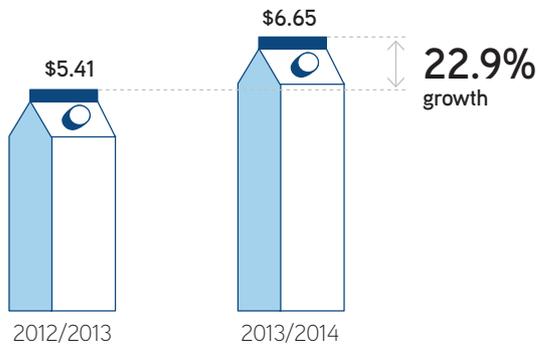


Our perspective

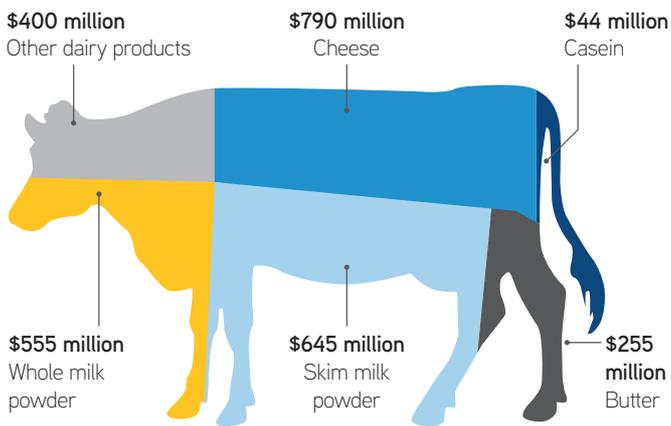
2014

DAIRY HAS A STRONG APPETITE FOR GROWTH

Australian farm gate milk prices



Value of dairy exports



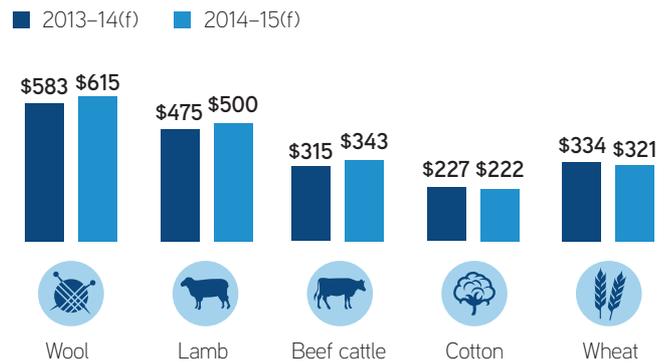
Source: Dairy Australia and Colliers International Research

