

Australian Dairy Farms Group

28 August 2018

ASX Code: AHF

Australian Dairy Farms to Acquire Flahey's Nutritionals to Spring into Organic Formula Sales

A complete range of premium infant formula's also under development with market positioning from "cradle to grave"

Australian Dairy Farms Group Limited (ASX code: AHF) will acquire Flahey's Nutritionals Pty Ltd, owners of Flahey's Future, a certified-organic formula containing essential vitamins, minerals, protein, carbohydrates fats and pre-biotic fibre.

Flahey's Future is new to the Australian market and is progressively being rolled out nationwide through a range of major branded retailers in the Australian pharmacy market including Chemist Warehouse, Chemist Outlet, Blooms the Chemist, Priceline, Soul Pattinson and Pharmacist Advice stores. Flahey's Nutritionals is also developing a comprehensive range of premium infant formula products that will give it a "cradle-to-grave" market position.

"Bringing Flahey's Nutritionals into our company is a major further step in Australian Dairy Farms Group's overall strategy of transitioning from a conventional basic producer of low value products, to a premium differentiated branded business," said Peter Skene, chief executive officer of Australian Dairy Farms.

"The acquisition represents the first step for us in entering the organic formula market"

Mr Skene said the market for organic infant formula in Australia and New Zealand was expected to more than double in size between 2017 and 2023, from \$230 million in 2017 to \$546 million by 2023. "The organic market is less inclined to be affected by commodity pricing," he said.

Further out, Australian Dairy Farms is eyeing the China export market, Mr Skene added. "Infant formula sales in China are growing at 9% a year, but organic infant formula sales in China are growing at 46% a year," he said.

As part of the purchase of the Sydney-based Flahey's Nutritionals business, its principal Chris Flahey will join the Australian Dairy Farms as Sales and Marketing Director responsible for the execution and transition to a fully branded business. Mr Flahey has deep experience within the sector, having been Sales and Marketing Director of Bellamy's Australia Limited and an integral contributor to Bellamy's transition from a private business to an ASX-listed company.

Mr Flahey also has extensive experience with branded businesses like Simplot Australia where he held multiple senior positions over a long period of time, and worked with some of Australia's most iconic brands including BirdsEye, John West, Edgell, Leggos and Four & Twenty.

The acquisition includes stock necessary for ongoing trade and Flahey's Nutritionals' intellectual property for the rollout of an extensive range of infant formula products.

Total consideration for the acquisition is \$1.5 Million, made up of \$400,000 Cash and 6,875,000 AHF stapled securities, in four tranches, based on key milestones and retention of the key executive over a three-year period.

Please refer to the attached presentation for additional information.

Ends

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AUSTRALIAN DAIRY FARMS GROUP

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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 AHF's website: www.adfl.com.au

About Australian Dairy Farms Group

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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>.

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.

AHF Market Announcement
(28 August 2018)

Acquisition of
Flahey's Nutritionals Pty Ltd
by Australian Dairy Farms
Group (AHF)

and

Infant formula



A complete range of premium infant formulas are also
underdevelopment – From “*cradle to grave*”



Australian Dairy Farms Group

Australian Dairy Farms, the new fresh future

Disclaimer

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Investment Risk

An investment in Australian Dairy Farms Group (AHF), is subject to known and unknown risks both specific to AHF and of a general nature, some of which are beyond the control of the Group including possible loss or reduction in capital invested. Such risks may either individually or in combination adversely affect the future operating and financial performance of AHF, its investment return and value of its securities.

There can be no guarantee and the Directors and management give no assistances, (notwithstanding that they will use their conscientious best endeavours), that AHF will achieve its stated objects or that any forward looking statement or forecast will eventuate.

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.





NEW

Flahey's Future is a complete balanced nutritional drink with a mix of essential Vitamins, Minerals, Protein, Carbohydrates, Fats and Prebiotic Fibre.

If your child has an unbalanced diet due to fussy or picky eating habits try Flahey's Future to rebalance their diet.



