



**Australian Agricultural Company Limited**  
ABN 15 010 892 270

## **AAco 2012 Annual General Meeting – Chairman's Address**

ASX Announcement No. 13/2012

16 March 2012

Attached is the Chairman's Address for the 2012 Annual General Meeting of the Australian Agricultural Company Limited ('AAco') to be held today.

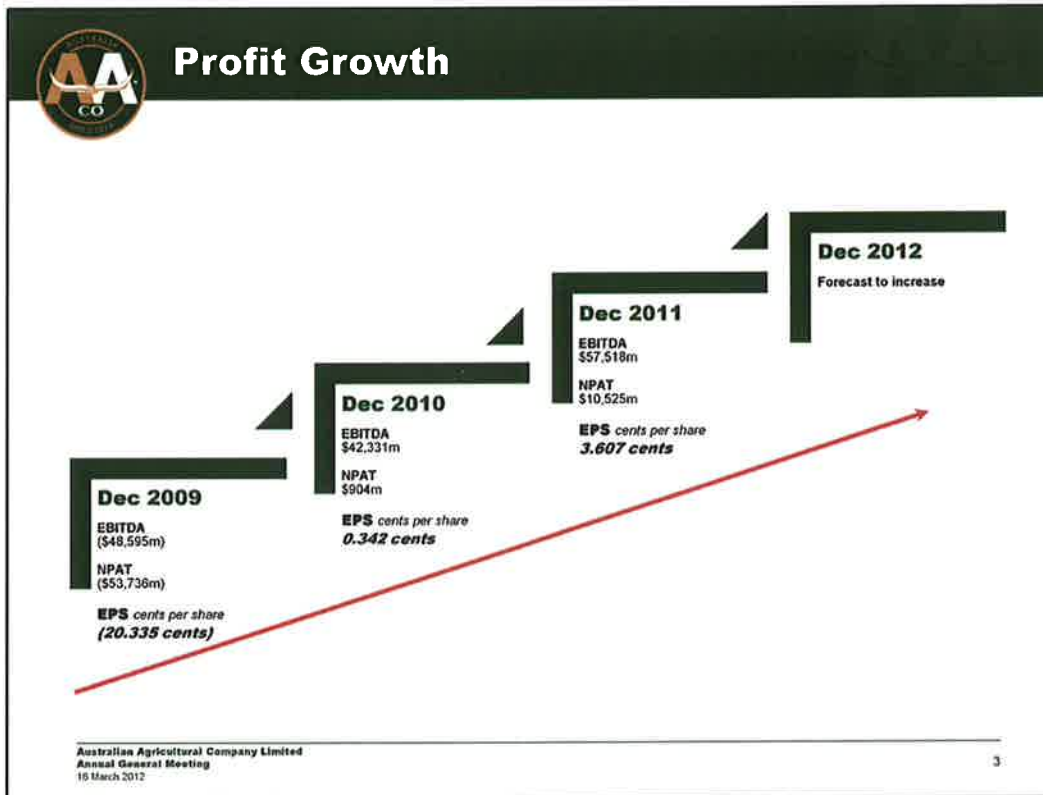
**Issued by:**

Bruce Bennett  
Company Secretary

[www.aaco.com.au](http://www.aaco.com.au)