GROWING CONSUMPTION AND STRONG PRICES SUPPORT DEMAND FOR COTTON



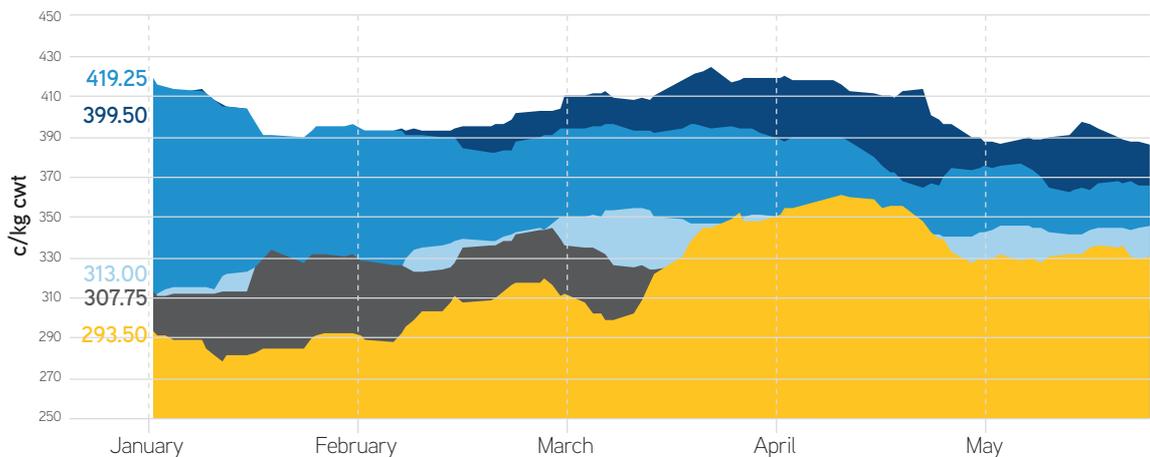
ABARES MAINTAINS A RELATIVELY STEADY PRICES OUTLOOK OVER THE YEAR AHEAD

ABARES Gross Unit Values Forecast



BEEF PRICES IMPROVED IN FIRST HALF 2014

- 2010
- 2011
- 2012
- 2013
- 2014



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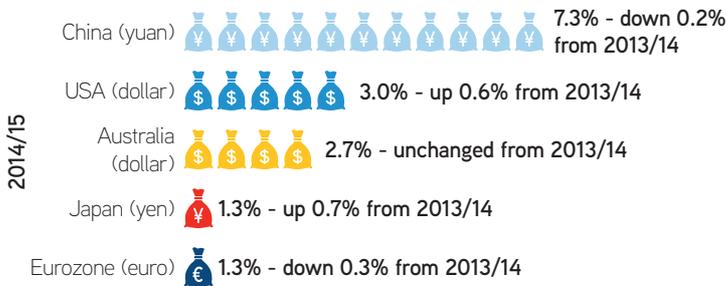
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RURAL & AGRIBUSINESS

AUSTRALIA AND NEW ZEALAND

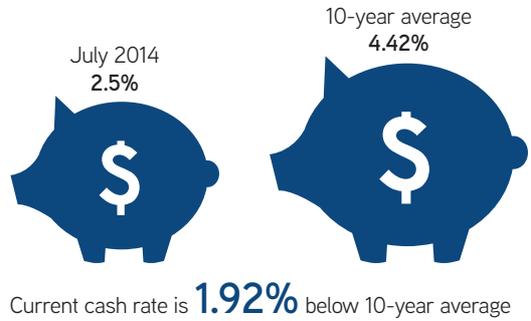
POSITIVE SIGNS AND LOW INTEREST RATES

GDP Growth - Australia and world trading partners



Source: Deloitte Access Economics / Colliers International

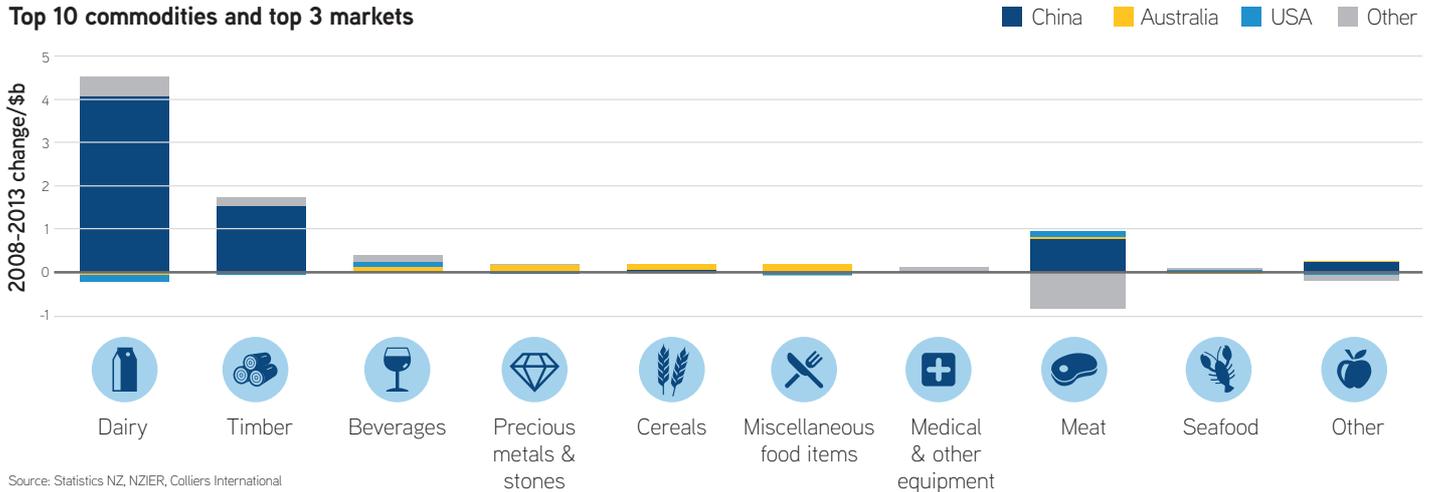
Reserve Bank of Australia official cash rate



