

Saturday 21 June 2014

**The Manager – Companies****ASX Limited Company Announcements****For release to market****UPDATE ON THE DAIRY FARM PROJECT**

APA Financial Services Limited (APP or the Company) has previously announced its proposal to seek shareholder and ASX approval to change the scale and nature of its business activities to aggregate and operate dairy farms in Victoria. The Company also proposes to staple its shares with units in the trust which will own the dairy farms acquired, together the "Proposal".

This announcement is to provide an update to the market about the status and timing. The Proposal was significantly delayed in finalising the stapled structure and necessary regulatory documents, which in turn has delayed the preparations for capital raising which are essential to the Proposal's success.

The Notice of Meeting is currently being reviewed by ASX and is now expected to be circulated to APA shareholders in early July 2014 for a shareholder meeting in early August 2014 to seek approval to implement the Proposal. The Notice of meeting and its accompanying Explanatory Memorandum will contain full details of the Proposal and related transactions.

The proposed name of the listed group is **Australian Dairy Farms Group** comprising **Australian Dairy Farms Limited** (currently APP) and the **Australian Dairy Farms Trust** (previously Dairy Farm Investments Trust) (Trust). The Trust will be the entity acquiring the real property farm assets, while the Company will be undertaking the operations and farm management, with the Company's shares and Trust's units being stapled.

To affect stapling of the Company's existing shares with the Trust units:

1. the Company will consolidate its share capital so that 5 existing shares will be consolidated into 1 New Share; and
2. the Trust will then issue 1 unit for each New Share held.

ASX approval will be sought to list the Stapled Securities of the **Australian Dairy Farms Group**, which comprise one New Share in **Australian Dairy Farms Limited** and one Trust Unit in **Australian Dairy Farms Trust**.

**The Company has sought ASX approval to amend its constitution so that, rather than issue units to persons whom the Company has determined, acting reasonably, it would be unlawful or unduly onerous or impracticable to do so, the Company will compulsorily sell the shares held by those persons and account to them for the sale proceeds.**

**To implement the Proposal and subject to ASX approval, shareholders with a registered address outside Australia or New Zealand will, where it is unlawful or unduly onerous or impracticable to issue units to them, have their existing shares compulsorily sold before stapling.**

The Group plans to raise between \$7,500,000 and \$14,500,000 of new capital under a public offer of Stapled Securities to implement the Proposal and acquire two adjoining farms and associated livestock at Brucknell near Warrnambool and provide capital for further development of the Group's plans for expansion. The Proposal is subject to approval by APP shareholders and re-compliance with Chapters 1 and 2 of the Listing Rules.

**APA FINANCIAL SERVICES LIMITED**

ABN 36 057 046 607

Level 1, 41 Edward Street, Brisbane QLD 4000 | GPO Box 6, Brisbane Qld 4001

Phone: +61 07 3020 3020 | Fax: +61 07 3020 3080

The directors believe that the Proposal, if successfully completed, will establish a sound operating platform of two high quality and strongly performing dairy farms in a relisted stapled group, with the capacity to generate revenues and asset growth for security holders.

In conjunction with this announcement, the directors have also published a copy of an investor presentation (Presentation) for information about the background and rationale for the Proposal. The Presentation is not an offer document or any invitation to invest and contains limitations on its use. Users should carefully read the Disclaimer on page 2 of the Presentation.

All parties to the Proposal are actively and cooperatively working towards achieving the outcomes set out in the Notice of Meeting and have agreed to further extend the term of various agreements between the parties to facilitate the completion of the transactions in connection with the Proposal.

**APA FINANCIAL SERVICES LIMITED**

MICHAEL HACKETT

Chairman

This announcement including the Presentation contains statements regarding future matters. Whilst the Company has a reasonable basis for making such statements, they are subject to events and circumstances outside the Company's control, and investors are cautioned not to place undue reliance on such statements. The Company is under no obligation to publicly update such information, unless required by law or the ASX Listing Rules.

# AUSTRALIAN DAIRY FARMS GROUP

*“To be ASX’s Only Listed Milk Producer”*



AUSTRALIAN DAIRY FARMS

## Australian Dairy Farms Group

ASX listed Stapled Security \*

ASX Code: AHF (reserved)\*

## FOR ASX RELEASE

For General Information Purposes

June 2014



\*subject to ASX approval and successful completion of capital raising

# Disclaimer



AUSTRALIAN DAIRY FARMS

## General Information

This Presentation contains general information only. This document is not an invitation, offer or recommendation (express or implied) to apply for or purchase or take any other action in respect of securities and is not a prospectus, product disclosure statement or disclosure document for the purposes of the Corporations Act 2001 (Cth) and has not been lodged with ASIC. None of Australian Dairy Farms Group and its Associates<sup>1</sup>, (collectively the "Issuer Network") is providing or offering investment advice or services by making this Presentation.

Neither the Group nor any of the Issuer Network makes any representation, warranty or guaranty of any kind, express or implied, as to the accuracy, completeness or reasonableness of the information contained herein or any other written or oral communication transmitted or made available to any Recipient. The Group and its affiliates and representatives expressly disclaim any and all liability based on or arising from, in whole or in part, such information, or any errors or omissions.

## Forward-Looking Statements

This Presentation contains certain statements which 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 Group believes the expectations and assumptions reflected in the forward-looking statements are reasonable, as of the date hereof, reliance should not be placed on the forward-looking statements as the Group gives no assurances that they will prove correct and 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; risk associated with securities market volatility and the ability of the Group to continue as a going concern. 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.

## Re-compliance with ASX Listing Rules – Chapters 1 and 2

The Group proposes to seek re-admission to ASX on completion of the proposed capital raising. This is subject to a number of risks including obtaining shareholder approval, raising sufficient funds, completing the acquisition of the Brucknell Farms and obtaining ASX approval.

<sup>1</sup> Associates 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 or its constituent entities. At the date of this presentation, APA Financial Services Limited (ASX:APP) is the registered name of the Company which is proposed to be changed to Australian Dairy Farms Limited. A shareholders meeting to be held in August 2014 will consider changes to the name, structure and business activity of the Company to approve the business undertakings set out in this Presentation.

Australian Dairy Farms Group acknowledges Dairy Australia, ABARES, Fonterra, Horizons 2020, Red Sky Agriculture, OECD, and Food and Agriculture Organisation (UN), Fairfax Media in respect of information used herein.

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AUSTRALIAN DAIRY FARMS

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- **Australian Dairy Farms Group (“ADF”)** to be an owner and operator of Australian dairy farms
- ADF intends to offer an ASX listed investment opportunity in corporate farm consolidation in Australia’s fragmented dairy supply industry – focussed on Victoria
- **The time is right to consolidate the Victorian dairy sector:**
  - Cyclical low in dairy farm prices – prime opportunity for acquisition
  - Strong milk supply/demand fundamentals – demand to grow at a CAGR of 5% p.a<sup>1</sup>
  - High milk price trend – long term, high demand growth forecast - potential for high return on equity
  - Economies of scale – management, revenue and cost synergies risk diversification
- **Strategy to purchase attractively priced existing dairy farms:**
  - In Australia’s premier dairy regions – initially SW Victoria;
  - Currently operational with strong production and earnings metrics;
  - Identifiable and accessible productivity gains and cost efficiencies;
  - Benefit from economies of scale – i.e. proximity to multiple ADF owned / managed dairy farms
- Medium term strategy to purchase additional farms, use scale to deliver revenue and cost synergies and produce 50m+ litres of production p.a. within 2 years.



# Introduction



AUSTRALIAN DAIRY FARMS

- **Shareholder returns driven by:**
  - Operations – exposure to earnings and cashflows
  - Property – exposure to dairy farm capital value growth
- ADF will own two producing dairy farms in South West Victoria’s “Golden Triangle” near Warrnambool<sup>1</sup>
- Currently **producing strong production levels** selling to Fonterra
- **Current production/cow exceeds Australian average** - 49%<sup>2</sup> and SW Regions top 10% benchmark - 24%<sup>2</sup>
- Market capitalisation of \$17.1m post listing at Maximum Subscription
- Increased scale in farms produces rapid growth in performance statistics

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**APA Financial Services Limited (ASX:APP) and Australian Dairy Farms Trust will form Australian Dairy Farms Group (ASX:AHF) as an ASX listed Stapled Security. APP will be renamed Australian Dairy Farms Limited.**

**Australian Dairy Farms Group (ADF) is seeking to raise a minimum of \$7.5m and a maximum of \$14.5m at \$0.20 per stapled security and will seek re-quotation post the capital raising in mid August 2014.**

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<sup>1</sup>Subject to successful completion of capital raising and re-quotation on ASX

<sup>2</sup>Source: DPI Statistics, Red Sky and Company estimates

# Key Metrics



AUSTRALIAN DAIRY FARMS

## Offer Summary

<b>Listed Stapled Entity</b>	<b>Australian Dairy Farms Group</b> <ul style="list-style-type: none"> <li>Australian Dairy Farms Limited</li> <li>Australian Dairy Farms Trust</li> </ul>
<b>Offer Size</b>	A\$7.5m to A\$14.5m
<b>Offer Price</b>	\$0.20 per Stapled Security

## Indicative Statistics

Farm Hectares	536.14 ha 108.01 ha leased
Herd Size	1103 head 935 average milking
Annual Production - full year	561,000 kg milk solids 7.707m litres milk