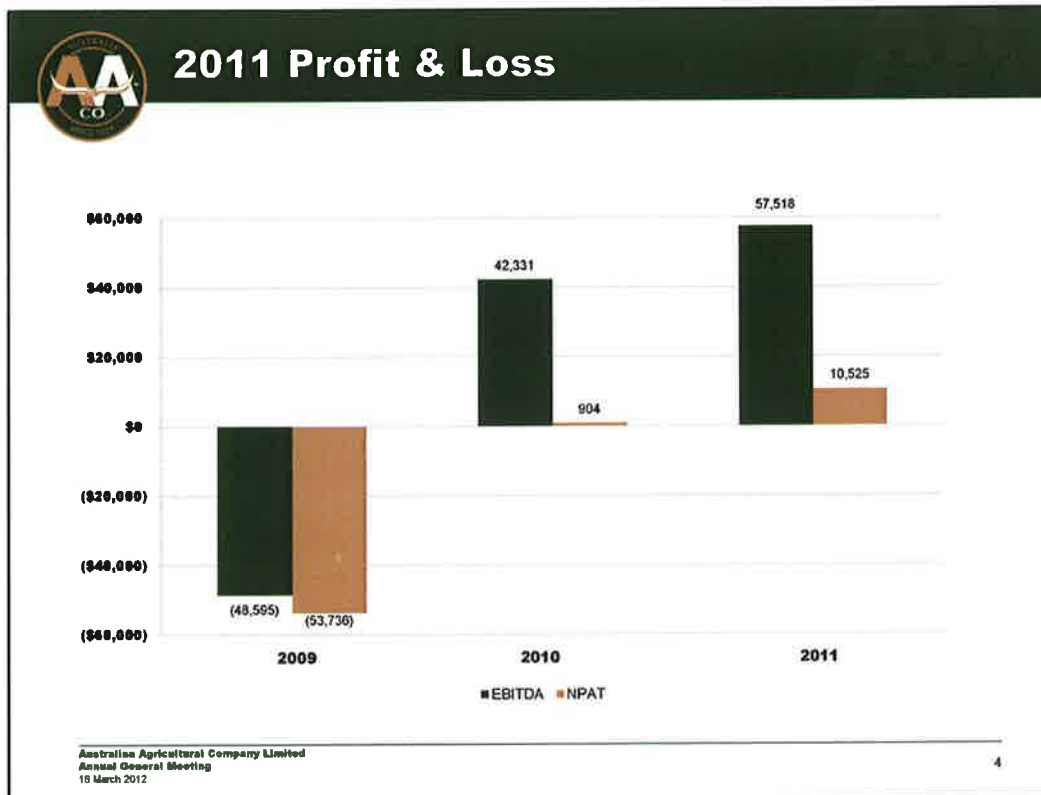
## **Chairman's Address**



**Ladies and gentlemen, AAco's turnaround plan is proving to be effective.**

2011 was the second year of implementing the strategic plan outlined at the 2010 AGM, and we are pleased to report that the business transformation has gathered pace and delivered a second consecutive year of profitability.

David Farley will shortly provide an update on the business and how the company is progressing against its stated strategy. With the additional changes that have been implemented in the past 12 months, the Company is well positioned to take advantage of the rising global demand for beef, particularly in Asian markets. This should result in increased profitability and growth for AAco.



In 2011, AAco delivered EBITDA of \$58.1 million, which was up 41% on 2010 and at the upper end of guidance provided to investors after the ban on live exports was taken into consideration. The Company also reported NPAT of \$10.5 million, a significant increase on the \$900,000 in 2010.

We characterise these as solid financial results for the 2011 year, and the result was delivered despite many external challenges faced during the period. These included floods, the live export suspension to Indonesia, the high Australian dollar and ongoing global economic uncertainty.