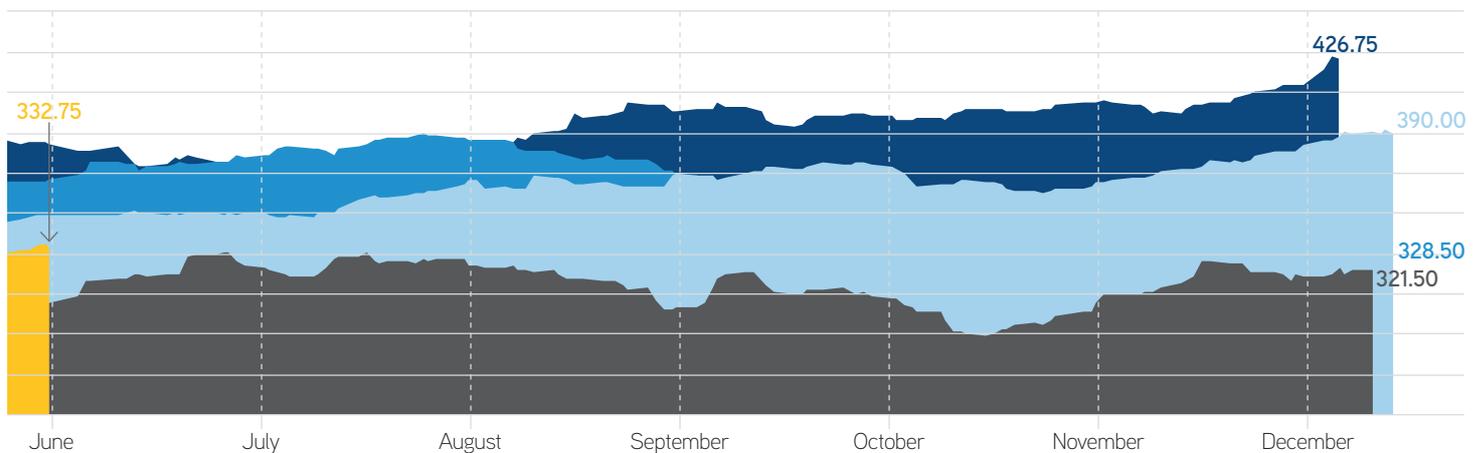
Source: RBA / Colliers International

NEW ZEALAND - FASTEST GROWING EXPORT COMMODITIES

Top 10 commodities and top 3 markets



Eastern Young Cattle Indicator (EYCI)



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DAIRY MARKET

Good value and improving profits

As one of Australia's major rural industries the Australian dairy industry directly employs approximately 43,000 people on farms and in manufacturing plants. It is primarily pasture based and has the ability to produce milk at a lower cost than many major milk producers in the world. Although it accounts for a small percentage of the world's cow herd, Australia remains a leading exporter of dairy products.

More than 40 per cent of Australian milk production is exported, mainly as powder or processed product. The remaining 60 per cent is consumed domestically. Australia accounts for approximately 2 per cent of the world's dairy production, though is ranked fourth in terms of world dairy trade (7 per cent), behind the United States (11 per cent) and the European Union (31 per cent), with New Zealand the largest (37 per cent). Australia's major international markets for dairy products include China, Japan, Singapore, Malaysia and Indonesia.