## Capital Structure

	Minimum Subscription A\$7.5m	Maximum Subscription A\$14.5m
<b>APP Shareholders</b>	12.9m (26%)	12.9m (15%)
<b>Directors</b>	6.4m (14%)	6.4m (8%)
<b>New Shareholders</b>	37.5m (74%)	72.5m (86%)
<b>Total Shares On Issue</b>	50.5m	85.5m
<b>Market Capitalisation</b>	\$10.1m	\$17.1m

Table excludes any future securities issued for conversion of loans  
Please refer to the statement regarding forward looking figures on Slide 2



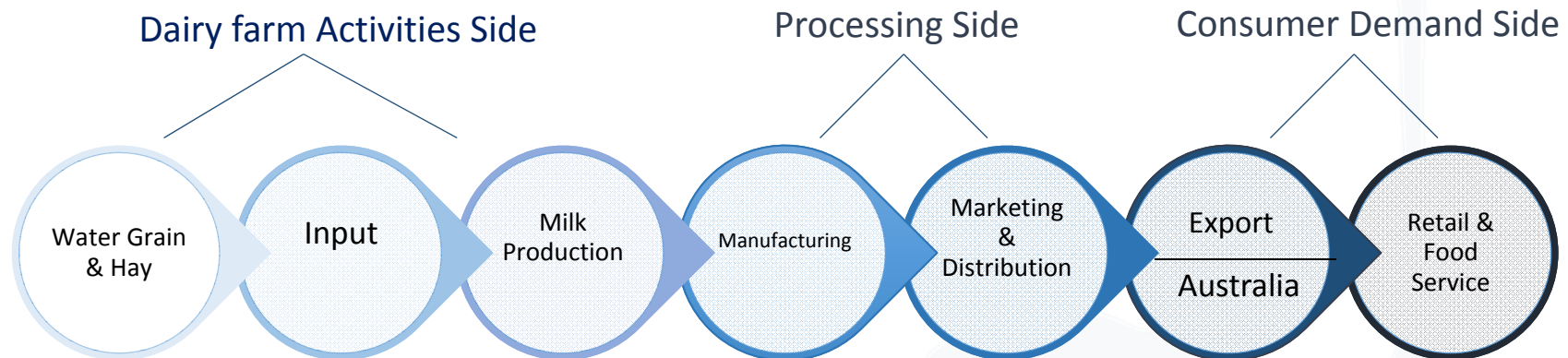


# Dairy Market Fundamentals



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**Supply Side Farmers sell to Processors who sell to the Demand Side Consumers**



- **Global Pricing:** Milk Products are Global Commodities, setting Processors' Sales Prices
- **Demand \$ Impact:** Global Demand Growth exceeds Supply Growth > Global Price and Volumes rise
- **Competition Mix:** Processors compete for milk Supply > reward high volume Suppliers
- **Change Dynamic:** Supply Side - "Price Taker" v Processing Side - "Price Maker" dynamic is changing
- **Current Price Mix:** Strong Milk Prices and Weak Farm Prices > Farm buying opportunity
- **Future Price Mix:** Higher Milk Price > Higher Cow Prices > Higher Farm Prices
- **Counter-cyclical:** Higher Milk Price + Lower Farm Prices > Short Term Opportunity to Aggregate
- **Investment Benefit:**
  - > Cashflow from Profitable Operations
  - > Capital Growth from Dairy Farmland Value Growth

# Rationale for Consolidation of Milk Sector



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<b>Scale (Revenue Synergies)</b>	<ul style="list-style-type: none"> <li>✓ Processors have excess capacity and actively seek security of milk supply</li> <li>✓ Will pay significant premiums / incentives for high volume and reliability of production</li> <li>✓ e.g. 1 owner producing 37.5 million litres p.a. should be paid 13% more per litre than 10 separate owners each producing 3.75 million litres p.a. (based on \$6.00/kgMS base price) Source: WCB Milk Supply Handbook 2013/14</li> </ul>
<b>Scale (Cost Synergies)</b>	<ul style="list-style-type: none"> <li>✓ Bulk purchasing power - calves, grain/fodder, trade services etc.</li> <li>✓ Share seasonal / capital equipment across farms</li> <li>✓ Share management / administration costs and expertise across farms</li> </ul>
<b>Inefficiencies</b>	<ul style="list-style-type: none"> <li>✓ Average Australian dairy farms are producing well below their production potential</li> <li>✓ Older generation farmers not using modern farming techniques</li> <li>✓ Existing farmers have limited access to capital – have not reinvested</li> </ul>
<b>Farm Prices / Timing</b>	<ul style="list-style-type: none"> <li>✓ Farm prices are at cyclical lows in premier dairy regions of Australia, while milk prices remain relatively high</li> <li>✓ Older generation farmers looking for an exit – with younger generations not choosing to take over family farms</li> </ul>
<b>Overseas Success</b>	<ul style="list-style-type: none"> <li>✓ Consolidation and corporatisation of dairy sector has proven successful overseas as demonstrated in New Zealand</li> </ul>
<b>Processor / Farmer Dynamic</b>	<ul style="list-style-type: none"> <li>✓ Processors have had all the power in dealing with individual farmers – who are price takers</li> <li>✓ Consolidating farms to produce larger volumes enable those suppliers to negotiate higher prices and other incentives from competing processors.</li> </ul>

# Corporatisation Strategy Rationale



AUSTRALIAN DAIRY FARMS

- Previous aggregations of farming operations have had mixed success in Australia – listed and unlisted.
- ADF recognises key mistakes other aggregation entities have made:

Mistake	Australian Dairy Farms Response
<b>Acquisition Pricing</b> <i>Aggregation done at the top of the land price cycle when commodity is in favour</i>	<ul style="list-style-type: none"> <li>✓ Purchasing dairy farms in prime locations at cyclical low prices</li> <li>✓ Buying into a likely upward trend in dairy farm prices i.e. farm prices follow milk prices</li> </ul>
<b>Commodity Choice</b> <i>Some soft commodities less likely to be successful in a corporate model, or carry more risk</i>	<ul style="list-style-type: none"> <li>✓ No annual crop / herd growth cycle – milk produced daily – paid for monthly</li> <li>✓ Ready market – no overseas marketing, multiple local competitive buyers</li> <li>✓ Minor storage / transport costs – milk sold daily, major processors within 30km radius</li> <li>✓ No major annual upfront capital investment as with grains</li> </ul>
<b>Cost Base</b> <i>Cost base too high, farms generate good revenue but returns don't flow back to shareholders</i>	<ul style="list-style-type: none"> <li>✓ No large management team or “Collins Street” office</li> <li>✓ Genuine synergies between farms – no scale for the sake of scale</li> <li>✓ Management scalable with increasing farm numbers</li> </ul>
<b>Water Dependency / Intensity</b> <i>Profitability heavily influenced by annual rainfall, or farming in high rainfall risk regions (i.e. NT, Cent QLD)</i>	<ul style="list-style-type: none"> <li>✓ Consistent rainfall region – refer slide 10</li> <li>✓ Full contingency of water rights under worst case scenario</li> <li>✓ Stock irrigation licences in place</li> </ul>

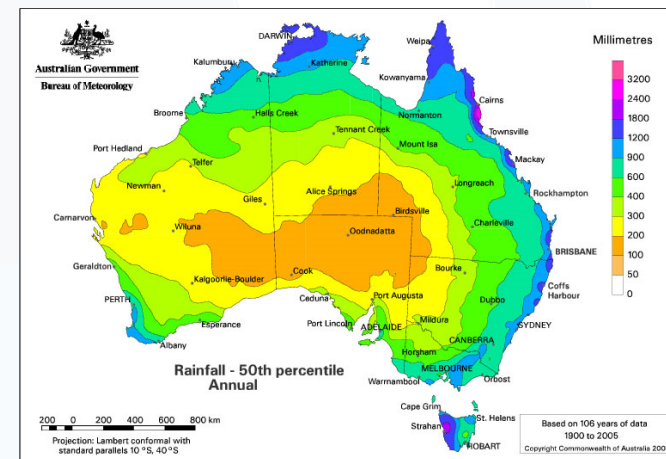
# Farm Selection Criteria



AUSTRALIAN DAIRY FARMS

ADF has a strict selection criteria for dairy farm acquisitions:

- ✓ **Existing production** - with immediate cashflows
- ✓ **Location** – Proximity to regional centres and existing processing facilities
- ✓ **Premier Regions** – Invest only in regions known for strong production
- ✓ **Synergy Potential** - Proximity to existing ADF farms to realise cost synergies
- ✓ **Scale** - Minimum 500 cow capacity, no sub-scale farms
- ✓ **Rainfall** - historically consistent and strong rainfall areas
- ✓ **Production Improvements** – potential for increased production via:
  - Pasture Renovation
  - Paddock Layout
  - Dairy Technology
  - Feeding Intensification
  - Adjoining Land Options