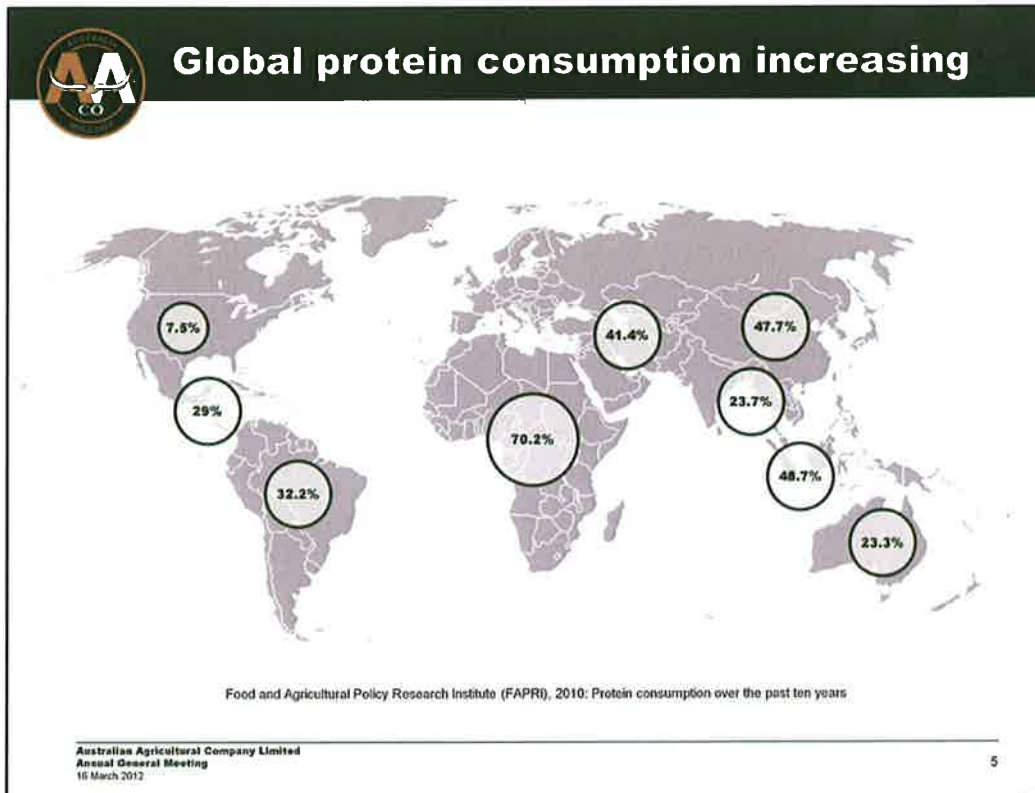
Queensland unfortunately suffered severe flooding in the year under review, which caused significant difficulties for many people, including some limited damage and losses for our Central Queensland properties. However, wet weather events such as this do have an upside for beef producers, with many of our properties now having excellent pasture and nutrition for our herd.

It has been very distressing to see in recent weeks further reports of ill treatment of cattle exported to Indonesia. We had hoped that the regulations of the new live export programme would be complied with right across Indonesia. The humane treatment of the cattle that we export is very important to all of us at AAco.

AAco management continues to work closely with our supply chain partners, and after observing the treatment of AAco cattle first hand on recent visits to Indonesia, management advises your Board that our partners in Indonesia are complying with Australian requirements.

The Federal Government's temporary suspension of the live cattle trade to Indonesia in early June 2011 created significant challenges for Australia's international reputation as a trading partner, and I do hope that such actions do not occur again and that any actions that do arise are managed in the best interests of both countries and appropriate animal welfare.

At the time of the ban, we were able to take steps to mitigate the financial impact on the company, such as diverting cattle to other markets and production channels. However, we did suffer some revenue losses associated with cattle being delivered to lower value markets, together with increased freight, logistical and other additional costs. In the Annual Report, we estimated that the suspension gave rise to total direct losses of between \$5.0 - \$8.0 million.



### Global protein market

AAco and its shareholders are in the fortunate position of being exposed to a supportive long-term trend whereby changing global demographics and higher incomes are driving increased demand for protein, which is translating to historically high prices for beef. The growing global population, and the growing affluence across developing countries, especially in our Asian neighbours, has resulted in a move toward a higher protein diet across the world. This trend is likely to be sustained, and is in fact forecast to drive an increase in global beef consumption over the coming decade.

At AAco we are doing everything that we can to capitalise on the opportunities that are being presented across the world due to these factors, which is why we embarked on a transformation a number of years ago from a pastoral company into a more vertically integrated beef producer, processor and marketer.

One of the key steps in this process has been to focus on not only growing the herd but also improving the mix of animals through a focus on genetics, age profile and fertility. The diversification of the herd means that we can better supply a wider range of market segments, for example, from live export to boxed beef, or high value Wagyu prime cuts to manufacturing meat.

Our strategy also extends to investment in infrastructure, and feasibility studies for a state-of-the-art \$80 million meat processing facility near Darwin in the Northern Territory that have been announced previously, have been continuing.

In the Annual Report, I said that AAco had been seeking Australian and Northern Territory Government investment and support for the project in the form of upgrades to public infrastructure. Subject to government approvals and infrastructure funding being granted, the Board will be in a position during 2012 to consider capital allocation and final endorsement for the project to proceed.

Your Board is very hopeful that we will be able to secure government support, because not only will the project be of great benefit to the company, but the significant investment by AAco will also create hundreds of new jobs and economic activity for northern Australia.