**For Children
Aged
1-10 years**

***Pure, Safe certified
organic ingredients***



Australian Dairy Farms Group

Australian Dairy Farms, the new fresh future

Highlights

- Australian Dairy Farms to enter the **dairy nutritionals and infant formula market**.
- **Australian Dairy Farms Group is excited to announce the accelerated Formula market entry via the purchase of the Flahey's Nutritionals Company.**
- Flahey's Nutritionals recently launched into the Australian Certified Organic market via a specialised ultra premium product currently ranged in major branded retailers within the Pharmacy market in Australia.
- Flahey's Nutritionals has a comprehensive range of premium infant formula products under development with a “cradle to grave” market position.
- The Flahey's Nutritional acquisition fits nicely with Australian Dairy Farms Group's overall strategy of transitioning from a conventional basic producer of commodity products to a full premium differentiated branded business.



Experience

- As part of the purchase of the Flahey's Nutritionals business Chris Flahey will join the Australian Dairy Farms Group as Sales and Marketing Director responsible for the execution and transition to a fully branded business. Chris has extensive knowledge, experience and relationships with the domestic and global formula markets as well as local and global retailers
- Recently Chris was Sales and Marketing Director of Bellamys Australia Limited (ASX Code BAL) and a key member for transitioning from a private business to a listed business on the ASX. When Chris joined Bellamy's he devised a full Pharmacy sales and marketing plan which rapidly expanded distribution of the baby formula, food and snacks business. Chris developed the Asian sales, marketing and distribution plan and built a team to execute these strategies. Chris successfully launched the Bellamy's Organic pouch baby food business in both the Australian and Asian markets. In total Chris grew Bellamys from a \$12mil a year turnover business to a \$184Mil business in the space of three years.
- Chris also has extensive experience with branded businesses like Simplot Australia where he held multiple senior positions over a long period of time and worked with some of Australia's most loved iconic brands including BirdsEye, John West, Edgell, Leggos, Four & Twenty and others.

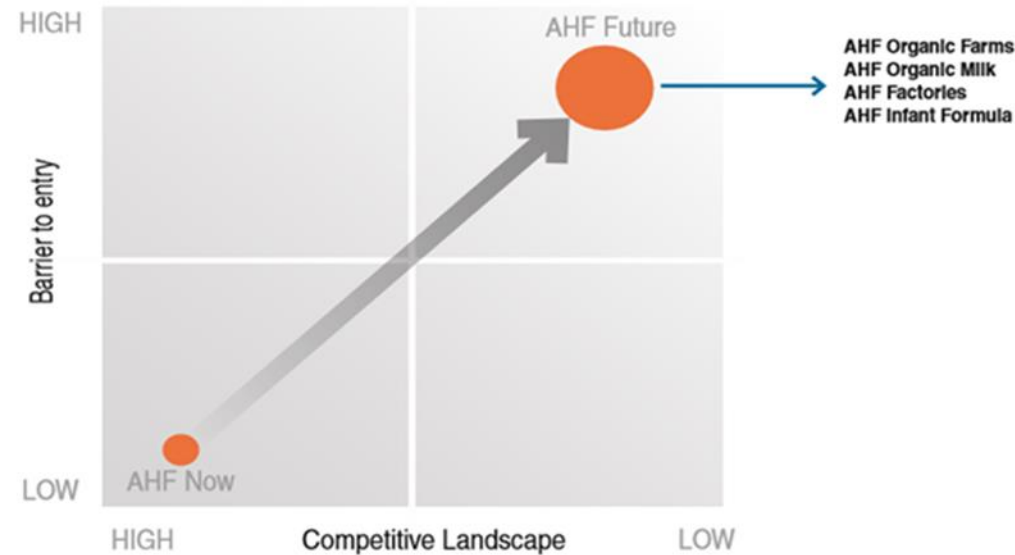


Consistent with and building on the corporate strategy

- Continuing to progress from what was, only a short time ago, a dairy farming company with one product (raw milk) sold to one customer and very much a price taker, to a branded consumer goods company in a high value (and high growth) market segment.
- Strategic review undertaken from mid 2017 highlighting the intense and increasing competition in the current Camperdown Dairy market segments and particularly the conventional white bottled milk market.
- The March 2018 market update included confirmation that, in order to optimize the returns from AHF owned farms and be able to assure a permanent and reliable supply of organic milk, the farms would immediately commence organic conversion.
- The March 2018 announcement also included the organic dairy product manufacturing opportunities. The feasibility was updated to include the potential for entering the organic infant formula market with the goal of having a fully vertically integrated supply of Australian grown ingredients to produce real Australian Organic Infant Formula.
- The acquisition of Flahey's Nutritionals represents the first key step in the implementation of the Group's strategy to be an important active participant in the organic formula market and to progressively move to full production of organic infant formula in the Group's own facility from organic milk produced on the Group's own organic farms.