Australia's milk production has declined on average by approximately 1.8 per cent every year since 2002. The primary reason for the drop in total production is not due to declining cow production, which has in fact increased, but an approximate 20 per cent drop in cow numbers in Australia during this period. The impacts of drought and low water allocations in southeast Australia and up until recent times, poor milk prices, represent the key factors accounting for the decrease in cow numbers.

There are two distinct areas into which Australian milk production is directed – the liquid milk market and manufactured milk market. These two markets have different market characteristics and provide differing pricing outcomes for Australian producers. The proportion of milk that is directed to the manufactured milk market is largely dependent upon domestic consumption of fresh milk in Australia, with any production not used for fresh milk sales generally used for manufacturing.

Victoria has the largest milk production per capita. A larger proportion of its milk is used in manufacturing than other states

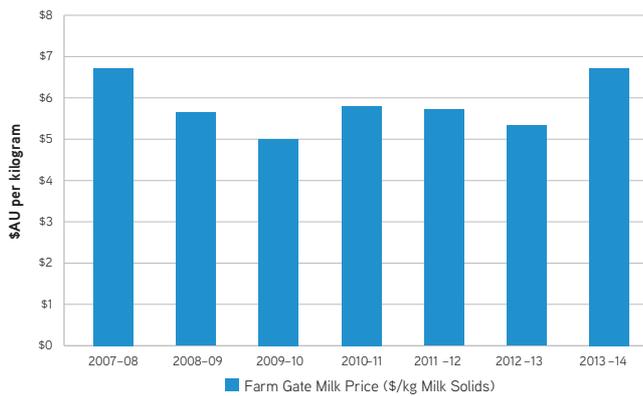
in Australia (approximately 92 per cent). Other states, such as Queensland, have much lower production per capita and as a result, direct only a small percentage of their production to manufacturing. Manufactured products include goods such as milk powders, cheese and butter. Given they are less perishable than liquid milk, manufactured milk products represent a significant proportion of Australia's dairy exports.

The Australian dairy manufacturing sector is diverse and includes farmer-owned co-operatives, public, private and multinational companies. Co-operatives still account for approximately 35 per cent of the Australian milk output with the largest co-operative (Murray Goulburn) accounting for around 33 per cent of this output whilst Norco processes a proportion of the NSW milk intake at around 150 million litres. There are also publically listed companies including Warrnambool Cheese & Butter (now largely owned by Saputo) and Bega Cheese Limited with major multi-national dairy companies including Fonterra, San Miguel, Saputo and Parmalat that process the balance of supply. As well as the above mentioned companies and co-operatives there is a growing cottage/boutique dairy sector focussing on organics, bio-dynamics and associated specialised cheese, yoghurt and milk products.

Increased milk prices

Farm gate milk prices are influenced by milk quality and composition productivity and off-peak supplies. Farm gate milk price for southern producers opened the 2014-15 season on a high note with Murray Goulburn setting the opening price at \$6.00 per kilogram of milk solids sending a strong price signal to farmers with Fonterra trying their best to match this at \$5.80 per kilogram of milk solids. Both processors at this stage are forecasting closing milk prices at around \$6.20 to \$6.30. It is not clear at this stage what price other processors will open at but they are all expected to be around this price point, the most interesting will be Warrnambool Cheese and Butter as they look to increase profits as a result of a substantial purchase price.