The facility will provide a valuable springboard for the Company to export manufacturing meat, hides and other products to the fast growing Asian region. In his chief executive's address, David Farley will talk in greater detail about the increased revenue and economic benefits that AAco expects to generate from the processing facility.



## Board Changes

### Retiring Directors



**Chris Roberts**  
*B.Comm*



**Nick Burton Taylor**  
*AM B Ec(Syd), ASIA, FCA, FAICD*

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### The Board

2011 has seen a renewal of the Board of AAco, with the retirement of two founding directors, Nick Burton Taylor and Chris Roberts, who have each served 10 years on the Board since listing in 2001.

I wish to sincerely thank Nick and Chris for their valued contributions, particularly since I joined the Board in 2010, when their commitment to the company and wise counsel has been very helpful.





## Board Changes

### Newly Appointed Directors



**Stuart Black**

*Director*

*Managing Partner  
Chapman Eastway*

*Former President  
Institute of Chartered Accountants*



**David Crombie**

*Director*

*Former President  
National Farmers Federation*

*Former Chair  
Meat and Livestock Australia*



**Tom Keene**

*Director*

*Chairman of Grain  
Trade Australia*

*Former MD  
Graincorp*

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We also welcome three non-executive Directors to the Board who are attending their first AACO AGM as Board members today.

Tom Keene brings a wealth of experience within the rural industry, as the current Chairman of Grain Trade Australia and a Director of Cotton Seed Distributors, and was formerly the Managing Director of Graincorp from the time of its privatisation.

Stuart Black strengthens the Board's financial and corporate governance capabilities. He is the Managing Partner of Chapman Eastway chartered accountants, is a current non-executive director of leading geophysical consultants Coffey International Limited, and a former president of the Institute of Chartered Accountants. He is also the founding Chair and a current Board Member of the Accounting Professional and Ethical Standards Board.

David Crombie has had a life-long involvement in the rural industry, particularly in the northern Australian beef industry. He is the immediate past President of the National Farmers Federation and a commissioner on the Australia Centre for International Agricultural Research. He was a founding partner and current non-executive director of GRM International, a former chairman of Meat and Livestock Australia, a former director of Grainco Australia and the Meat Industry Council.

We look forward to the skills and experience that they will contribute to the Board.



## Capital Position Strong

### **Total Debt Facilities \$450 million – 3 year term**

- \$400 million for general facilities
- \$50 million for construction of Darwin processing facility
- Multi-currency facility
- Asset & equipment financing - \$16 million
- FX & Interest Rate hedging lines

### **Participating Banks**

- National Australia Bank
- Commonwealth Bank
- ANZ Bank
- Rabobank

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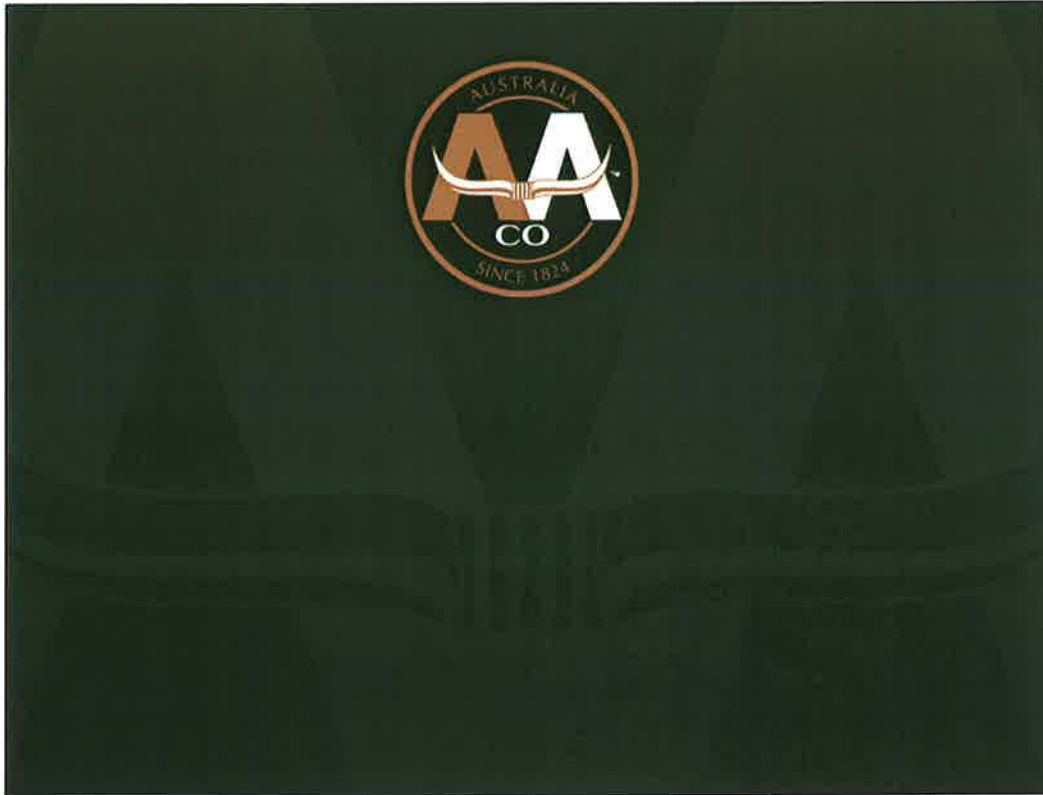
### **Capital position**