Consistent with and building on the corporate strategy



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

Today's announcement by the Directors of AHF of the acquisition of the Flahey's Nutritionals business further progresses the corporate strategy of moving from an undifferentiated strategy to a premium differentiated market position.



Key Terms of Acquisition Transaction

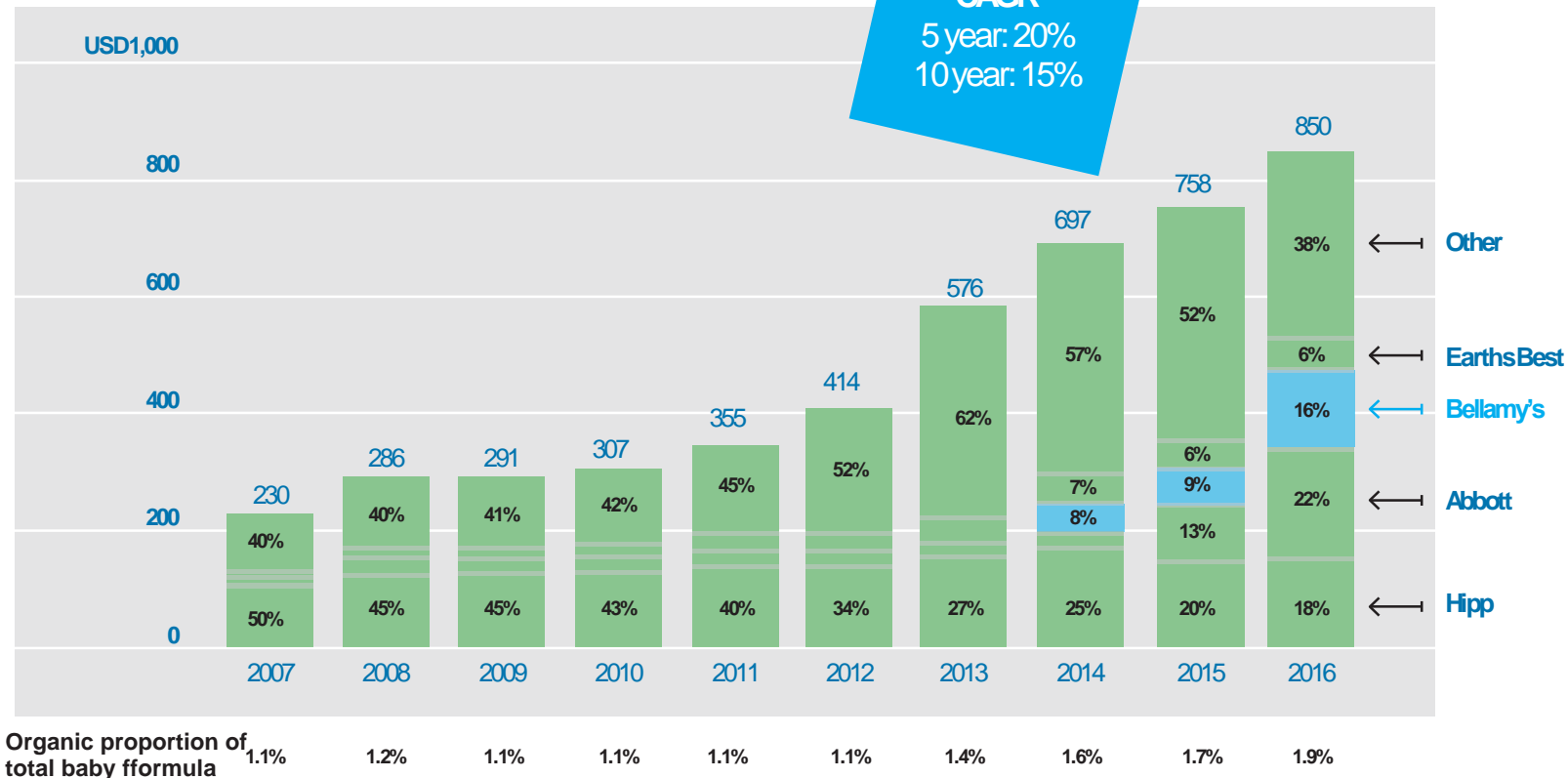
Total consideration \$1.5 Million, made up of:

- \$400,000 Cash and 6,875,000 AHF Stapled Securities in 3 tranches based on key milestones and retention of key Executive over a 3 year period;
- Includes stock necessary for ongoing trade;
- Includes intellectual property for the rollout of an extensive range of infant formula products;
- Issue of Stapled Securities is subject to shareholder approval;



The last 10 years - Organic Baby Formula Market Sales – (Growing at 20% per year in last 5 years)

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



Source: Ballamys FY17 AGM Presentation

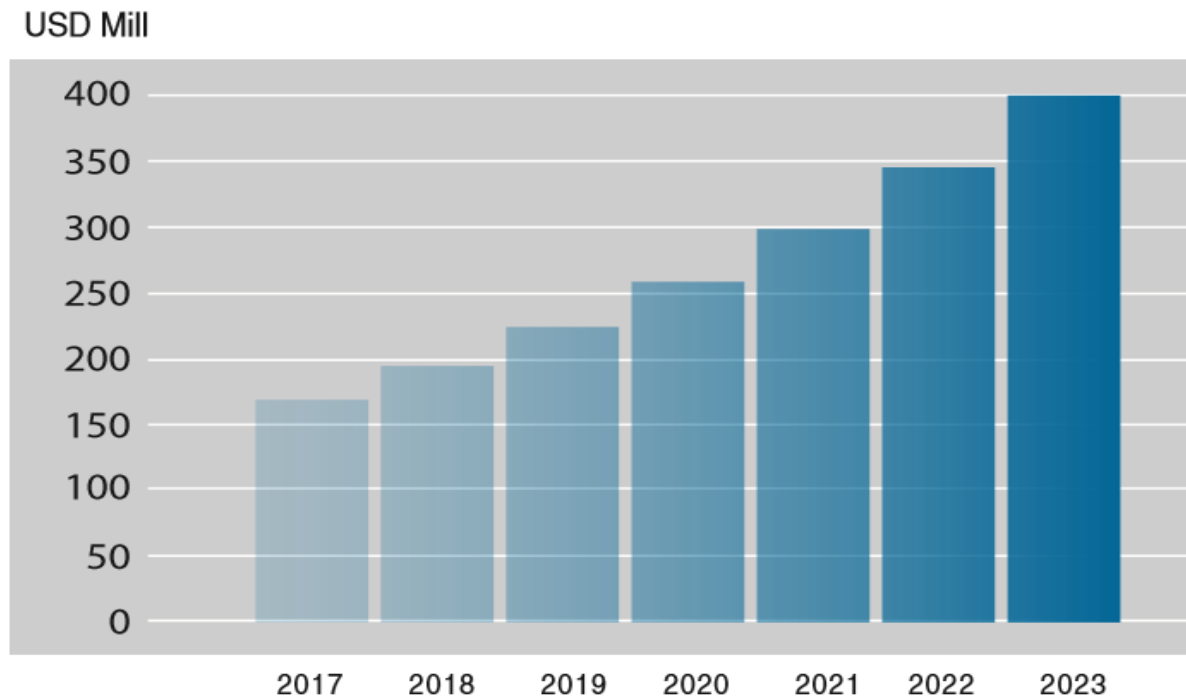


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Australian /NZ Organic Infant formula – next 5 years From USD \$169 Mill in 2017 to USD \$400 Mill

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



Source: 'Market Research Future' - Global Organic Infant Formula Report



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Infant formula sales in China are growing at 9% PA

ORGANIC infant formula sales in China are growing at 46% PA

Figure 13. CNCA-certified organic label



Source: CNCA

Certified organic IMF having a field day in China

In order for infant formula to be labeled as "organic" in China it must be certified by the CNCA (Figure 13) from 1 January 2018. The criterion is at least 95% of a product's weight must be comprised of ingredients included in the CNCA's "List of Certified Organic Products". Currently, there are only 17 registered organic infant formulae in China; primarily Chinese brands. Bellamy's is not one of these.