AUSTRALIAN FARM GATE MILK PRICES



Source: Colliers International and Dairy Australia

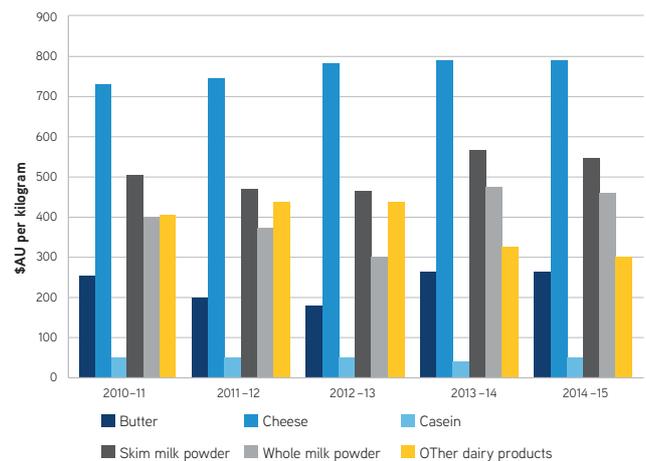
Negotiations on the Korea-Australia Free Trade Agreement (KAFTA) were concluded in early December 2013. The agreement when implemented will set most Australian dairy products on a journey to full trade liberalisation. The notable exception however is milk powders which were left out of the final agreement. While the majority of dairy products will see tariffs phased down over time some dairy products will enjoy zero tariffs. Dairy Australia estimates that the first year benefit of tariff savings for Australia through KAFTA will be in the order of \$US 7.6 million, and that figure will grow year on year as the Country Specific Quotas (CSQ) volumes increase and the out-of-quota tariffs reduce.

The results from the Japan-Australia Economic Partnership Agreement (JAEPA) for dairy are less than those achieved by the KAFTA. Improvements are the provision of CSQ's for cheese for manufacturing into processed cheese, and for cheese for shredding. Non-cheese dairy products to achieve improved access include ice cream; frozen yogurt; casein; milk albumens; lactose and milk protein concentrate. Dairy Australia estimates that the first year benefit of tariff savings for Australia under JAEPA will be in the order of \$US 4.7 million, and that figure will grow marginally year on year as the CSQ volumes increase.



Dairy Portfolio VIC
Valued by Colliers International.

AUSTRALIAN DAIRY EXPORTS



Source: Colliers International and ABARES

Rising confidence and inquiry

Farmer confidence has improved significantly in most regions over the last 12 months with 75 per cent of farmers now positive about the future of the dairy industry, compared to a low of 43 per cent this time last year according to the latest National Dairy Farmer Survey. Sentiment has increased significantly in six of the eight dairying regions with at least 70 per cent of farmers in each region now feeling positive about the future. For many farmers higher profitability compared to 12 months ago has improved their outlook. In 2012-13, 57 per cent of farmers reported making an operating profit. Expectations from the latest survey data show approximately 80 per cent of farmers will have made profits in the 2013-14 financial year.

The dairy market nationally is experiencing fair trading conditions with investment in farms relatively subdued but with a high level of enquiry at present. Although milk prices in 2013-14 have improved and farm margins have increased in some cases, many operators are still recovering from a number of years of little or negative income which may take a number of good seasons to recover from and we are starting to see the result of this recovery now with a higher level of enquiry for dairy farms.

In the milk processing market confidence has emerged with a number of purchases and acquisitions occurring in the last 12 months, the most prominent being the acquisition of Warrnambool Cheese and Butter (WCB) by Canadian dairy company Saputo. Further to this Unnamed investors have purchased a \$52 Million stake Bega Cheese, whilst Fonterra has purchased the modern "Tamar Valley Dairy" in Tasmania which was sold in the hands of receivers for an undisclosed sum. In addition to this United Dairy Power has also traded hands to Chinese interest further reinforcing the demand in the processing sector at present which is likely to flow through to the farm gate.

In the last 12 months increased competitiveness for milk supply has become apparent with processors increasingly prepared to offer incentives in return for supply contracts. Most recently Fonterra has revamped its pricing structure to offer a higher base price whilst Bega Cheese is offering a three cents per litre incentive for 3 year supply contracts in Victoria and NSW whilst Murray Goulburn are offering pre-paid step ups to put money in farmers pockets at the start of the year rather than the end.