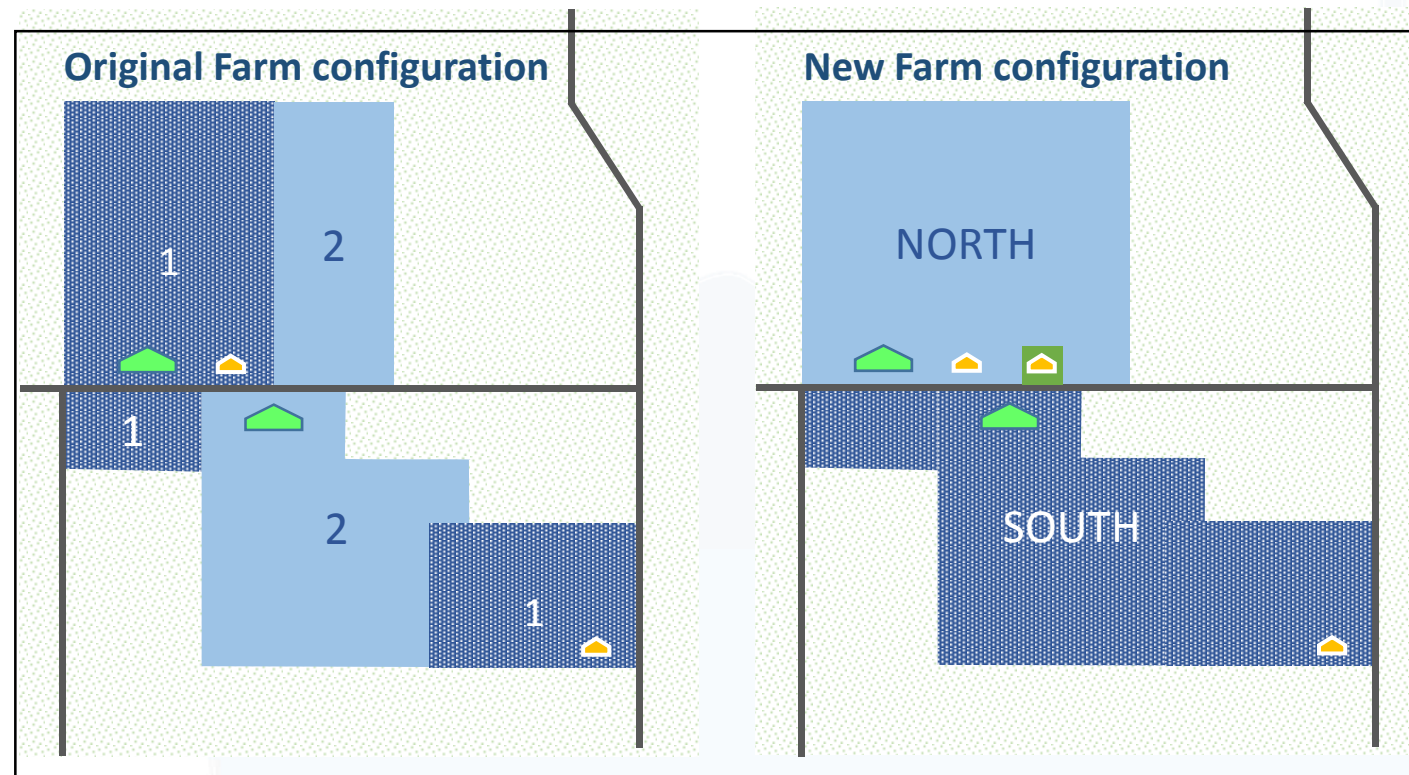
# Farm Case Study: The Brucknell Farms



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## Two Farms:

- Farm 1 and Farm 2 dissected by road becomes Two Farms: North and South
- Increase: Milking Platform - Livestock Carrying capacity - Milk Production – Labour Efficiency
- Becomes two 500 cow farms, two Rotary Dairies, three Houses → One Family Management Team



# Initial Focus – South West Victoria



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**ADF's first 2 dairy farms are located in South West Victoria near Warrnambool. "The Golden Triangle" is Australia's premier dairy producing region.**

- ✓ One of Australia's strongest producing fresh milk regions
- ✓ Consistent and favourable rainfall
- ✓ Close to major processors – Fonterra, Murray Goulbourn, Warrnambool, Bega
- ✓ Close to regional centres
- ✓ Melbourne CBD 3 hours away
- ✓ Quality infrastructure

**ADF's initial focus for future acquisitions will be the Golden Triangle:**

- Aim to acquire up to 16 farms in region and surrounds
- Drive production improvements and economies of scale
- Build production volumes to a scale that is material to both processors and strategic investors



# Initial Focus – South West Victoria



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<sup>1</sup>INSERT FOOTNOTE

# Long Term Strategy



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## Step 1 – Acquisition

- ✓ Establish initial production foothold in one of Australia's premier dairy regions
- ✓ Retain existing experienced operational and farm management and consultants
- ✓ Raise capital and list on ASX as a stapled security

## Step 2 – Productivity

- ✓ Improve existing production and livestock intensification
- ✓ Drive cost efficiencies with scale
- ✓ Deliver earnings to shareholders

## Step 3 – Scale

- ✓ Purchase additional farms in same region
- ✓ Use scale to drive both revenue and cost synergies
- ✓ Achieve critical mass (circa 16 farms, aim for 50m litres p.a. within 2 years)

## Step 4 – Replicate / Expand

- ✓ Potential to replicate in other Australian dairy regions (Gippsland, Northern Tasmania)
- ✓ Become Australia's leading independent producer of milk
- ✓ Drive stronger "price maker" supply contracts with processors

## Longer Term Possibilities

- ✓ JV on dairy processing plants;
- ✓ Repurchase agreements for processed product
- ✓ Export opportunities in higher margin end products

# Corporate Structure



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## Australian Dairy Farms Limited (Operating Company)

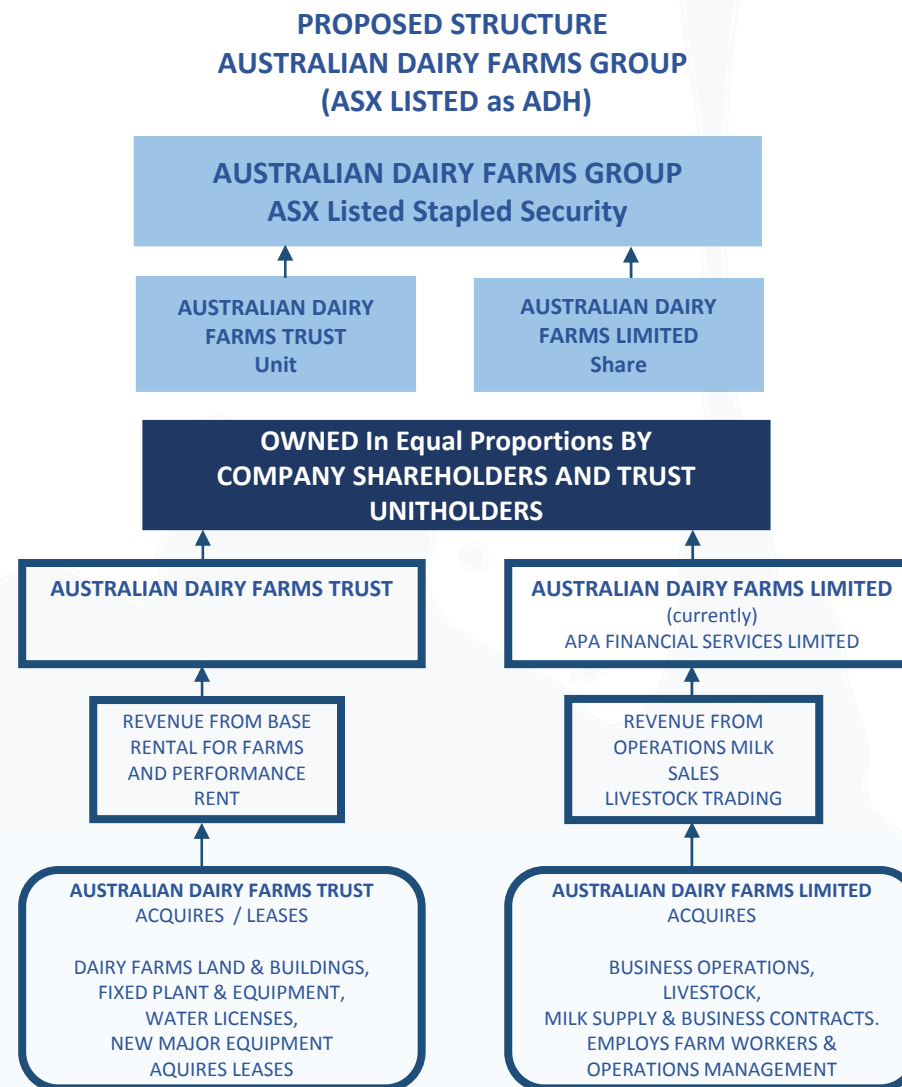
- Operates the farms – owns the livestock
- Revenue from milk sales and livestock trading
- Leases farms from the stapled property trust
- Potential participation in surplus live heifer exports

## Australian Dairy Farms Trust (Property Trust)

- Owns the farms - land/buildings/equipment
- Leases farms to the stapled operating company
- Turnover rent to participate in farm operations
- Capital gains for increased farm values

## Rationale for stapled security structure:

- Flexibility for low cost restructure in future
- Potentially more attractive to strategic buyers
- Medium term benefit from combined operation
- As scale is achieved, opportunity for trust spin-off
- Potentially facilitates management of unrelated farms.



