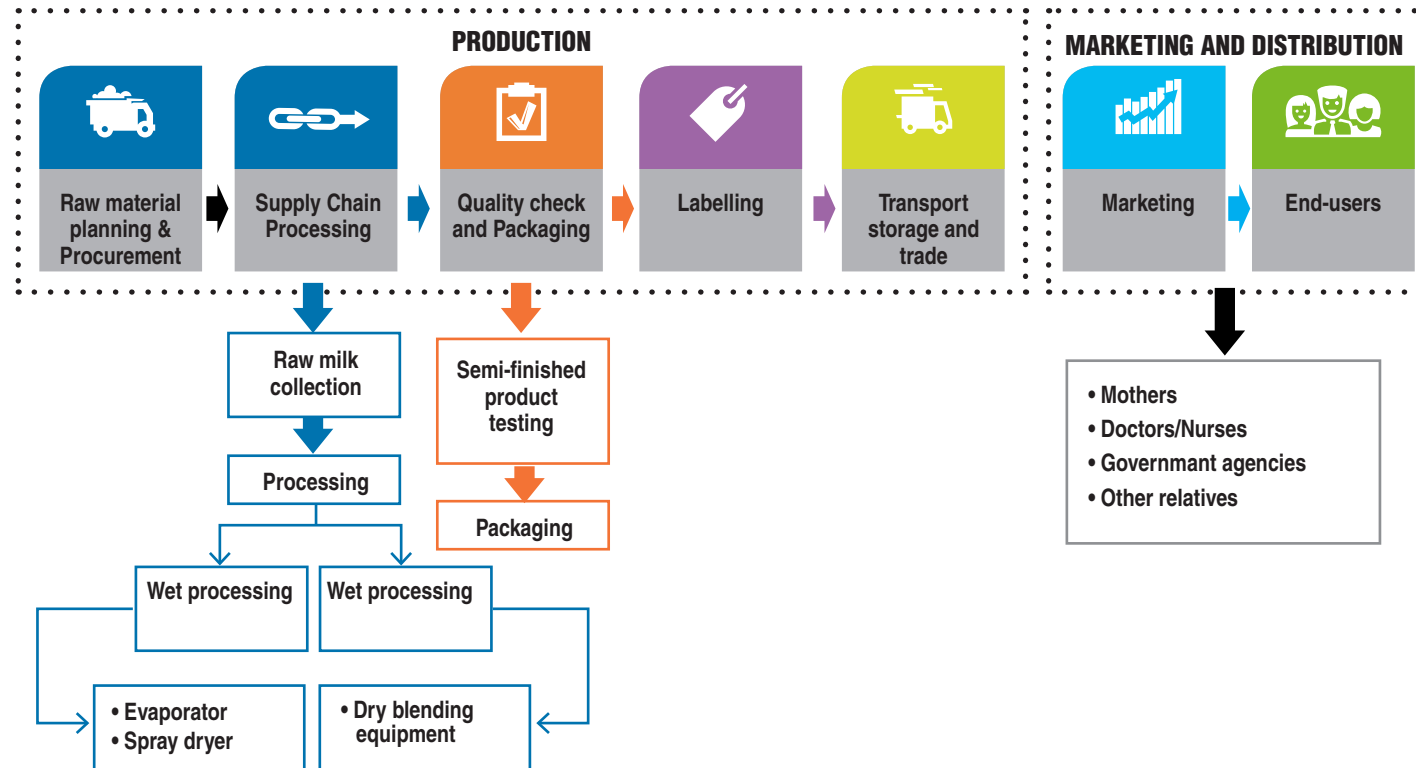
Supply Chain Building Blocks

Value chain analysis of global organic infant formula market



Supply Chain Building Blocks

Supply chain analysis of global organic infant formula market






Key market
drivers



Market Drivers

Drivers of current and future growth



DRIVERS

- Increasing proportion of working women
- Rising demand for organic infant formula
- Strong performance of retail sector



OPPORTUNITIES

- R&D investments and new product developments
- Premiumisation of infant formula brands
- Key emerging market



Listed Infant formula Companies vs AHF

| | ORGANIC | BRANDED | INFANT FORMULA | VERTICAL INTEGRATION | MARKET CAP | TURNOVER | MARKET CAP/TURNOVER |
|-------------------|---------|---------|----------------|----------------------|------------|----------|---------------------|
| Bellamy's Organic | ✓ | ✓ | ✓ | ✗ | 2,198 | 240 | 9.15X |
| A2 | ✗ | ✓ | ✓ | ✗ | 8498 | 523 | 16.2X |
| Wattle Health | ✗ | ✓ | ✓ | ✗ | 215 | 0.9 | 238X |
| Bub's | ✓ | ✓ | ✓ | ✓ | 286 | 3.9 | 73.3 |
| AHF Today | ✗ | ✓ | ✗ | ✓ | 25 | 23.4 | 1.07 |



AHF will become a vertically intergated, producer of Organic Infant Baby Formula from **100% Australian Organic Milk**



Further Details

For additional company information or media enquiry matters please contact:

Peter Skene

Group CEO/ Director
Australian Dairy Farms Limited
Email: peterskene@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. 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.*

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