According to a Nielsen survey of Chinese supermarkets and mother and baby stores, organic infant formula accounted for only 4% of the Chinese infant formula market in 2017. The organic category saw growth of +46% in 2017 (2016: +47%), significantly outpacing the market growth rate of 9%.

Recent surveys of Chinese consumers have indicated the most important factors behind choosing organic formula (in order) are i) nutritional content, ii) food safety, iii) brand, and iv) country of origin. The primary and most influential sales channel is the mother and baby stores, making CFDA registration critical for organic formula. The top three organic brands by consumer awareness are Abbott, Wyeth and, most notably, Bellamy's (which does not have CFDA registration or organic certification) (Figure 14).

Source Citi Infant formula report



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Key Considerations

How will the company secure the organic milk to produce organic infant formula?

Australian Dairy Farms Group currently owns 6 farms producing 17 million litres of milk. AHF owned farms are in the process of converting to Organic milk production, this transition would enable AHF to become Australia's largest single farm entity for the production of organic milk.

Does the company have the skill and experience to produce organic dairy products?

Camperdown Dairy has been a fully certified organic dairy manufacturer for the last 5 years. Recently Camperdown Dairy has expanded the organic certification to include yoghurts, milks as well as butter. The company has, in the main, been using its organic certification to support contract manufacturing for other businesses.

There have been a lot of businesses either fail in their plans to enter the baby formula industry, or enter and find out it is far more complex than first thought. Does the company have the experience to build and run drying and packing facilities?

Camperdown Dairy has a very experienced dairy manufacturing team. This team has gained vast experience in large organisations in multiple manufacturing processes including the complex manufacture of dairy products. The team in particular has significant experience in building dairy capabilities as well as running dryers and packaging facilities. This includes all the relevant licensing requirements with the General Manager having extensive dairy regulator experience, which included the issuing of domestic and export dairy manufacturing licenses, and ongoing compliance audits.█





Why Organic?



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Organic Dairy Market

Market

The domestic dairy industry revenue is expected to grow at an annualised rate of 8.5% to reach a market value of \$2.6 Billion.

The market for organic infant formula in Australia and New Zealand is expected to grow from \$230m in 2017, to \$546m by 2023. (source: AAP)

Price

Domestic prices for non-organic milk have been falling steadily since the industry deregulated in 2000. The organic market is less inclined to be affected by commodity pricing.

Volume

The Australian organic milk pool is estimated to be 40 million litres per year, Australian Dairy Farm Group will add significantly to this volume given that their annual milk volume is planned to be 17 million litres.