# Board & Management



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- ADF has assembled an experienced board with ASX and NZX experience
- Initially all roles will be non-executive, with board members overseeing all management responsibilities in order to keep costs down and maximise shareholder returns
- Intention is to install a full time CEO within 12 months once adequate scale has been achieved

Board & Management	
<b>Michael Hackett</b> Non-Executive Chairman	<ul style="list-style-type: none"><li>• Long term hands-on ASX listed Chairman and CEO; FCA qualified</li><li>• Specialist financial, corporate, M&amp;A and administration over 25 years in diverse industries</li></ul>
<b>Keith Jackson</b> Non-Executive Director	<ul style="list-style-type: none"><li>• Experienced NZ corporate CEO and Chairman level</li><li>• Specialist skills and success in operation and M&amp;A activities at several listed NZ food production / processing companies</li></ul>
<b>Adrian Rowley</b> Non-Executive Director	<ul style="list-style-type: none"><li>• Accomplished financial and investment market analyst, investment advisor. BSc and CFP qualified</li><li>• Experienced in analytical portfolio management, marketing and investor communications</li></ul>
<b>Jerome Jones</b> Non-Executive CFO	<ul style="list-style-type: none"><li>• Highly experienced financial and management accounting analyst in Australia and UK. CPA qualified</li><li>• Specialist skills and experience in detailed management accounting and procedure implementation in several private and ASX listed businesses</li></ul>

# Farm Management



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- ADF will have a manager/family living on site – overseeing day to day operations and milking
- On-site management will have clear KPI's and will be incentivised on production levels and costs
- ADF has also assembled a “best of breed” team of consultants to ensure maximum productivity and cost efficiencies
- Focus is on improvements in agronomy (grass/soil quality), animal welfare/nutrition, stock/pasture rotation
- Initial role as consultants to keep costs down, but with a view to moving closer to more part and full time roles once adequate scale has been achieved

Consultants	
<b><i>Robby Zeissig</i></b> Agronomist - Farm Operations Supervision	<ul style="list-style-type: none"><li>• Internationally experienced Agronomist</li><li>• Specialist hands-on knowledge of Australian dairy production, grass nutrition management, pasture planning</li><li>• Extensive farm operations management experience at significant dairy aggregations in Australia and internationally</li></ul>
<b><i>Eliot Cooper</i></b> Farm Advisory – Nutrition – Farm Strategies	<ul style="list-style-type: none"><li>• Second generation NZ dairy farmer – NZ</li><li>• Strong dairy and agricultural operations and business experience in NZ and in Australia</li><li>• Consultant oversight role for on farm strategies and farm selection assessment</li></ul>
<b><i>Nathan Leman</i></b> Project Management – Farm Development	<ul style="list-style-type: none"><li>• Experienced project manager and registered builder, town planning and development</li><li>• Strong organisational, financial budgeting and project / consultant coordination skills</li><li>• Implementation of farm development strategies and oversight in farm selection assessment</li></ul>

# Indicative Timetable



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## Timetable is indicative only and is subject to change

Notice of meeting dispatched to APA Shareholders	Early August 2014
Prospectus lodged ASIC Exposure Period 7 days	18 July 2014
General offer opens	28 July 2014
General offer closes	18 August 2014
Shareholder Meeting	Early August 2014
Satisfy conditions for re-admission to ASX <ul style="list-style-type: none"><li>• Complete acquisition of listing assets</li><li>• Affect Consolidation and Stapling</li><li>• Material agreements become effective</li><li>• Issue public offer and consideration Stapled Securities</li><li>• Holding Statements dispatched</li></ul>	21 August 2014 21 August 2014 21 August 2014 21 August 2014 22 August 2014
Anticipated ASX listing date	28 August 2014





# Appendix – Global Dairy Dynamics & Demand



AUSTRALIAN DAIRY FARMS

Page	Detail
20	Australian Dairy Snapshot
21	Global Farmland Value
22 - 25	Global Food Demand Growth
26 - 28	Global Dairy Markets
29 – 33	Asia and China Growth Dynamics
34 - 38	NZ v AUS – Can we catch them? - Production and Farm Values

# Australian Dairy Snapshot



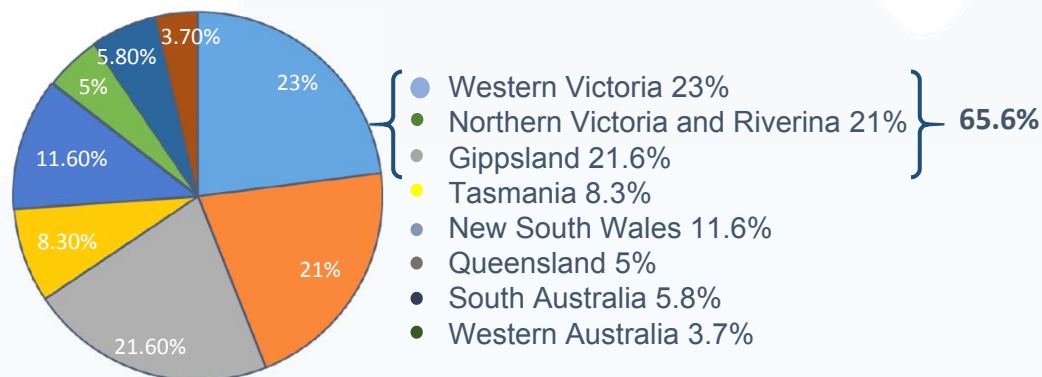
AUSTRALIAN DAIRY FARMS

## Fragmented Cottage Industry - Ripe for Corporate Aggregation

### Key Statistics 2012/2013 season

- Australia's third largest rural industry with \$13 billion farm, manufacturing and exports
- Farm-gate value of \$4 billion in fresh milk
- 6,398 farmers producing 9.28 billion litres of milk in the 2012/13 season(1).
- Victoria's position - 65% of the Australian milk production  
67% of Australia's 6,398 registered dairy farms  
65% of the total national dairy herd  
86% of Victoria's milk is converted for export
- Share farming was employed on 18% of farms
- Corporate farms make up just 3% of the total farm numbers
- In 2011/12 11% of dairy farms had 500 cows or more and produced 33% of the total milk.  
26% of farms had fewer than 150 cows and produced just 8% of the milk.

2013 – 2014 Milk production by region



# Global Farmland Value Growth

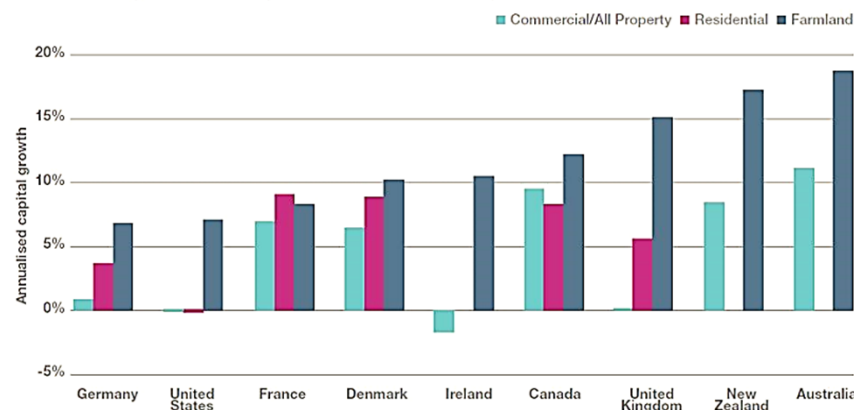


AUSTRALIAN DAIRY FARMS

## Savills Global Farmland Index – April 2014

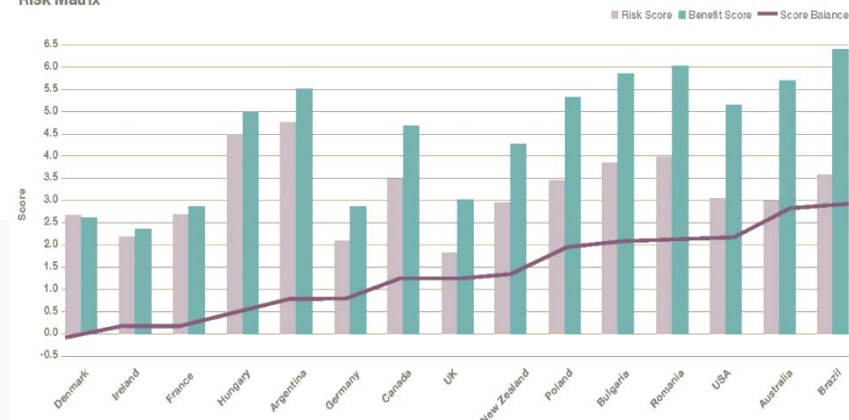
- Global Farmland values outperform other market sectors.
- Brazil and Australia top the table for investment opportunities.
- The opportunity for **large scale farming is a key driver** in both countries, but location is critical,
- **Australia also scores well politically, economically and**
- **Liquidity of the farmland market is good.**

Global Capital Growth (Annualised 2002-2010)



Graph source: Savills analysis using IPD, USDA, Eurostat and various data estimates

Risk Matrix



Graph source: Savills. Various reports and data sources (listed below) were used to lay the foundations of the matrix but this was overlaid with our experience and knowledge to ensure the final overall scoring/ranking for each country is realistic and current.

- **Australia's proximity to Asia** is also set to drive future growth.
  - **Another differentiator in Australia** - new virgin productive irrigated agricultural land is being opened up
- The Savills Global Farmland Index Report (Savills is a leading global real estate service provider. Savills has over 500 offices and associates around the world.)

