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## MEDIA RELEASE

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### Australian Dairy Industry Issues Hit Tasman Farms Performance

Drought, two years of lower payouts and the impact on livestock valuations from the resulting near-term loss of confidence within the Australian dairy industry were the main factors behind the NZ\$10.3 million net loss from continuing operations after tax posted by Tasmania-based, New Zealand-owned, Tasman Farms Ltd.

Tasman Farms Chairman Keith Sutton said “the disappointing loss came at a time when the Company was also heavily investing in growth and restructuring designed to take advantage of the expected upturn in Australia’s dairy industry and global dairy commodity prices”.

“Many Australian dairy farmers have struggled to maintain momentum over the last 18 months, and lower confidence pushed down the price of dairy cows forcing us to write down the value of our stock by more than \$7.1 million, a significant hit to the bottom line.”

“The milk price also dropped 7 percent to A\$5.09 per kilogram of milk solids (kgms) down from A\$5.45 kgms in 2012 and A\$5.70 in 2011. But we are already seeing signs of a recovery with a significant increase in the current milk price forecast to \$6.20 kgms.”

“The drought in Australia last summer followed a wetter than average winter and a short spring growing season, pushing up our supplementary feed costs. We are also transitioning a number of our Van Diemen’s Land Company operations from share farmers to managed farm status and this raised personnel costs. On the flipside the share of the milk cheque going to share farmers dropped from 23.7% to 17% but overall our costs were too high when compared against the milk price and we continue to work on bringing them down.”

“Two new farms were also brought on line in the just completed season, Cape Barren and Newlands, with the Newlands operation completed just eight weeks before reporting date. The 460-hectare farm will eventually milk 1500 cows at peak.”

Mr Sutton said “that despite the loss last year, the long-term outlook for Tasman Farms was very positive.”

“The 25 farms milk 18,558 cows and we are Australia’s single largest milk supplier. We increased milk production by 8% to 6.25 million kgms in a year when milk production in Tasmania was down 3.7% overall and the Australian average was down 2.7%. Milk production is expected to be 5 to 7 percent higher than the 6.25 million kgms produced last year.”

“Notwithstanding the difficult conditions last year we took a deliberate decision to maintain herd numbers and cow conditions – despite the increased feed costs – so we were in a position to take advantage of the forecast upturn in dairy prices.”

“When we took over the operation at Woolnorth (in Tasmania’s northwest corner) in 2008, production was 3.40 million kgms and is now 6.25 million kgms (an increase of 84%). We have made significant gains from improved farm and pasture management, herd quality and animal welfare and productivity management and we expect further gains to continue and translate into ongoing sustainable profitability.”

“While we are focussed on changes to foster long term sustainable profits, we have also greatly improved the health and safety focus and environmental management in the business.”

“With Fonterra having announced a forecast expected dairy payout of over A\$6.20 kgms in the coming season, we are optimistic about the current and future profitability of Tasman Farms.”

Mr Sutton said “that with further land at Woolnorth available for dairy conversion or development into dairy support pasture, the Company continued to look at capital raising initiatives to bring that land into production and take full advantage of the growing worldwide demand for quality dairy products.”

“We have serious investors engaged with the Company, who are keen to share in the growth of our business. We believe the opportunities at Tasman Farms will only become more attractive as the operation really hits its production and profitability targets.”

## Tasman Farms - Fact sheet

- Council and TIML are well aware of the asset allocation issue in the PIF where our investment in Tasman Farms means we are overweighted in the alternative investment class. We are in the process of reweighting that through potential co-investment and sell down options. That process does take time to find the right investor at the optimum price.
- It is TIML's role to maximise the earnings potential and capital value placed on the TFL operation over the medium term. We have been testing that in the market and have attracted interest at those capital values from serious investors.
- By the end of 2013/14 the farms will have doubled their production since NPDC's investment. TFL continues to improve operations and lift margins through farm management improvements and investment in pasture and herd quality, and conversions to highest and best use of the land.
- There is room for considerable further dairy farm growth and expansion on the remaining undeveloped and dairy support land bank held by Tasman Farms.
- Last year was a very difficult year in dairy farming in both Australia and New Zealand with the combined issues of low milk price, drought and high input prices creating a difficult cyclical downturn for the sector. Australia also faced a poor winter last year.
- The New Zealand and Australian dairy industry has moved quickly out of last year's down cycle – a payout of over A\$6.20 per kg milk solids is predicted compared to last year's A\$5.09. We deliberately maintained higher stocking levels and cow condition on the farms to take advantage of the expected upturn.
- TFL recently acquired water rights and dam consents at nominal cost for the Woolnorth properties of 10,000 mega litres.
- In addition, TIML recently acquired at a discount substantial water investments of 20,000 mega litres in Tasmania.
- A district wide irrigation scheme is also currently in planning and consultation with the Tasmanian Government. We will seek to optimise the use of both water holdings through any State sponsored water schemes.
- Water will definitely not be an issue for the farms, and there will be additional water available for irrigation and expansion/conversion in the future.
- TFL is currently working with investors to fund further substantial expansion, conversions and development utilising its land-bank and water resources.
- Agriculture investment has a strong long-term outlook, and is both an inflation hedge and store of value, as well as delivering an operating result to holders.
- The TIML and TFL Boards have directors with extensive agricultural and broad governance expertise.
- The VDL farms are run by a separate VDL Board and Management team, including independent directors who also have wide agricultural sector and Governance experience in Australia.

- It is correct to date that no dividends have been paid to shareholders. Profits have been reinvested in business expansion, as the focus has been on achieving ongoing capital growth.
- The future focus of TFL is on increased earnings, through improved feed, fertiliser and labour cost containment cost - and payment of dividends to investors.
- The annual return on the TFL investment exceeds 8% per annum since inception.
- TFL is the largest dairy farmer in Australia, and supplies Fonterra Australia.

## Background - Land Assets / Current Activity

<b>Asset Snapshot</b>	<b>Dairy Operations</b>
<ul style="list-style-type: none"><li>• Total land currently owned/leased 20,051 ha;<ul style="list-style-type: none"><li>• 19,165 ha owned.</li><li>• 886 ha leased (wind farm).</li></ul></li><li>• Of the land owned by TFL;<ul style="list-style-type: none"><li>• 16,947 ha on Woolnorth property.</li><li>• 2,218 ha external to Woolnorth.</li></ul></li><li>• Current usage as follows;<ul style="list-style-type: none"><li>• Existing dairy farms 8,225 ha (7,229 effective ha).</li><li>• Heifer rearing 2,292 ha.</li><li>• Dairy support 1,645 ha.</li><li>• Dairy support land (leased) 886 ha.</li><li>• Circa 7,000 ha of bush and coastal land.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• 7,229 effective ha (incl. newly commissioned Cape Barren and Newlands farms).</li><li>• 25 farms;<ul style="list-style-type: none"><li>• 13 on Woolnorth (5,444 ha).</li><li>• 12 Tasman Farmdale (1,785 ha).</li></ul></li><li>• 18,558 milking cows.</li><li>• FY2013 production of 6.2 mill kgMS (+8% on p.c.p).</li><li>• Forecast FY2014 production growth (5% to 7%).</li><li>• Heifer unit 2,292 ha;<ul style="list-style-type: none"><li>• 4,460 R1 heifers.</li><li>• 4,400 calves.</li></ul></li></ul>

# Farming Investment

- Genetics
- Animal Health
- Farm Improvement
- Human Resource
- Further Development of Existing Land Holdings (Woolnorth)
- Reshaping / / Expansion of Dairy Portfolio
- Water Initiatives
- Leveraging VDL's Scale