During the past financial year, shareholders have demonstrated their support for the Company by participating in a capital raising totalling \$65.5 million. The funds raised were used to reduce debt, to support additional cattle purchases, and to provide funding to implement other strategic initiatives, including the proposed northern meat processing facility.

Our prudent approach to capital management, and strong operating performance, means that the Company now has its strongest balance sheet in many years. Today, we are pleased to be able to announce that the Company's debt facilities have been refinanced for a three year term. We have secured a total of \$450 million in our core debt facility, with \$50 million of this relating specifically to the Darwin processing facility. The lending syndicate of NAB, Commonwealth Bank, ANZ Bank and Rabobank is supportive of our business, and our strategy.

Looking to the future, the Board is highly focused on efficient capital allocation, aiming to achieve the strategic transformation as quickly as possible, as we look to maximise the returns available in our fast-evolving markets. As a consequence, the Board determined that no dividend would be declared for the 2011 year. However, it is currently expected that AAco will generate an operating cash surplus during FY12, and if that is achieved, then the Board will consider payment of a dividend in 2013.

The focus on capital management is reflected in our recent approach to land use, where we are increasingly looking for capital efficient opportunities to expand our business. During the past 12 months, AAco entered into several agistment agreements in the Northern Territory and Queensland rather than purchase land. This approach maximises the immediate return on the Company's working capital through weight gain and calf production.



### **Supply chain productivity and External Factors**

At the same time that the AAco team is working hard to transform our business, there are a number of areas outside of the company's control that are playing a significant role in the productivity – and profitability – of our industry.

I wish to say a few words about three of these factors today.

But first let me put our concerns around productivity into context by outlining the cost of one of the activities that lies at the heart of our industry – slaughter and meat processing. At present it costs around A\$340 to process every head of grainfed cattle that passes through an Australian processing facility. Australia ranks as the most expensive of beef producing nations on this measure, and costs here are more than double the comparable figure in the United States – the next most expensive nation – where the average is around US\$150. Do not forget that, very largely, we are supplying a global market and increased supply chain costs are ultimately borne by the primary producer.

While there are a range of factors that contribute to Australia's high processing facility costs, one key issue is the relaxed approach to controlling absenteeism that is an unfortunate by-product of the Fair Work regime.

The problem generated headlines earlier this year when Max Yasuda, the president and chief executive of Toyota Motor Corporation Australia spoke out on the issue – noting that as many as 30 per cent of employees in some parts of a manufacturing plant will take a “sickie” if a Friday work day follows a Thursday public holiday.

From an employer's perspective, this is an impossible situation. And it is just as bad in meat processing as it is in vehicle manufacture. The Fair Work regime – with its allowance for absenteeism without notice or explanation – only seeks to entrench the “sickie” as an Australian tradition. And seeing as nobody likes going fishing or shopping by themselves, far

too often you will find groups of workers from the same part of the factory taking the day off together.