# Global Food Demand Growth

*Demand led by Population, Disposable Wealth, Food Choice*

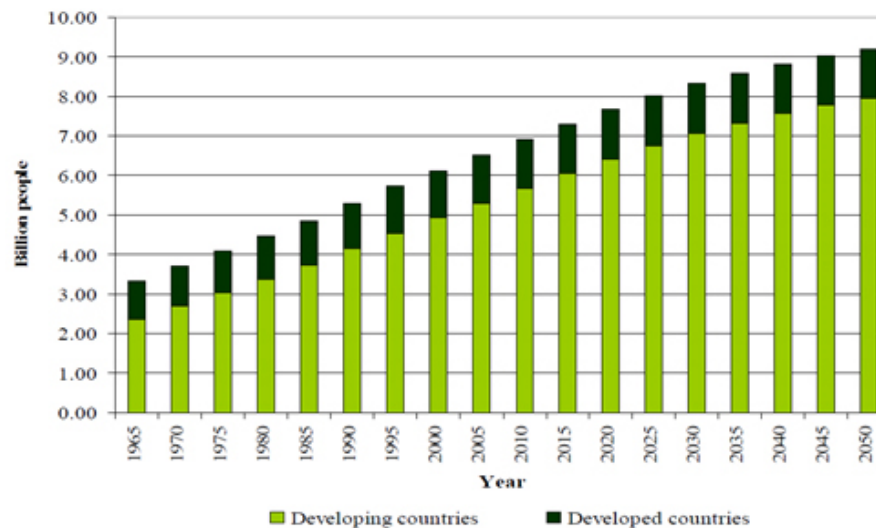


AUSTRALIAN DAIRY FARMS

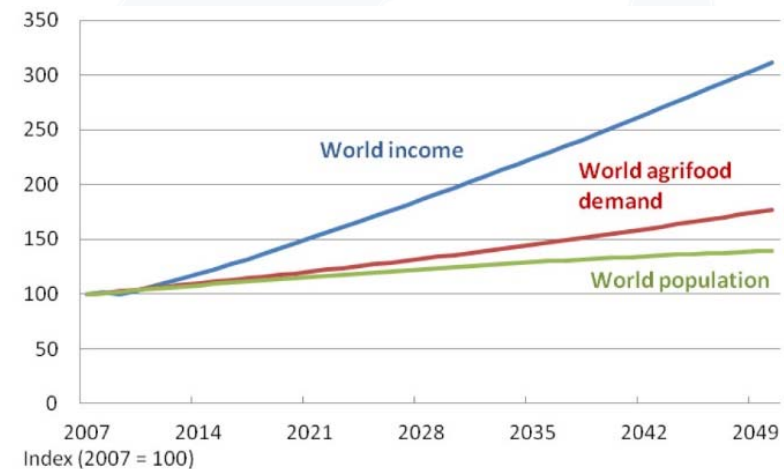
## Primary Drivers:

- **World's population** 6 billion people in 2000 to over 9 billion in 2050
- **Food and Protein Production** 60% more Food Production needed by 2050
- **Increased Disposable Wealth** Allows Food Choices
- **China and Asia** Driving Consumer Demand and Prices.

World Population (1965 – 2050) Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat



Map of Increasing Wealth and Population



Data source: United Nations (2011a), ABARES model output

# Global Food Demand Growth

*Demand led by Population, Disposable Wealth, Food Choice*



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Global Population 50% Increase



50%  
increase  
by 2050

World Population (1965 – 2050) Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat

# Global Food Demand Growth

*Demand led by Population, Disposable Wealth, Food Choice*



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Food and Protein Production 60% increase



60%  
increase  
by 2050

World Population (1965 – 2050) Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat



# Global Food Demand Growth

*Demand led by Population, Disposable Wealth, Food Choice*



AUSTRALIAN DAIRY FARMS

## Shifting to Western Diet & Foods



# Global Dairy Landscape

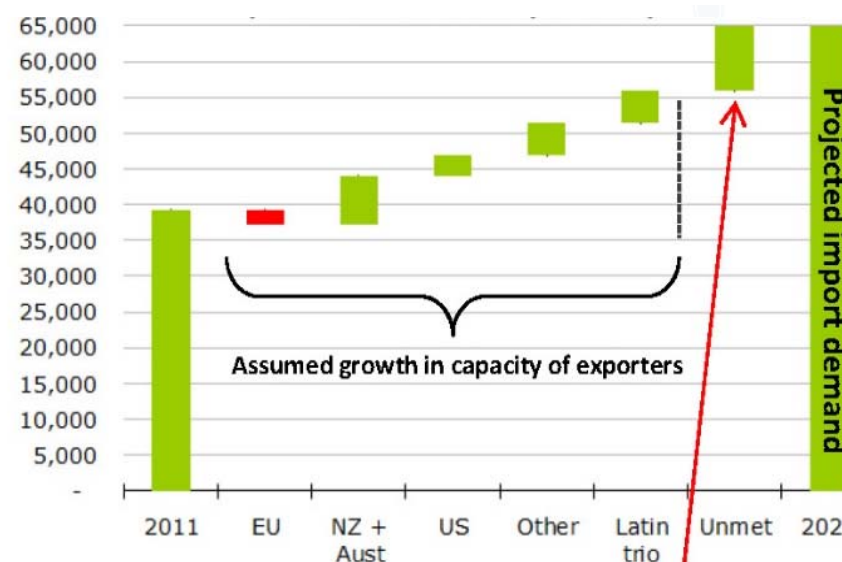
Long Term Continuous Demand Growth



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Meeting growth continuous demand 2011 – 2021  
(millions litres milk equivalent)



**“Unmet” global demand in 2021**

- Global trade in milk powders volumes has escalated since 2006 growing at of 8% CAGR
- Trade Growth in both 2011 and 2012 at 10% pa
- Global output to rise at 2% per annum to 2020 (OECD-FAO)
- Global Demand for Dairy will increase much faster than Global Capacity to Supply.
- Fonterra projects global dairy trade to grow at 5%-6% to 2020
- Australia is geographically well positioned to supply these regions
- **Despite optimising theoretical capacity for global production growth there remains a potentially “unmet” global demand in 2021 of more than 10 billion litres** (Source : Horizon 2020, Dairy Australia and Fonterra)

# Global Dairy Market Dynamic

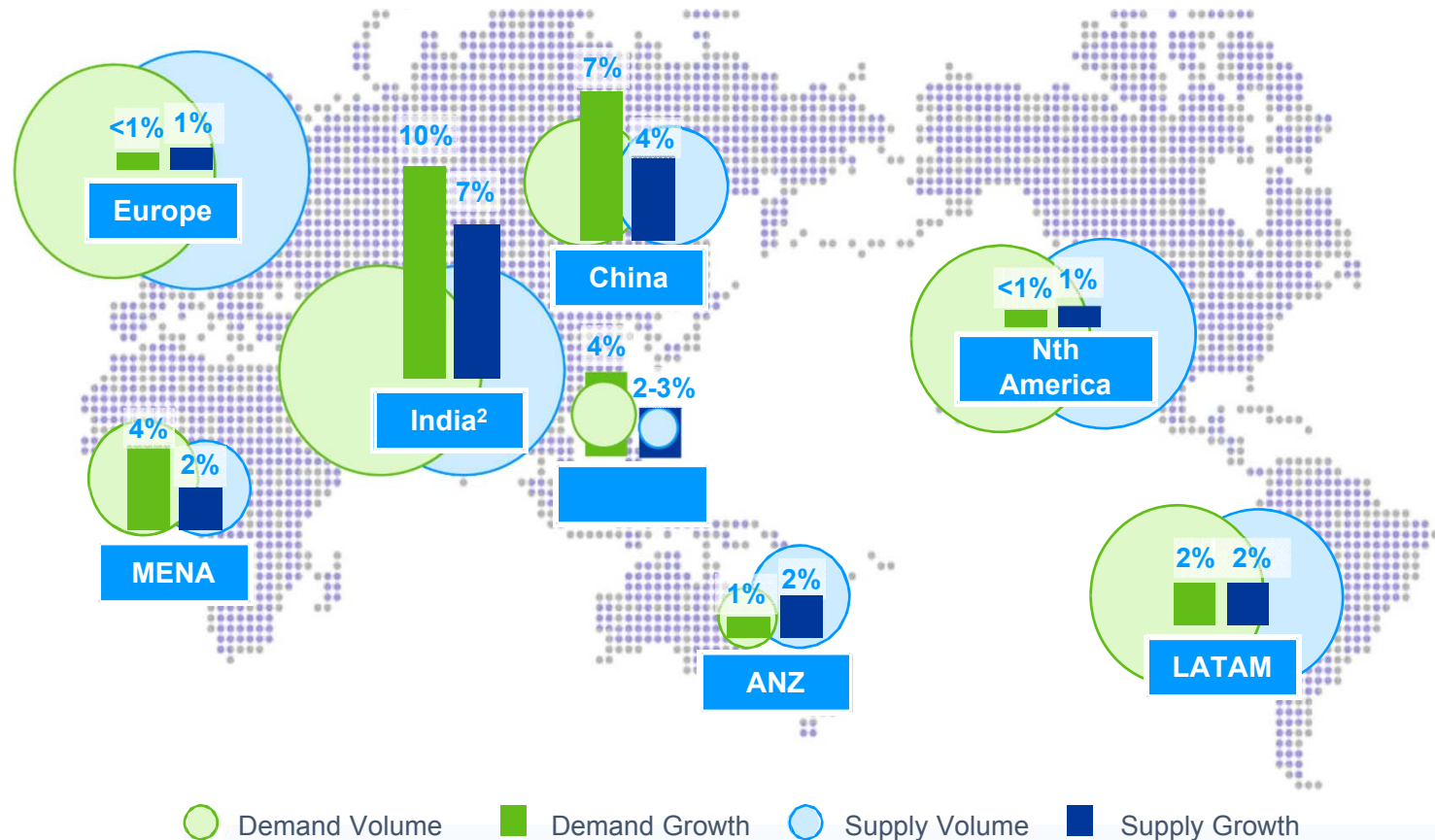
Primary Demand and Supply Regions



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Historically - **SUPPLY DRIVEN**

