

Australian Dairy Nutritionals Group

22 October 2019

ASX Code: AHF

MARKET UPDATE – FARMS & MILK PRODUCTION

- **AHF Farms sheltered from major on farm drought impacts**
- **Milk production running to budget**
- **Hay and silage production on target**
- **Australian and Global Dairy Products Demand**

The Board of Australian Dairy Nutritionals Group (“ADNL” or “the Group”) is very pleased to update shareholders that fortunately, the Group’s Farms in South West Victoria, are performing in line with budget and have not been as significantly impacted by drought conditions as other regions.

Most city dwellers and non-farmers hear constant news of the widespread unfavourable conditions and understandably conclude all farmers and agricultural businesses are significantly adversely affected with significant negative production and livestock welfare impacts. However, this has not been the case for AHF and the livestock on all Group farms are currently enjoying plentiful green pasture and generally favourable conditions with regular showers of rain.



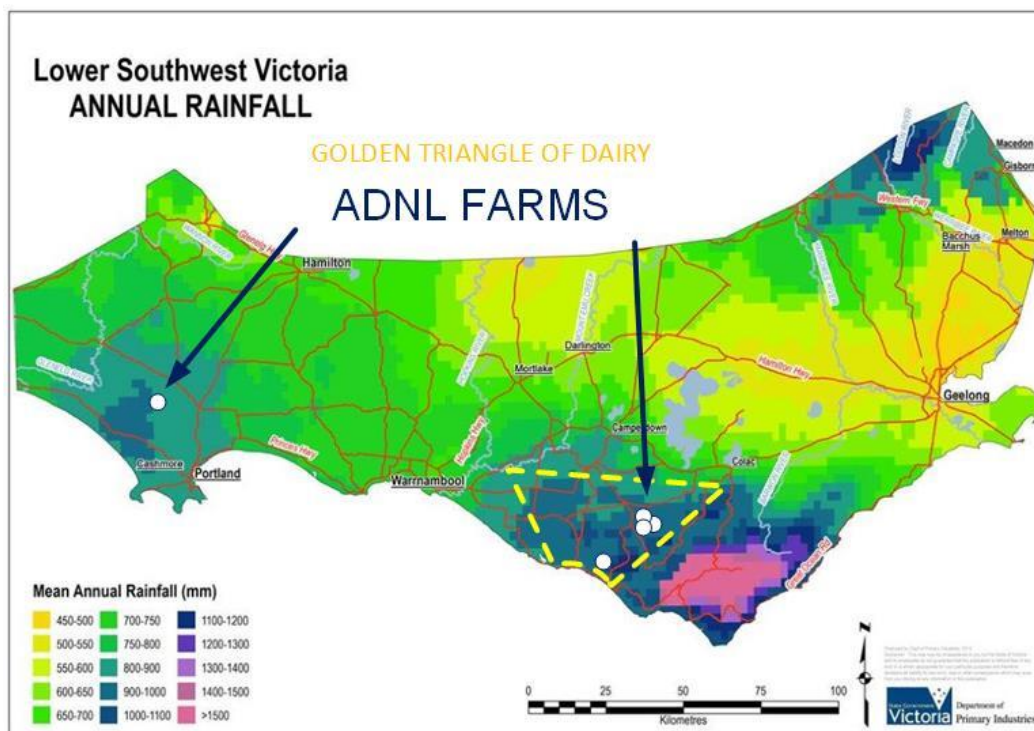
Milk Production

Milk production on the Group’s Farms is tracking in accordance with budget with less than 1% variance from the September quarter budgeted volume.

Rainfall Map of South West Victoria

The Bureau of Meteorology (BOM) provides detailed records and forecasts of rainfall and expectations and these can be accessed from BOM (bom.gov.au) for further information. The

following Rainfall Map shows the superimposition of the Golden Triangle and the location of the Group's farms in the higher average rainfall locations in South West Victoria.



Pasture Growth - Hay and Silage Production



Pasture growth follows the rain cycle. In South West Victoria, the rain season commences around mid- April with the Autumn Break and continues through winter, spring and early summer. Conditions are generally dry from December through until the next Autumn Break.

Pasture grown in the rain season is used for grazing cows and the surplus is harvested and stored as hay or silage for use in the dry months when the pastures dry off and do not produce sufficient fodder for livestock to graze.

Grain Usage on budget for the first quarter

Grain is used as a daily feed supplement for the milking cows, purchased from the grain growing regions around the country. Many of these regions have been impacted by the drought, even those regions usually supplemented by extensive reliable irrigation. As a result, the volume of grain production is lower than in prime seasonal conditions which effects pricing and availability.

The Group has factored in increased grain prices into its budget and usage is currently on budget.

Potential Impact of Prolonged Drought Conditions

- ***Exodus of farmers and increase in milk prices as production slows***

There have been numerous media reports about the exodus from the industry of dairy farmers, including intergenerational dairy farmers who have decided to permanently leave the dairy industry or convert their farms to other uses. Without new entrants to compensate, the volume of milk produced nationally will likely continue to decline and therefore prices tend to increase as processors compete to secure milk.

The Board of AHF has previously announced that the Group has secured a material increase in milk prices for the 2020 financial year. The milk supply agreement with Australian Consolidated Milk (ACM) commenced on 1 July 2019 for a period of 12 months. The new pricing applies to all milk (both organic and non-organic) supplied to ACM.

These new milk prices are estimated to increase Groups farm EBITDA by between \$1.1 and \$1.3 million in FY20. We note that other significant local milk production companies have recently reported a similar firming in milk prices for the current financial year.

- ***Increase in value of “drought safe” farms***

Very few dairy farms can be regarded as “drought-proof,” however some are protected by generally reliable rainfall and weather conditions as well as reliable irrigation water.

High quality relatively drought resistant farms in regions like South West Victoria’s “Golden Triangle”, particularly those with reliable bore water and irrigation may increase in value as lower quality dairy farms convert from dairy to other agricultural uses.

Australian Grocery Market Sales and Exports

- ***Milk – End of \$1 milk in major supermarkets.***

The end of \$1 litre milk has seen value increase in the domestic milk market, despite a small decrease in overall sales. This change comes from a 20% increase in the price of house brand fresh white milk, from \$1.00 per Litre to approx. \$1.20 per Litre.

- ***Global demand***

Global demand for dairy remains strong and continues to support global commodity prices. In the 12 months to February 2019, dairy exports from the six largest suppliers (New Zealand, the EU, US, Australia, Argentina and Uruguay) increased 3.2 per cent to 8.8 million tonnes. This increase was supported by growing demand in key markets, such as Greater China and South East Asia. (Source: Dairy Australia)

Summary

The board of ADNL believe there is a sound basis to be positive about the future prospects of the Group's dairy farming business segment and market conditions for sales of dairy products. The Group is pleased to see the positive start to the dairy season in Western Victoria.

Ends.

AUSTRALIAN DAIRY NUTRITIONALS GROUP

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