This is but one of the problems with Fair Work. There are many others, but they can mostly be summed up by saying that there is now a lack of flexibility in the industrial relations regime which makes it hard for Australian industries that have to compete in export markets.

On a more positive note, it was heartening to see The Hon Dr Craig Emerson MP pick up a newly formed portfolio as Minister for Trade and Competitiveness in the Federal Cabinet reshuffle last month. Hopefully he will move quickly to grapple with the “competitiveness” aspects of his portfolio – considering employee absenteeism alongside other pressing issues including the impact of the combined impost of taxes on roads, rail and ports on Australian export businesses.

The second “external” issue that I wish to touch upon today is the Clean Energy Future legislative package, including the Carbon Tax, that passed last year. Agriculture produces around 16% of Australia’s direct emissions and these emissions are initially exempt from the Carbon Tax.

Despite this, AAco will face significant cost pressures along our supply chain, particularly in relation to carbon emitted during processing, where the additional cost will be passed back to producers, and when the freight exemption expires in 2015. Research published by the Australian Farm Institute suggests that a carbon price of \$20 per tonne would translate to a 1.7% rise in annual business costs for beef producers.

While AAco management is investigating opportunities for various carbon abatement and storage initiatives to mitigate the impact of these costs, it is too early to know what economic impact these will have.

The third and final external issue that shareholders should be mindful of at this time is the impact of the high Australian dollar on agriculture-based businesses.

Australia exports approximately two thirds of all its domestic agricultural production. An appreciating currency makes our agriculture exports more expensive on world markets while at the same time making imported food and fibre cheaper. Currently the AUD/USD exchange rate is around 1/1.06 and the AUD has dropped below parity only briefly over the past 12 months. Five years ago the AUD was trading around US80c.

While a stronger dollar reduces the cost of imported farm inputs like fuel, fertiliser, tractors and machinery, the net balance of the stronger AUD is very much in the negative for most Australian farmers. The National Farmers Federation estimates the net impact on farm incomes of a 1% appreciation in the AUD to be in the region of \$190 million.

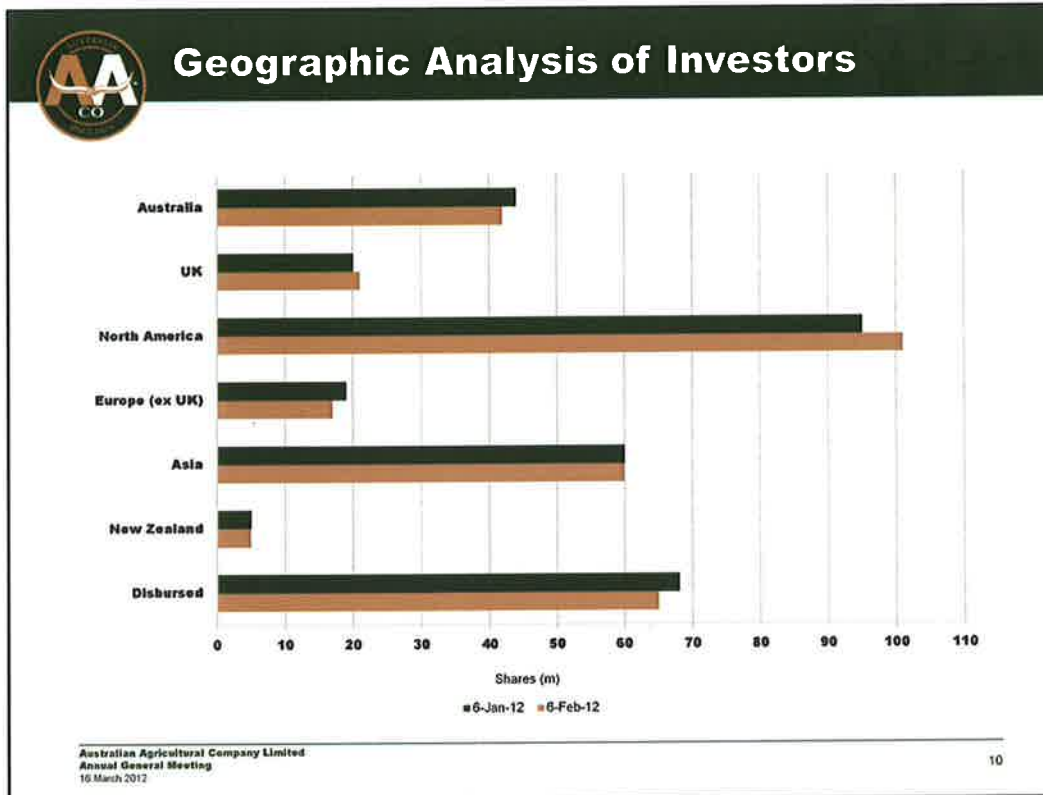
The strength of AUD is a function of many things including our high relative interest rates, the boom in global demand for Australian agricultural and mineral commodities driven by growth in Asia, particularly China, and Australia’s resilience in the face of the global financial.