2001 – 2050 - **DEMAND LED**



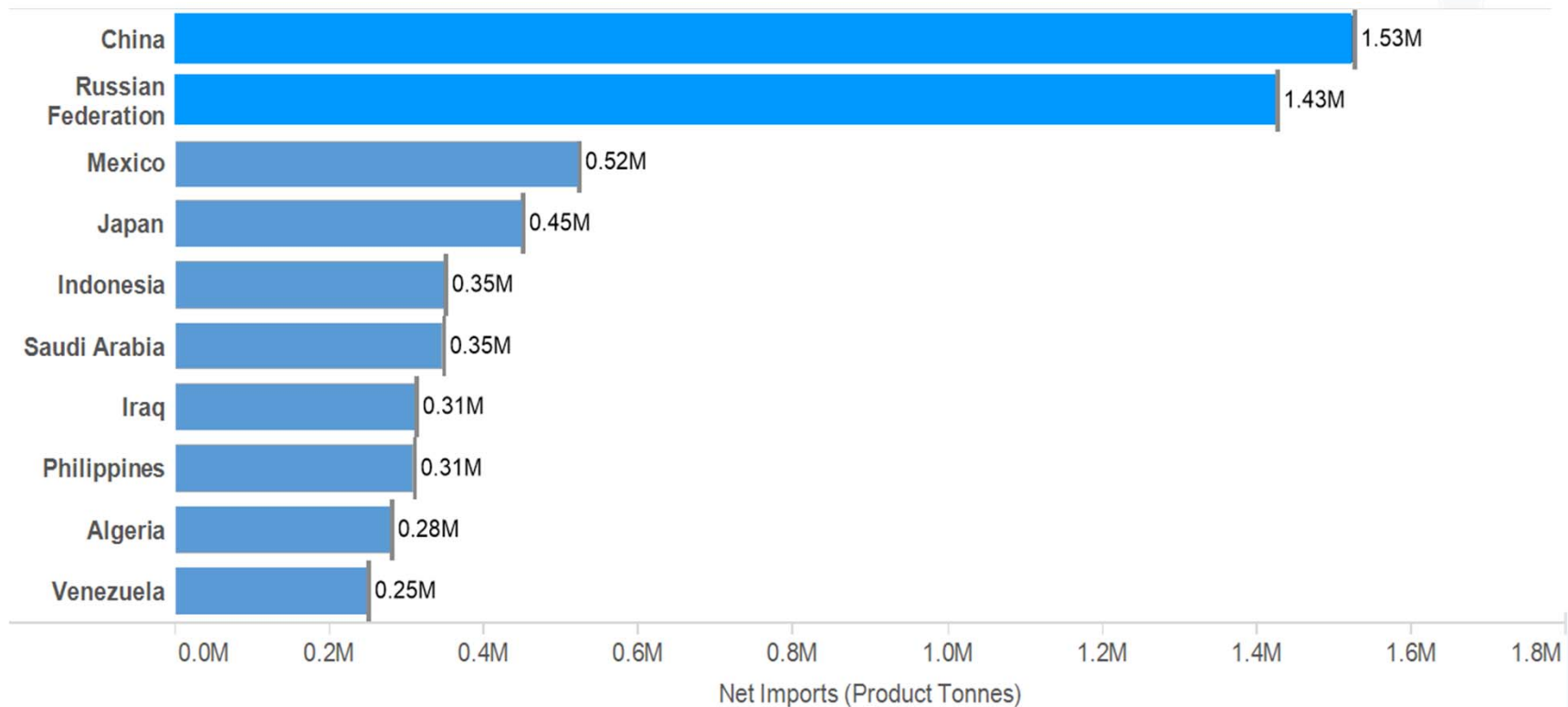
1. Current volumes are represented by the area of the circles displayed. Growth rates represent forecast compound annual growth rates.
2. Although strong growth in demand is expected in India, the ability to supply is likely to remain limited. In the 12 months to May 2012, Fonterra exported 22,300 MT of product to India and total imports represented approximately 0.2% of consumption.

Source: Fonterra estimate

# Main Dairy Global Export Markets (Importers)



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- China imports 1.5 mil tonnes of dairy products, or 13.4% of global imports
- Russia imports 1.4 mil tonnes of dairy products, or 12.5% of global imports
- China and Russia are the two top importers of dairy by a significant margin
- China's and Russia's consumption and domestic supply volatility impact global trade flows, product mix, and production levels of dairy producers and manufacturers



# Asia and China Basics

*Dairy Consumption Growth in China*



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**Changing diets in Asia mean enormous growth for dairy**

**Per capita consumption  
of dairy in China**



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT

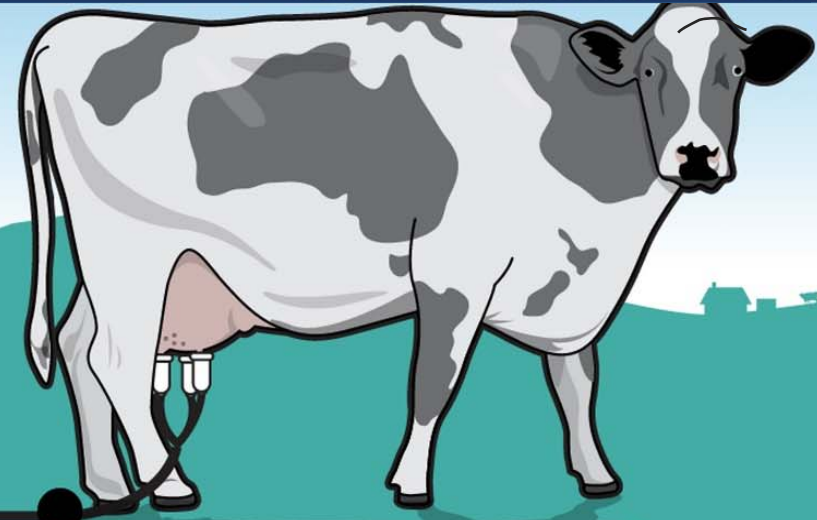
# Asia and China Basics

*Australia's Key Export Markets*



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Key dairy export markets for Australia (tonnes)



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT



# Asia and China Basics

*China's Imports increased three fold 2007 - 2011*



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Exports

**Chinese dairy imports increased  
threefold to \$US2.7 billion  
from 2007-2011**



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT

# Asia and China Basics

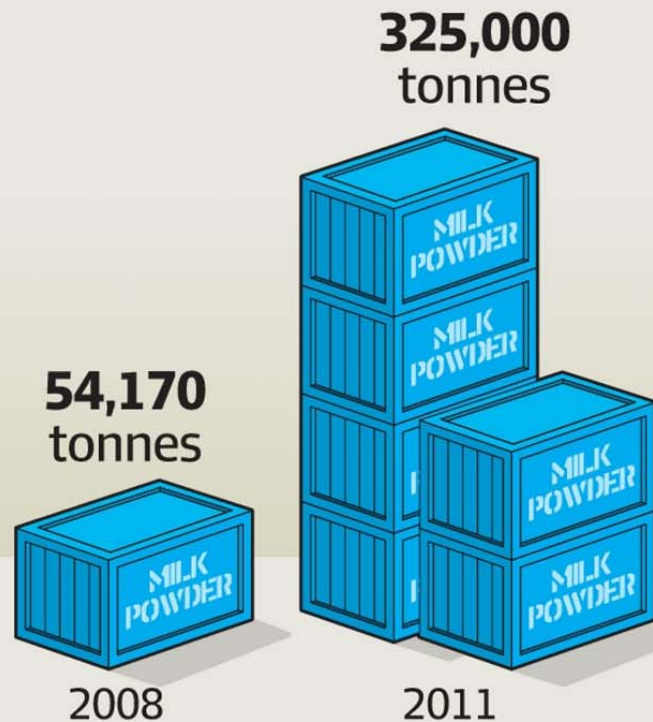
*Change in Diets > Increased Dairy Imports*



