

Wattle Health Australia Limited Enters into Joint Venture with Organic Dairy Farmers of Australia Limited

- **Wattle Health Australia enters into joint venture with Organic Dairy Farmers of Australia (“ODFA”) and Niche Dairy Pty Ltd (“Niche Dairy”) to design, construct and operate a dedicated Organic Spray Drying Facility in Australia.**
- **Under the joint venture, Wattle Health Australia will have a 45% ownership interest with ODFA a 50% ownership interest and Niche Dairy a 5% ownership interest, to form Corio Bay Dairy Group Pty Ltd (“CBDG”).**
- **Wattle Health Australia and Niche Dairy will provide funding for the construction of the spray drying facility via interest bearing loans to CBDG.**
- **ODFA, the largest supplier of fresh organic milk in the Australian marketplace, has entered into a minimum supply agreement with CBDG for the supply of up to 46 million litres p.a. of fresh organic milk.**
- **Wattle Health Australia has the first right to purchase the dried products produced by CBDG.**
- **Through the joint venture, Wattle Health Australia becomes one of a few nutritional dairy companies to have access to vertical integration, from the farm to consumer.**

10 April 2018: Wattle Health Australia Limited (**ASX: WHA**) is pleased to announce it has entered into a conditional joint venture (**JV**) arrangement with Organic Dairy Farmers of Australia Limited (**ODFA**) and Niche Dairy Pty Ltd (**Niche**) to form Corio Bay Dairy Group Pty Ltd (**CBDG**).

JV Overview

CBDG will design, construct and operate a dedicated organic milk spray drying facility in Geelong, Victoria on land neighbouring ODFA’s existing processing operations. The spray drying facility will have the capacity to be able to process up to 200,000 litres of fresh organic milk per day (up to 73 million litres per annum). The cost of construction, including

the purchase of land on which the spray drying facility will be located, is approximately \$55 million.

WHA will have a 45% ownership interest in CBDG and Niche Dairy, the founding partner of one of Australia's largest nutritional dairy processing plants, Blend and Pack Pty Ltd (**B&P**), will have a 5% ownership interest in CBDG. ODFA, through the committed supply of fresh organic milk to CBDG, will hold a 50% ownership interest in CBDG.

Completion of the JV arrangements is conditional on a number of matters including WHA securing funding to meet its commitment under the JV.

WHA requests the suspension of its securities should remain in place until it has secured the required funding for the JV.

JV Funding

WHA and Niche (in their respective proportions) will provide funding to CBDG of up to \$70 million via secured loans, being:

- a loan for the purchase of the site, construction of the facility and associated infrastructure and site works (**Facility Loan**); and
- a loan for the initial working capital requirements of CBDG (**Working Capital Loan**) (collectively, the **Loans**).

WHA and Niche Dairy will provide aggregate funding of \$63 million and \$7 million respectively under the Loans.

The Loans provided by WHA and Niche will be secured against all the assets of CBDG. Profits generated from the operations of CBDG are to be applied first in repayment of these Loans in priority to any distributions to the CBDG shareholders.

Branding

The dried milk produced by CBDG will be sold under the "True Organic" brand licensed by CBDG from ODFA under the terms of a licensing agreement that has been entered into. True Organic is certified organic by several of Australia's accrediting organisations including Australian Certified Organic and NASAA Certified Organic.

CBDG Governance

The CBDG Board will comprise 6 directors with WHA and Niche Dairy entitled to nominate 3 directors and ODFA entitled to nominate 3 directors¹. Until such time as amounts outstanding under the Loans are less than \$30 million, ODFA have reduced voting rights under the Shareholders Agreement.

Milk Supply Agreement

CBDG has entered into a supply agreement (**Supply Agreement**) with ODFA whereby ODFA has agreed to sell and CBDG has agreed to purchase a minimum annual quantity of organic milk of up to 46 million litres per year (**Minimum Supply Amount**). In addition to the Minimum Supply Amount, CBDG can provide to ODFA forecasts of its requirements for organic milk above the Minimum Supply Amount and where those forecasts are accepted by ODFA, become binding on the parties.

The Supply Agreement is exclusive. However, in certain circumstances, CBDG can source milk from third parties, including where ODFA is unable to satisfy the Minimum Supply Amount. The parties have agreed a commercial price per litre of organic milk, which is subject to annual review.

WHA First Right of Refusal on CBDG Production

CBDG has granted to WHA and Niche Dairy a first right of refusal under which WHA and Niche Dairy have a first right (in priority to all third parties), but not an obligation to purchase the organic dried milk powder at a negotiated price. To the extent WHA and Niche Dairy don't acquire the organic dried milk powder, CBDG cannot provide the product to a third party at a more favourable price.