The challenge that Australia now faces is to build longer-term prosperity that outlives the current boom. History shows that we have a poor track record of capitalising on the benefits of previous commodity booms due to an unwillingness to tackle the inflationary pressures that go hand-in-hand with high demand for our commodities.

Once again, we face the risk that fallout from the current boom will outweigh the benefits that Australia is currently enjoying. One of the keys to avoiding this is take action now to keep inflation in check and maintain competitiveness of Australian industry. Government has a substantial role to play. It is a time for fiscal discipline – reducing Government costs across the

board to keep inflationary pressure to a minimum, and yet facilitating investment in production capacity and infrastructure across a range of industries where Australia has a long-term competitive advantage.

The stimulus spending by government in 2008 did precious little to assist in meeting this challenge. Too much money was spent too quickly on non-productive projects. With the money spent, it seems that government may now be shy of committing to the efficient nation-building infrastructure projects that could assist our export industries to compete for decades to come.

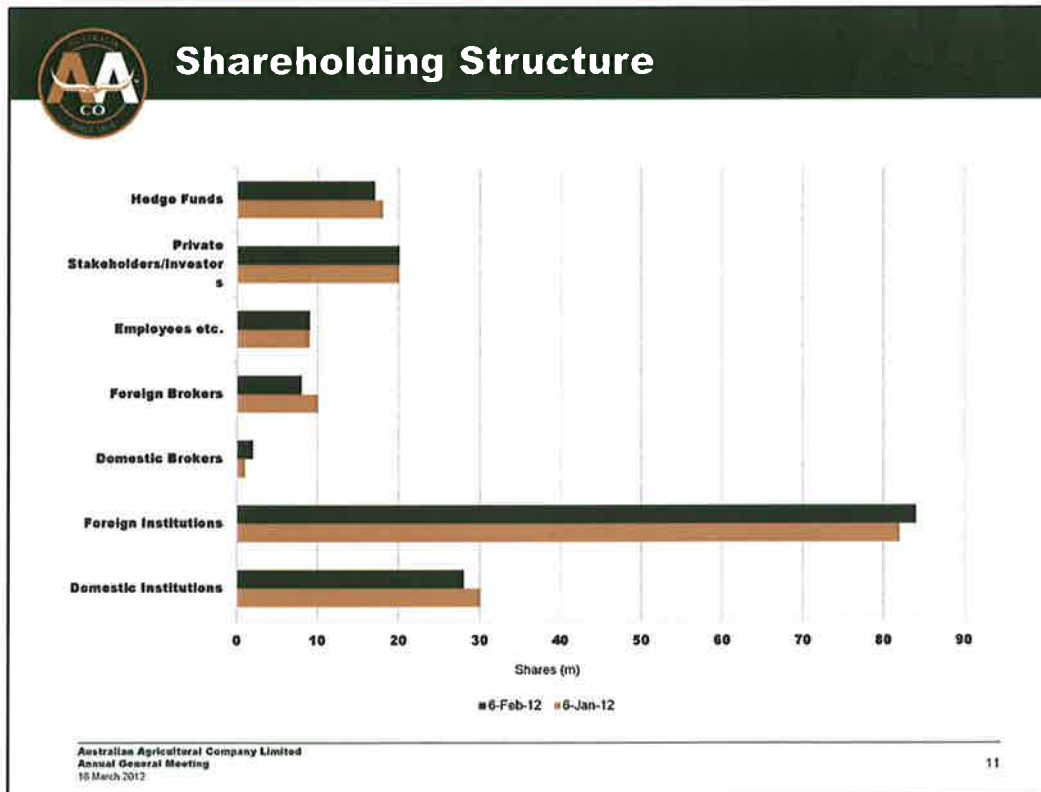


### Foreign investment

The last year has seen intense scrutiny of the role and level of foreign investment in Australian agriculture, particularly due to a popular perception that Asian investment in the sector has significantly increased. AAco provided a submission and appeared before a Federal Parliamentary inquiry to highlight the importance of foreign investment both directly in your Company and the broader agribusiness sector.

It is important to recognise that AAco started with foreign investment and we have continued to use foreign capital. Foreign investment is an essential constant in our past, our present and our future. It is an inescapable fact that agricultural production is a capital-intensive business, and that sufficient local capital has never been available to properly develop Australia's potential.

Further, partnering with foreign investors assists Australian agricultural producers to access new and higher value markets. This is in the interests of the sector, and the nation. It is to be encouraged.



However, one area where Australia can do better relates to monitoring the nature and extent of foreign ownership of our agricultural assets. Better monitoring would assist in identifying whether a policy response may be required, and would help quell some of the less-informed and emotionally driven commentary.

Also at a national level, we could do more to recognise that achieving regional food security is a shared responsibility. The best way to ensure food security is to increase agricultural output through increased investment from foreign and Australian capital sources. Australia must ensure it has a regulatory regime which is unambiguous, transparent and conducive to such investment.