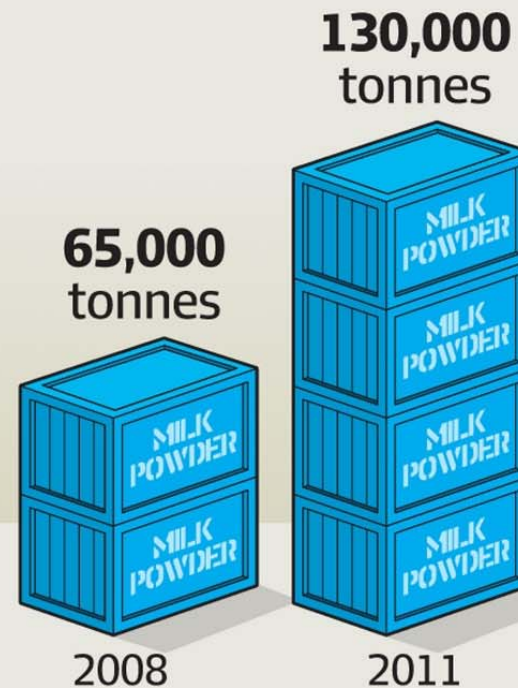
AUSTRALIAN DAIRY FARMS

## Changing diets in Asia mean enormous growth for dairy

Whole milk powder imports  
increased sixfold



Skim powder imports  
doubled



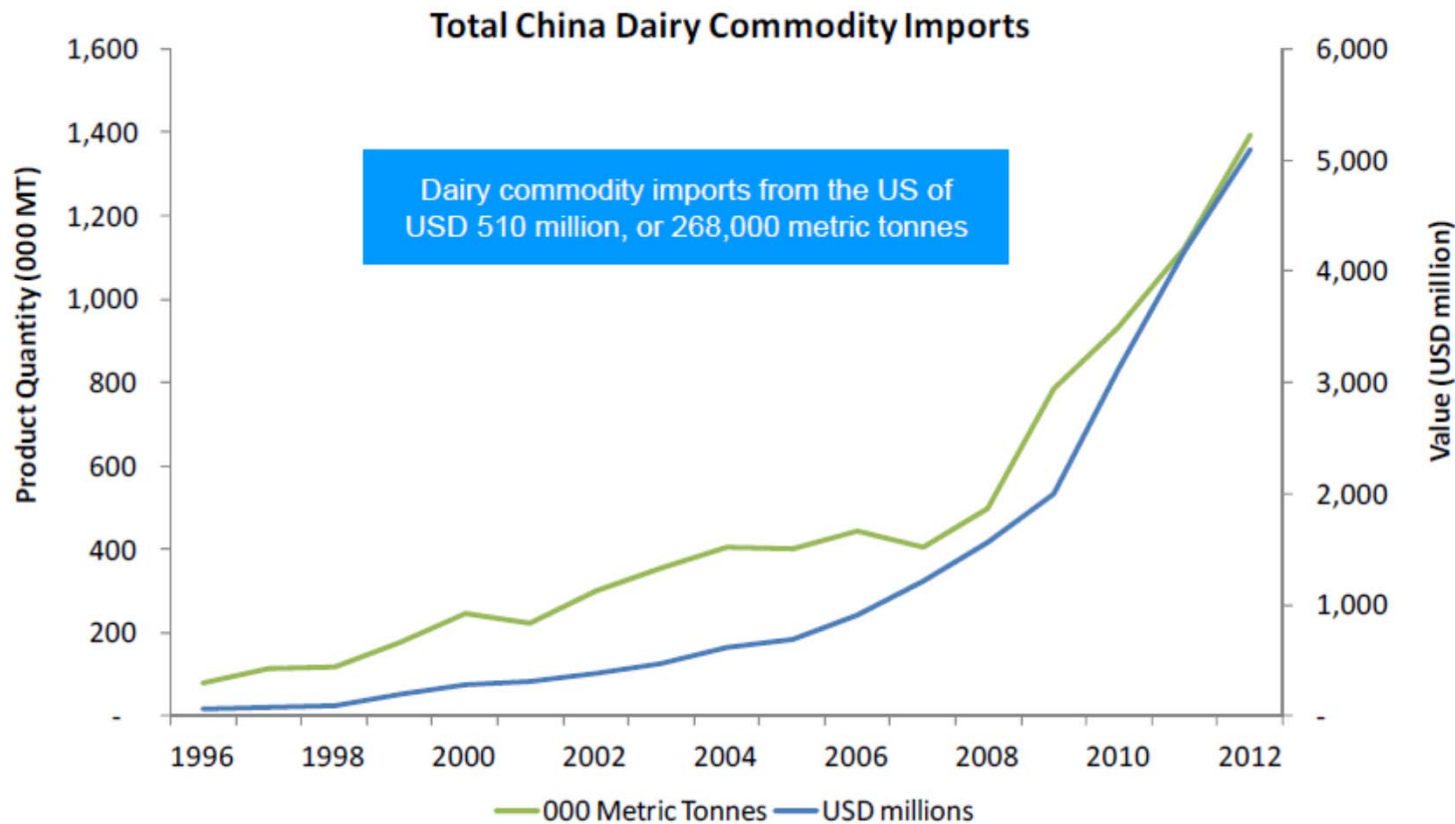
Whey powder imports



# China – Largest Global Dairy Importer



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Source: Global Trade Atlas

Example: “in the last four months of 2013, China imported **a staggering** (sic) **550,404 tons** of milk **product—more than the purchases of Russia, Mexico, Japan and Algeria put together**. This figure is up 74% (on the corresponding period) from the year before. For the full year, imports were up 34% from 2012 and up 61% from 2011”. US Dairy Export Council

# New Zealand v Australia – can we catch up?

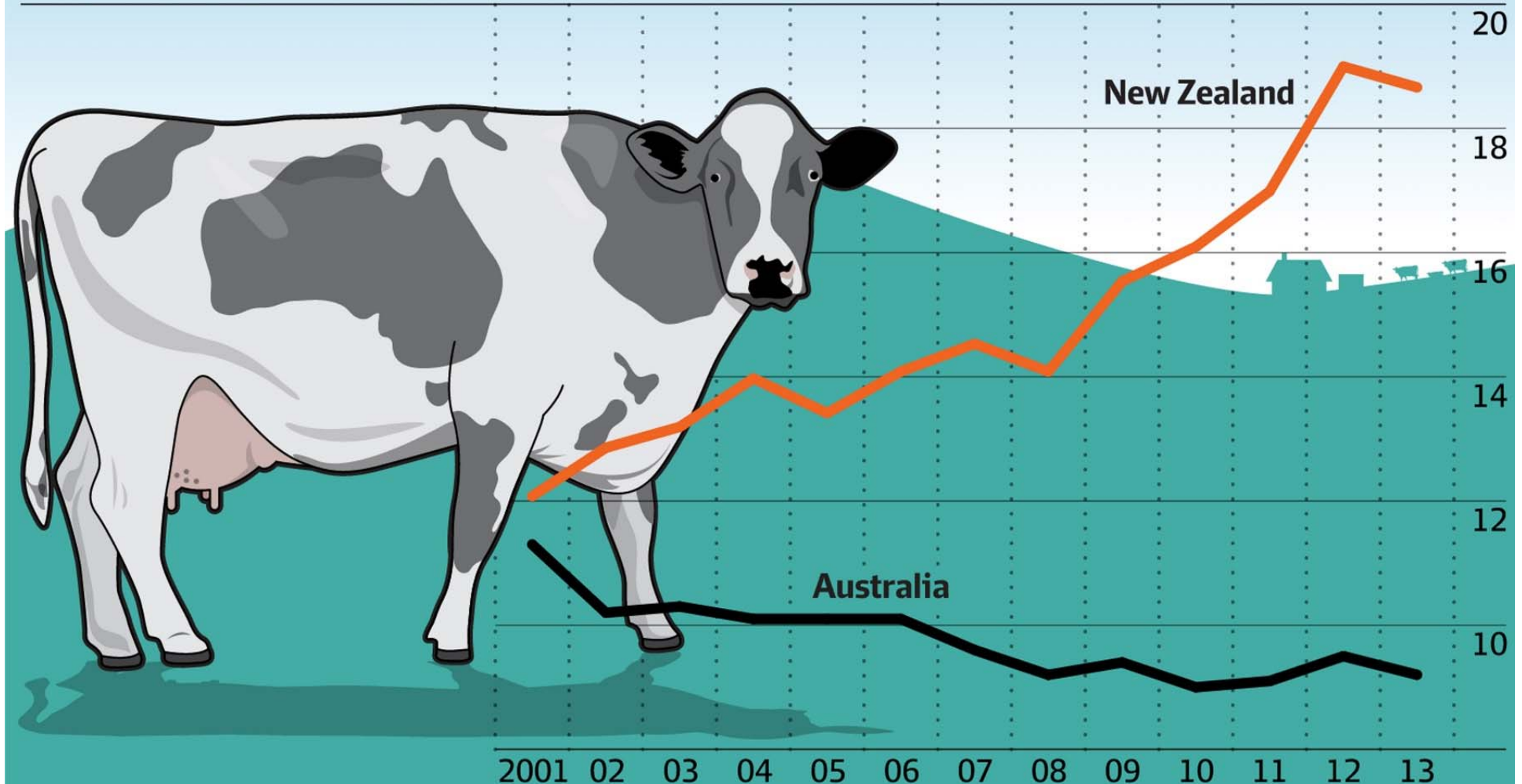
*Production - New Zealand Compared to Australia*



AUSTRALIAN DAIRY FARMS

**Milk production has fallen in Australia, while New Zealand surges ahead**

Milk production (billion litres)



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT



# New Zealand v Australia – can we catch up?



AUSTRALIAN DAIRY FARMS

## Processors:

NZ: Fonterra **collects 95%** of all milk

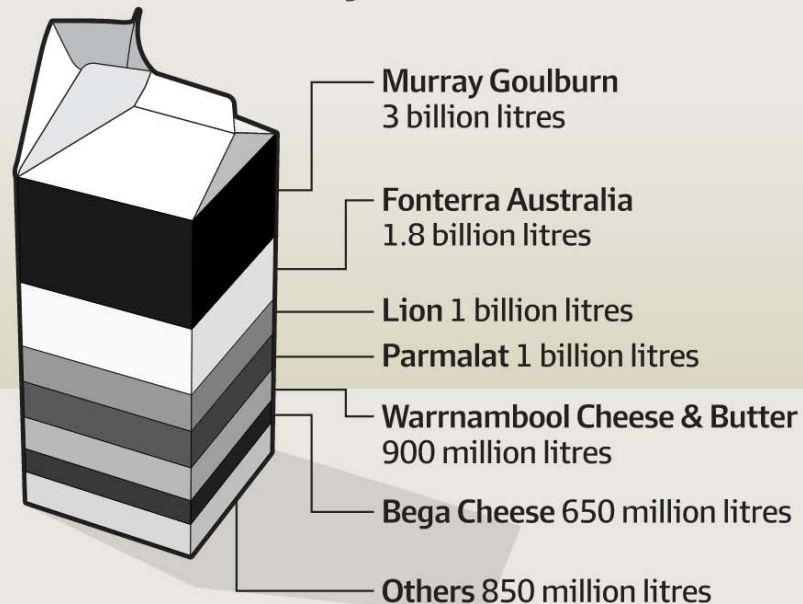
Australia: several competitive Processors