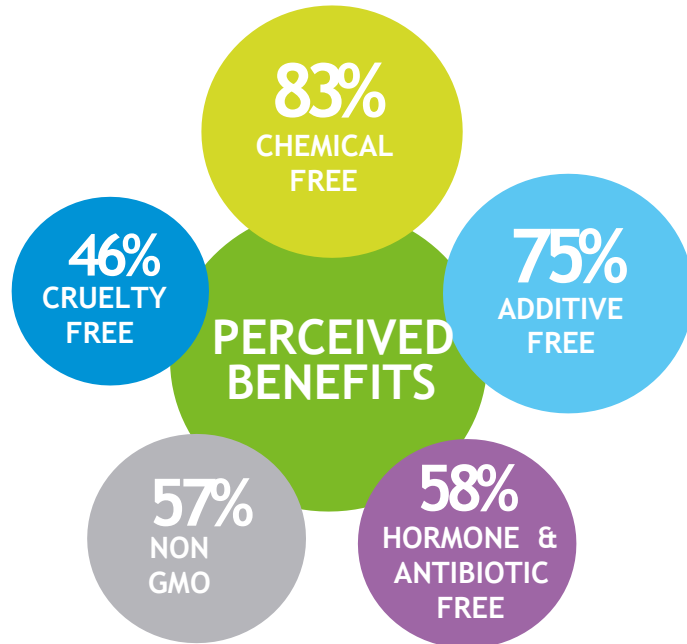


Source: austorganic.com



Organic Dairy Market Opportunity

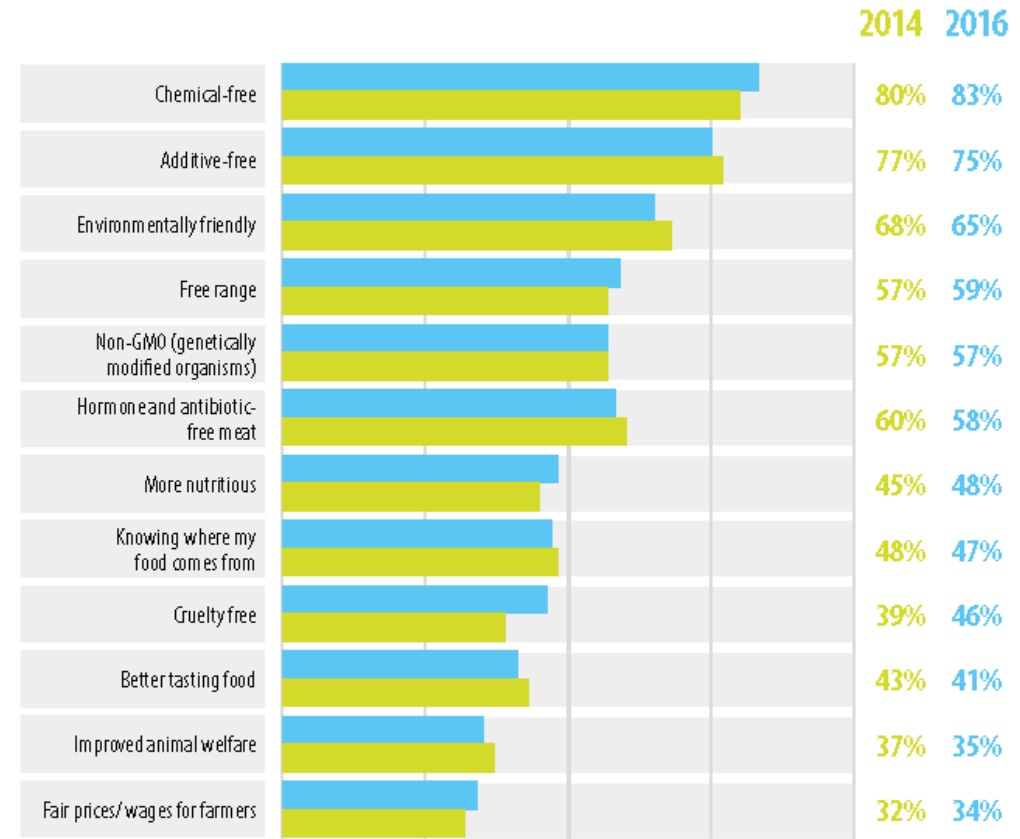
Top **Perceived** 'Free From' Benefits of Organic Food*



THE TOP PERCEIVED BENEFITS OF ORGANIC FOOD

1. Chemical free	6. Hormone and antibiotic free meat
2. Additive free	7. More nutritious
3. Environmentally friendly	8. Knowing where my food comes from
4. Free range	9. Cruelty free
5. Non-GMO (genetically modified organisms)	10. Better tasting food

Australia's Top 12 Perceived Benefits* of Organic Food



* Source: Australian Organic Market Report 2017



Organic Dairy Market (Cont)

Challenges

Numerous challenges have developed in the domestic dairy market, including supermarket milk price wars and falling domestic milk prices due to plummeting global dairy trade prices.

Market Opportunities:

- Retailers and restaurants are stocking an increasing number of organic products;
- Capitalise on the demand for organic premium and ultra premium differentiated foods.
- Domestic demand for organic food and produce is projected to continue growing strongly with the population becoming increasingly aware of clean, safe food.
- The consumer demand for “free from” claims.



Source: Unique Health Products

Source: Unique Health Products



Further Details

For additional company information or media enquiry matters please contact:

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Camperdown Dairy is a wholly owned subsidiary of AHF. The Group is now avertically 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.

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