### Land values

The role of foreign investment in Australian agriculture is also relevant when considering the value of Aaco's major asset – our substantial and unique prime agricultural land holdings across northern Australia. These land holdings are in our books at \$585 million. All properties are revalued once every three years, on a rotating basis by an independent valuer.

However, there is potential for our land to be worth a great deal more. During the course of this year, one of these holdings, the Meteor Downs property, was sold to Xstrata Coal. The decision was made as part of a process to rebalance the company's property holdings in line with our business strategy, and the Board will continue to evaluate individual assets in this light. Meteor Downs was sold for \$21.6 million, which was 37.6% in excess of the book value of the property. The sale price achieved for Meteor Downs reflects the higher value that is sometimes placed on agricultural land by investors, particularly where an alternate use is identified.

Currently, the share price is trading at a discount to net tangible assets, and the Board remains focused on lifting return on assets employed and having the value of the group's unique assets reflected in the share price.

**Remuneration report**

Later this morning, when we turn to the formal business of the meeting, shareholders will have the opportunity to vote and ask questions in relation to the remuneration report.

It is important to note that your Board, through the Staff & Remuneration Committee, is diligent in considering remuneration issues. Your Board believes that AAco has the best management team in the Australian corporate agricultural sector, and we are committed to adopt remuneration strategies that maintain the energy and commitment of this team, ensuring that their incentives are aligned with delivering value for shareholders.

For the CEO and Key Management Personnel, rewards are linked to achievement of short and medium term key performance criteria. A focus on retention is embedded in our approach to deferring a portion of Short Term Incentive payments subject to service while CEO rewards are linked to shareholder value creation through equity incentives that depend on long-term Company performance and core values.

During the year, the Staff & Remuneration Committee engaged external consultants to review a range of matters including the company's remuneration strategy and to report to the Board on senior executive remuneration. This independent review confirmed that Board and Executive remuneration at AAco is within market expectations and reasonable.

**Closing**

In closing, AAco's 188 years reflects the Company's resilience and capability. 2011 has demonstrated that our business is able to successfully face a wide range of external pressures and challenges while delivering a profitable outcome for shareholders.

This success reflects the ongoing innovations overseen by management, ensuring AAco remains flexible and responsive to economic, social, environmental, regulatory and other challenges and opportunities.

I would like to thank David Farley and his team for their outstanding contribution during the year.

AAco is well positioned to achieve profit growth and build value for our shareholders during 2012 and beyond.





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