Key outlook factors

Colliers International anticipates that the key issues that are likely to influence market conditions in the near term include:

- Interest rates, which if maintained at current levels will be supportive of operator's profit margins;
- Weather conditions, which are very favourable at present with all major water storages full across the major dairying regions;
- The cost of feed, which is currently high due to a global shortage of cereals and the domestic market for hay is in tight supply however there is likely to be some price easing in hay and grain with good rainfalls received across many of the local grain growing regions and throughout Australia; and
- The Australian dollar, the value of which exerts significant impact on the Australian dairy industry's global competitiveness. Resilient demand for the Australian dollar has driven the exchange rate back above 94 US cents, which represents a key challenge to holding milk prices at current levels.

Limited institutional grade assets

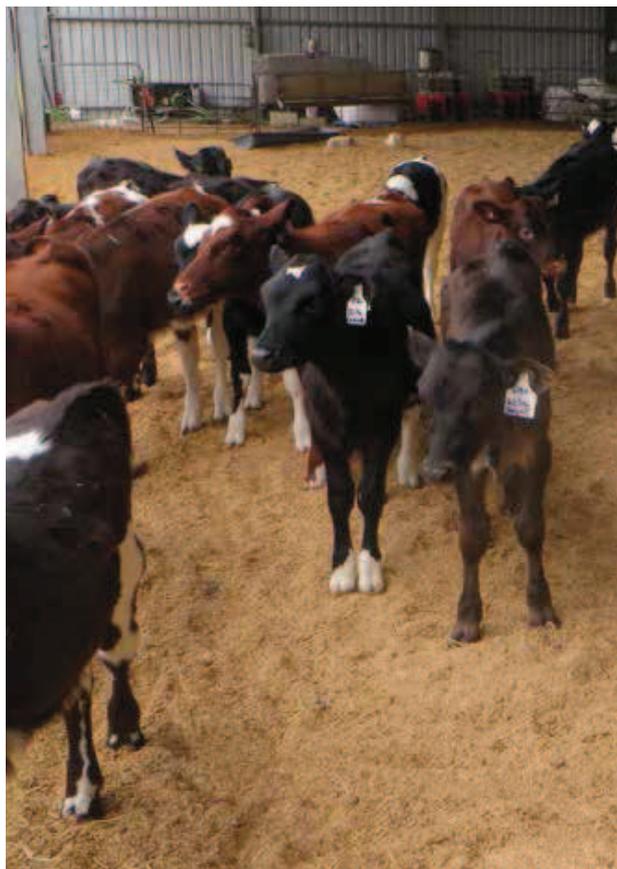
Colliers International has noted significant interest return into dairy due to the demand coming from China with a number of offshore buyers currently looking for dairy assets. The biggest hindrance to this investment at present is the lack of institutional grade assets (at the farm gate level) with the scale suitable for these large institutional players. At present there are really only two major corporate dairy players including Warakirri Asset Management and ACE Farming Company. Both have a number of assets spread throughout Victoria and while Warakirri are not in expansion phase ACE are.

The factors supporting the potential for increased profitability include increased milk prices, potentially lower feed costs and land values. In terms of areas, one particular region with strong prospects is Northern Victoria. This region has undergone significant transformation in recent years. During the drought

many dairy and horticulture producers were forced to exit the market and sell down water entitlements. This process with the development of significant irrigation efficiency projects has meant that the remaining farms are well positioned for the coming years.

Murray Goulburn are in the process of spending around \$70 million upgrading the Cobram facility to include a state of the art cheese cut and wrap plant which should assist in maintaining the current milk price points. The northern region is capable of producing similar volumes of dry matter production to that in east Gippsland. Now that water reliability is likely to be similar there is little difference in the regions, although northern Victoria benefits from significantly lower freight costs on purchased feed.

Colliers International maintains that there is good value in most dairy regions at present. This is due to lower asset values and high milk prices that will ultimately support and drive profitability. It is our view that a number of players will enter the market in the next 12 months looking to get a foothold in the Australian dairy industry which features entry costs that are lower than those associated with the New Zealand dairy industry.



Dairy cow enterprise, SA
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