The first right of refusal provides WHA with certainty of organic dried milk powder supply for its range of organic products and optionality with respect to meeting demand for organic dried milk in the broader market.

Summary

The JV arrangements reflect WHA's objective to be an Australian organic nutritional dairy company using organic dried milk powder produced solely from Australian farms.

¹ Provided WHA and Niche continue to hold at least 50% of issued CBDG shares



The JV with ODFA reflects WHA's vertical integration strategy, giving WHA influence over its value chain. This is an important milestone that provides certainty of supply and provides further confidence to the market that WHA has control and visibility across all inputs in the Company's nutritional dairy range.

Executive Chairman, Mr Lazarus Karasavvidis said "The JV with ODFA has been a long time in the making and is consistent with Wattle Health Australia's vertical integration strategy which is very important for the long-term success of the Company.

This also gives WHA the pathway to being a truly Australian organic nutritional dairy company which supports the local dairy industry. We want to thank ODFA for having the confidence to form the JV with WHA and Niche Dairy and we look forward to working with all parties for a long and beneficial relationship."

Director of Niche Dairy, Mr Andrew Grant said "The partnership of Organic Dairy Farmers, Wattle Health Australia and Niche Dairy continues our development in the vertical integration of high value dairy and nutritional products to the Australian and overseas markets.

We are pleased to be involved in such an exciting development in the dairy industry as we continue to value add and differentiate the products we can take to the market and increase returns to the organic dairy farmers."

Chief Executive Officer of ODFA, Mr Stewart Price said "The ability of ODFA to offer premium milk prices to members is a key driver for our co-operative.

This union with Wattle Health Australia and Niche Dairy to establish Corio Bay Dairy Group will create a dedicated organic milk powder production plant in Geelong, and this will sustain growth to recruit and grow milk supply. Importantly, this will enable our co-operative farmers to receive full organic rates year-round for every litre of organic milk produced. This project ensures ODFA remains the leading supplier of organic milk in Australia, and further enhances long term stability and sustainability to our ODFA suppliers and members, by allowing the business to manage additional supply of seasonal milk. This is a step change for the organic dairy industry and the farming families that are the back bone of our co-operative. We are very excited about this project as this completes our strategic focus to achieve a key relationship in each dairy category, and the future potential returns in the nutritional powder category that this JV will bring. The co-operative is very appreciative for

this opportunity to form this JV and we would like to thank both Wattle Health Australia and Niche Dairy.”

About ODFA

ODFA is a farmer owned co-operative formed in 2001 by a group of farmers determined to develop organic dairy farming in Australia to differentiate their dairy products from commodity markets and maximise the organic farm-gate milk price for co-operative members.

ODFA is a leading supplier of organic milk produced in Australia and comprises certified organic and bio-dynamic farms across the main dairying regions of Victoria.

ODFA farmers are certified organic and they comply with a strict set of standards. They do not use synthetic or artificially produced pesticides, herbicides, fertilisers or GMOs (genetically modified, transgenic organisms). Cows are fed predominantly on pasture which is completely GMO free. ODFA farmers have a genuine concern about the long-term health of the land and about the herd’s welfare. This results in happy cows and remarkable tasting organic milk and dairy products. Organic production is a holistic system designed to optimise the productivity and fitness of diverse communities within the agro-ecosystem, including soil organisms, plants, livestock and people. Organic farming systems aim to develop enterprises that are sustainable and harmonious with the environment.

The business is experiencing strong growth in demand and has made a strategic decision to focus on being an ingredient supplier to customers seeking organic milk and dairy powder products.

Up until 2015, the ODFA co-operative was heavily reliant on contract manufacturing for a major part of the production of value added products. These products provided an opportunity to add value to organic milk returns and manage milk supply. Joint ventures have been established for the production and marketing of cheese and butter products.

From 2016, the co-operative made its first capital investment in a milk processing plant in North Geelong. This has been a defining point for the longer-term future of the co-operative. This plant provides manufacturing capability for valued added products.

The Australian Organic Dairy Centre has significant potential for additional production of organic dairy products as the co-operative has invested in a specialty cheese plant, new infrastructure including milk receipt and storage and processing of milk separation and cream pasteurization.

ODFA has a diverse business model with established long term strategic partnerships with customers. The co-operative supplies unique organic milk and dairy ingredients to



companies in Australia and overseas who in turn carry the ODFA brand, “True Organic”, as a mark of quality and integrity.

ENDS

George Karafotias
Company Secretary
Wattle Health Australia Limited

For more information, please contact:

Peter Nesveda
Corporate Affairs & International Investor Relations
Email: peter.n@wattlehealth.com.au
Telephone: +61 3 8399 9419 Mobile: +61 412 357 375