**The Australian market is highly fragmented, while in New Zealand Fonterra dominates**

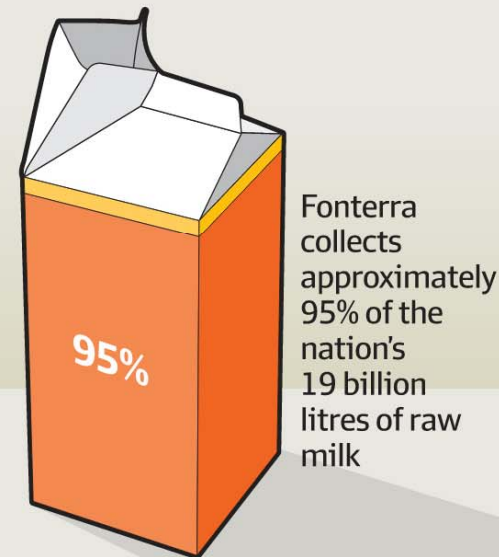
### Market structure

#### Australia

The nation's 9.2 billion litres of raw milk is divided among:



#### New Zealand



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT

# New Zealand v Australia – can we catch up?

Milk Production Comparison



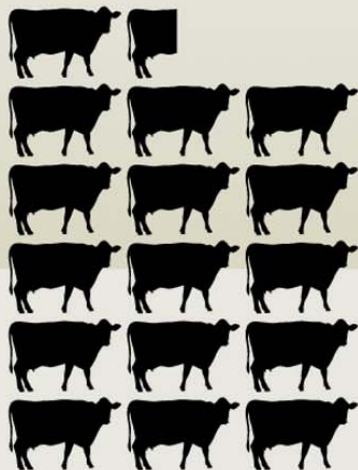
AUSTRALIAN DAIRY FARMS

**Yet Australian cows are more productive**

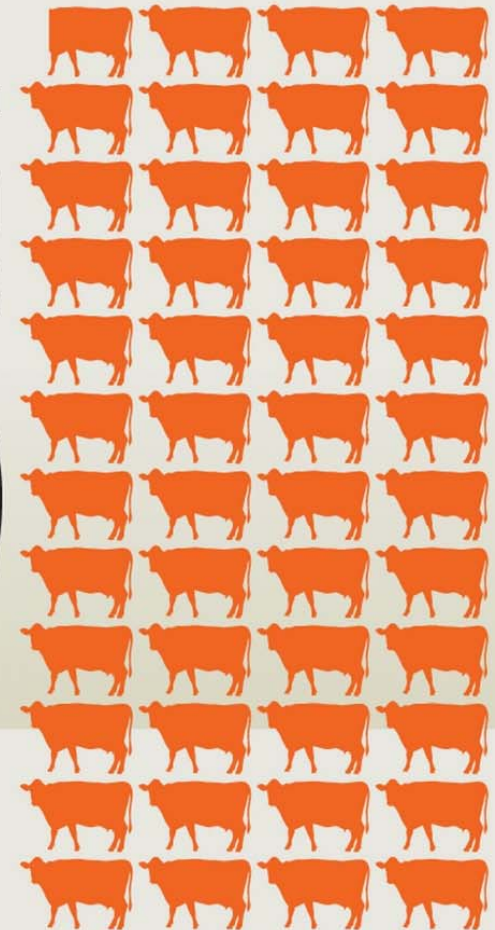
Number of cows and yield

Australia

**1.65m  
COWS**



New Zealand  
**4.78m  
COWS**





# New Zealand v Australia – can we catch up?

*Dairy Exports Share*



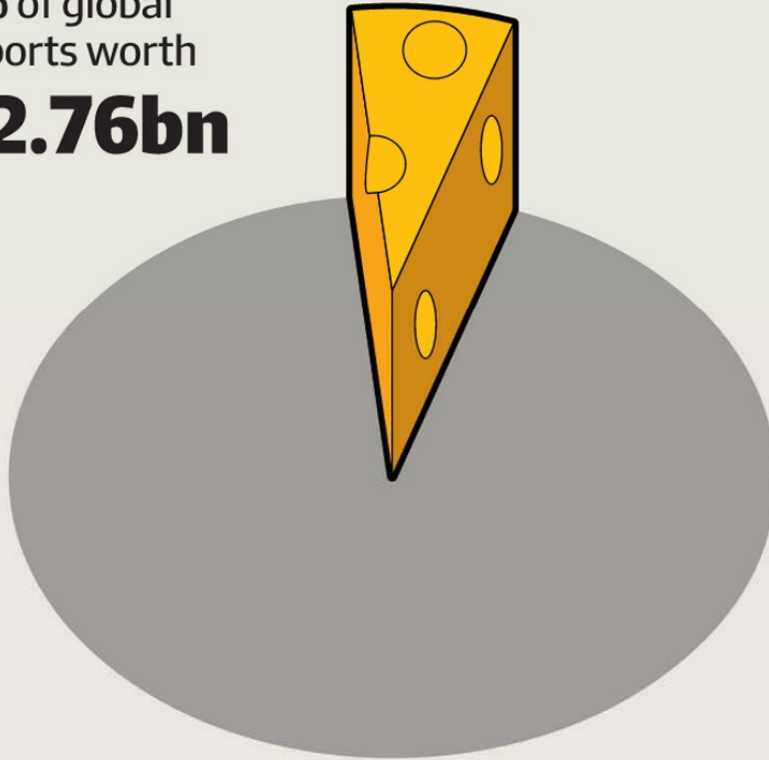
AUSTRALIAN DAIRY FARMS

Total share of exports and value, 2012

## Australia

7% of global  
exports worth

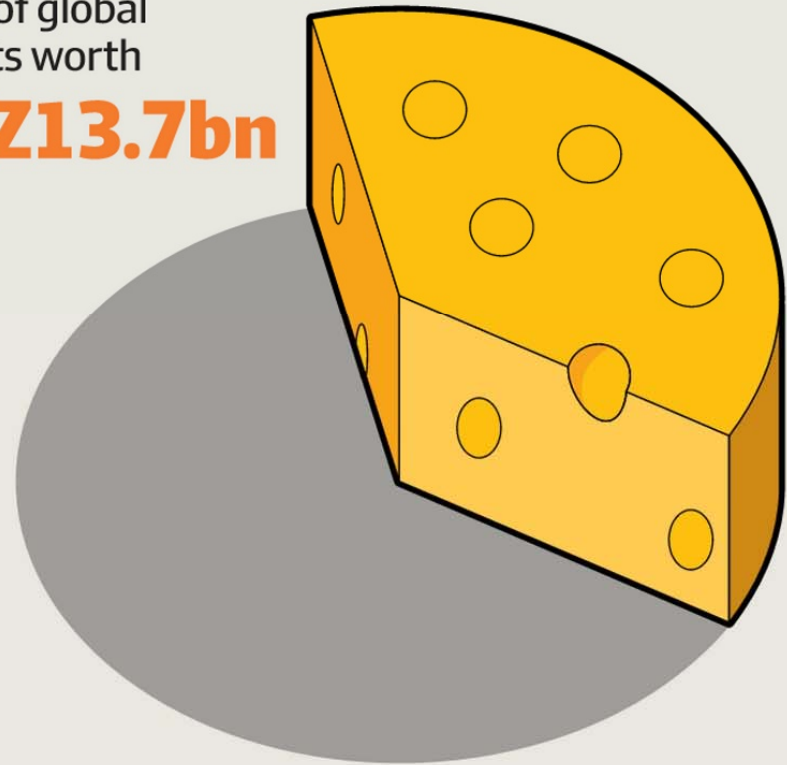
**\$2.76bn**



## New Zealand

37% of global  
exports worth

**\$NZ13.7bn**



SOURCE: DAIRY AUSTRALIA, ABS, DAIRY NZ | GRAPHIC: LES HEWITT

# New Zealand v Australia – can we catch up?



AUSTRALIAN DAIRY FARMS

## ***New Zealand Dairy Farm Prices compared with South West Victoria:***

- Victorian Dairy Farm Price Statistics are not segregated from other agricultural property pricing
- Good quality South West Victoria dairy farms are available although there are few sales
- Victoria SW Prices range from **AUD \$11,200 /ha** to **AUD \$18,000** per ha for *Premium* farms
- Receivership farms can sell at **AUD \$8,750 /ha**
- This compares with almost **AUD \$30,000 /ha** for *weighted average* of 197 NZ Farm sales

## ***In NZ - Dairy farm land prices have been relatively steady for the past two seasons***

The weighted average sale price of dairy farms (\$4.58 million) increased 1.0% in 2012/13 (Table 5.2). The weighted average sale price per hectare of \$32,311 is similar to the previous season.

Season	Number of dairy farms sold	Weighted average sale price NZ\$	Inflation adjusted average sale price NZ\$	Weighted average land area (ha)	Weighted average sale price/ha NZ\$	Inflation adjusted average sale price/ha NZ\$	Weighted average sale price /kgms NZ\$
2009/10	90	4,128,586	4,417,850	145	31,618	33,833	39
2010/11	143	4,136,532	4,204,461	143	32,726	33,263	38
2011/12	157	4,532,603	4,563,648	171	32,123	32,343	40
2012/13	197	4,579,455	4,579,455	155	32,311	32,311	35

*Note: Number of dairy farms sold is for a season (01-Jun to 31-May) and excludes support blocks and non-economic units. Figures have been weighted by the number of dairy farms in each region. NZ Information statistics source: Real Estate Institute of New Zealand (REINZ)*